

Petronet LNG (PETLNG)

₹ 163

WHAT'S CHANGED...

PRICE TARGET	₹ 175
EPS (FY12E)	Changed from ₹13.3 to ₹14.0
EPS (FY13E)	Changed from ₹13.2 to ₹13.3
RATING	Unchanged

Beats expectations...

Petronet LNG reported strong Q3FY12 numbers with revenues increasing 74.5% YoY to ₹ 6330.3 crore while PAT increased 72.9% to ₹ 295.4 crore in Q3FY12. The results were higher than our estimates mainly on account of higher capacity utilisation and marketing margins. Regasification services volumes were 21.8 tbtu vs. 8.6 tbtu YoY, which also contributed towards the topline growth. LNG volumes increased 21% YoY to 144.9 tbtu in Q3FY12. The interest expense of ₹ 34.5 crore was lower than our estimates, mainly on account of prepayment of debt of ₹ 500 crore. Blended net regasification margins increased from ₹ 32.5 per mmbtu in Q3FY11 to ₹ 43.4 per mmbtu in Q3FY12. Gross regasification margins increased 5% YoY to ₹ 33.4 per mmbtu in Q3FY12. We estimate LNG volume of 553.6 tbtu and 580.3 tbtu in FY12E and FY13E, respectively. We recommend a HOLD rating with a price target of ₹ 175.

■ Highlights of the quarter

Petronet LNG reported a 21% increase in LNG volume from 119.7 tbtu in Q3FY11 to 144.9 tbtu in Q3FY12 on account of higher long term and regasification services volumes during the quarter. The volume for regasification services stood at 21.8 tbtu in Q3FY12 (17.2 tbtu in Q2FY12). The 5 MMTPA Kochi terminal has achieved 95% completion and is expected to start commercial operations in Q3FY13E. The new jetty at the Dahej terminal would be ready for commissioning in FY14E. The Petronet Board has approved the feasibility report for the expansion of the Dahej terminal to 15 MMTPA. It has also granted consent to start internal feasibility for setting up a new 5 MMTPA LNG terminal in the east coast of India at Gangavaram in Andhra Pradesh.

Valuation

Petronet LNG's business of receiving and regasification of LNG along with back-to-back long-term purchase and sales agreement offers a lot of safety to investors. We have valued the stock based on DCF methodology (WACC – 10.6%, terminal growth -2%) to arrive at a target price of ₹ 175.

Exhibit 1: Financial Performance

(₹ Crore)	Q3FY12A	Q3FY12E	Q3FY11	Q2FY12	YoY Gr.(%)	QoQ Gr.(%)
Revenues	6330.3	6268.0	3627.6	5366.9	74.5	18.0
EBITDA	503.2	423.3	345.6	448.3	45.6	12.2
EBITDA Margin (%)	7.9%	6.8%	9.5%	8.4%	(160 bps)	(50bps)
Depreciation	46.3	47.4	46.5	46.3	-0.4	0.0
Interest	34.5	52.6	50.7	45.8	-32.0	-24.8
Reported PAT	295.4	243.1	170.8	260.3	72.9	13.5
EPS (₹)	3.9	3.2	2.3	3.5	72.9	13.5

Source: Company, ICICIdirect.com Research

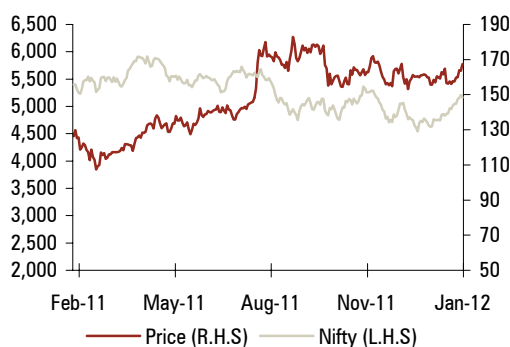
Rating matrix	
Rating	: Hold
Target	: ₹ 175
Target Period	: 12-15 months
Potential Upside	: 8%

Key Financials				
(₹ Crore)	FY10	FY11	FY12E	FY13E
Revenues	10649.1	13197.3	22889.2	29933.7
EBITDA	846.4	1216.3	1804.2	1743.0
Net Profit	404.5	619.6	1046.9	1000.5

Valuation summary				
	FY10	FY11	FY12E	FY13E
EPS (₹)	5.4	8.3	14.0	13.3
PE (x)	30.2	19.7	11.7	12.2
Target PE (x)	32.4	21.2	12.5	13.1
EV to EBITDA (x)	17.0	12.6	8.2	8.5
Price to book (x)	5.5	4.6	3.5	2.8
RoNW (%)	18.1	23.1	29.7	23.2
RoCE (%)	14.5	17.5	22.0	19.6

Stock data	
Market Cap.	₹ 12225 Crore
Debt (FY11)	₹ 3216.1 Crore
Cash + Liq. Invsts (FY11)	₹ 1245.6 Crore
EV	₹ 14195.6 Crore
52 week H/L	186 / 105
Equity capital	₹ 750 Crore
Face value	₹ 10
MF Holding (%)	7.9
FII Holding (%)	14.6

Price movement



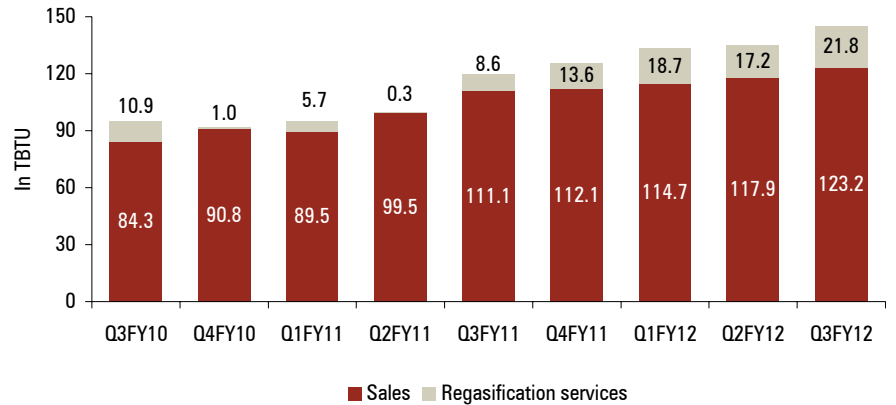
Analyst's name

Mayur Matani
mayur.matani@icicisecurities.com

Nishit Zota
nishit.zota@icicisecurities.com

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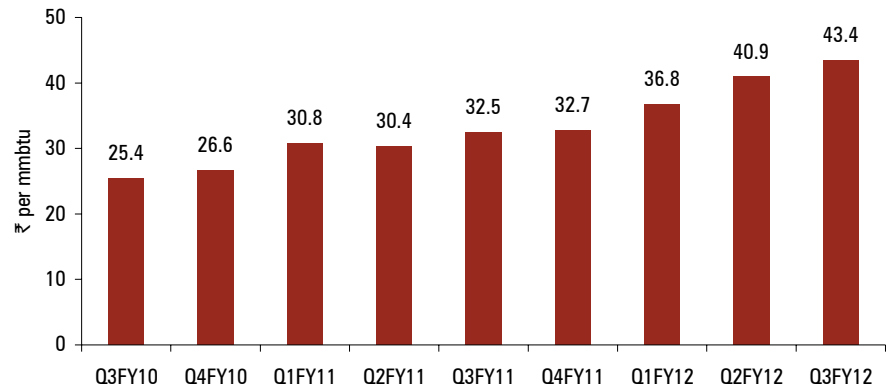
Exhibit 2: Gas regasification volume trend



Source: Company, ICICIdirect.com Research

Blended net regasification margins increased from ₹ 32.5 per mmbtu in Q3FY11 to ₹ 43.4 per mmbtu in Q3FY12. Gross regasification margins increased 5% YoY to ₹ 33.4 in Q3FY12

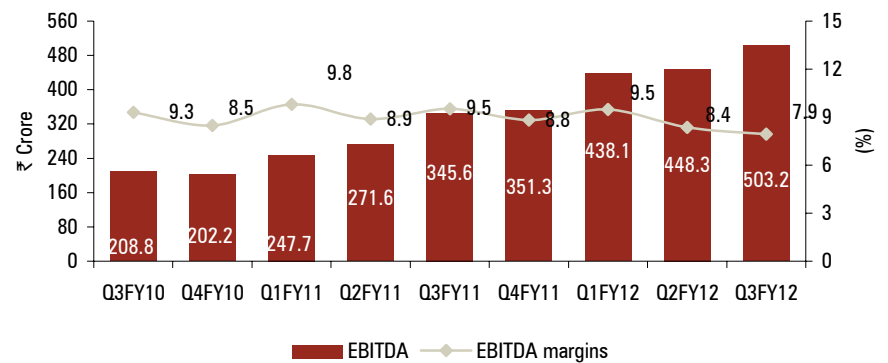
Exhibit 3: Net regasification margins trend



Source: Company, ICICIdirect.com Research

The EBITDA for Q3FY12 increased to ₹ 503.2 crore on account of higher marketing margins on spot volumes

Exhibit 4: EBITDA and EBITDA margins trend



Source: Company, ICICIdirect.com Research

Exhibit 5: Quarterly profit and loss account

	(₹ Crore)			
	Q3FY12	Percent. (%)	Q3FY11	Percent. (%)
Revenues	6330.3	100.0	3627.6	100.0
Consumption of raw materials	5700.6	90.1	3238.9	89.3
Employee Costs	6.4	0.1	5.7	0.2
Other Expenditure	120.0	1.9	37.4	1.0
Total Expenditure	5827.0	92.1	3282.0	90.5
EBITDA	503.2	7.9	345.6	9.5
Depreciation	46.3	0.7	46.5	1.3
EBIT	457.0	7.2	299.1	8.2
Interest	34.5	0.5	50.7	1.4
Other Inc /Exp /Extra Ordinary Item	16.4	0.3	5.4	0.1
PBT	438.9	6.9	253.8	7.0
Total Tax	143.5	2.3	83.0	2.3
PAT	295.4	4.7	170.8	4.7

Source: Company, ICICIdirect.com Research

Valuations

Petronet LNG's business of receiving and regasification of LNG along with back-to-back long-term purchase and sales agreement offers a lot of safety to investors. We estimate LNG volume of 553.6 tbtu and 580.3 tbtu in FY12E and FY13E, respectively. The stock is trading at 12.2x FY13E EPS of ₹ 13.3. We have valued the stock based on the DCF methodology (WACC – 10.6%, terminal growth -2%) to arrive at a target price of ₹ 175.

Exhibit 6: Valuation Table

Year	Sales (₹ Crore)	Sales Gr. (%)	EPS (₹)	EPS Gr. (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY09	8428.7	28.6	6.9	9.5	23.6	15.4	26.1	18.7
FY10	10649.1	26.3	5.4	-22.0	30.2	17.0	18.1	14.5
FY11	13197.3	23.9	8.3	53.2	19.7	12.6	23.1	17.5
FY12E	22889.2	73.4	14.0	69.0	11.7	8.2	29.7	22.0
FY13E	29933.7	30.8	13.3	-4.4	12.2	8.5	23.2	19.6

Source: Company, ICICIdirect.com Research

Exhibit 7: DCF valuation

WACC	10.6%
Present Value of Cash Flows till FY17E	2616.2
Terminal Growth Rate	2.0%
Terminal Value	22866.8
Present Value of Terminal Cash Flows	12492.1
Total Present Value of the Firm	15108.3
Less: Net Debt (FY12E)	3696.1
Total Present Value of Equity	11412.2
Number of Outstanding shares (In Crore)	75.0
DCF (₹ per share)	175

Source: ICICIdirect.com Research

Exhibit 8: Sensitivity Analysis

		WACC				
		9.5%	10.0%	10.5%	11.0%	11.5%
Terminal Growth Rate	1.0%	189	172	156	142	130
	1.5%	203	184	167	152	138
	2.0%	219	197	179	162	147
	2.5%	237	213	192	173	157
	3.0%	257	230	207	186	169

Source: ICICIdirect.com Research

Financial summary

Profit and loss statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Revenue	10,649.1	13,197.3	22,889.2	29,933.7
Growth (%)	26.3	23.9	73.4	30.8
(Inc.) / Dec stock in trade	0.0	0.0	0.0	0.0
Raw material Costs	9664.8	11801.2	20721.0	27846.4
Purchase of trading goods	0.0	0.0	0.0	0.0
Employee Costs	20.4	30.6	30.8	44.9
Other Expenditure	117.4	149.3	333.3	299.3
Op. Expenditure	9802.6	11981.0	21085.0	28190.7
EBITDA	846.4	1,216.3	1,804.2	1,743.0
Growth (%)	-6.1	43.7	48.3	-3.4
Depreciation	160.9	184.7	189.8	240.1
EBIT	685.6	1031.6	1614.4	1502.9
Interest	183.9	193.1	179.3	221.4
Other Income	97.8	68.0	86.7	132.4
PBT	599.5	906.4	1521.8	1413.9
Growth (%)	-22.6	51.2	67.9	-7.1
Tax	195.0	286.8	474.9	413.4
Reported PAT	404.5	619.6	1,046.9	1,000.5
Growth (%)	-22.0	53.2	69.0	-4.4

Source: Company, ICICIdirect.com Research

Cash flow statement

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	404.5	619.6	1,046.9	1,000.5
Less: Dividend Paid	153.1	174.3	197.4	219.4
Add: Depreciation	160.9	184.7	189.8	240.1
Add: Others	54.0	21.8	124.0	0.0
Cash Profit	466.3	651.8	1,163.2	1,021.2
Increase/(Decrease) in CL	8.3	312.8	699.5	485.2
(Increase)/Decrease in CA	270.8	-352.3	-629.7	-521.1
CF from Operating Activities	745.4	612.2	1,233.0	985.3
Purchase of Fixed Assets	1,046.5	888.8	1,652.1	1,072.5
(Inc)/Dec in Investments	-234.4	-626.3	991.6	0.0
Others	0.0	0.0	0.0	0.0
CF from Investing Activities	-1,280.8	-1,515.0	-660.5	-1,072.5
Inc/(Dec) in Loan Funds	218.1	716.3	580.0	-450.0
Inc/(Dec) in Sh. Cap. & Res.	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	218.1	716.3	580.0	-450.0
Change in cash Eq.	-317.3	-186.5	1,152.4	-537.2
Op. Cash and cash Eq.	657.8	340.5	154.0	1,306.4
Cl. Cash and cash Eq.	340.5	154.0	1,306.4	769.2

Source: Company, ICICIdirect.com Research

Balance sheet

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Source of Funds				
Equity Capital	750.0	750.0	750.0	750.0
Preference capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1,484.9	1,930.1	2,779.6	3,560.7
Shareholder's Fund	2,234.9	2,680.1	3,529.6	4,310.7
Loan Funds	2,499.8	3,216.1	3,796.1	3,346.1
Deferred Tax Liability	326.2	348.0	472.0	472.0
Minority Interest	0.0	0.0	0.0	0.0
Source of Funds	5060.9	6244.3	7797.7	8128.9
Application of Funds				
Gross Block	3,549.5	3,553.7	3,572.2	7,999.7
Less: Acc. Depreciation	666.6	851.3	1,041.1	1,356.1
Net Block	2,882.9	2,702.4	2,531.1	6,643.6
Capital WIP	1,318.3	2,202.9	3,836.5	556.5
Total Fixed Assets	4,201.2	4,905.3	6,367.6	7,200.1
Investments	538.6	1,164.9	173.3	173.3
Inventories	222.3	248.0	439.0	574.1
Debtor	503.5	847.2	1,254.2	1,640.2
Cash	340.5	154.0	1,306.4	769.2
Loan & Advance, Other CA	155.4	138.3	170.0	170.0
Total Current assets	1,221.6	1,387.5	3,169.6	3,153.5
Current Liabilities	744.9	1,034.8	1,630.5	2,132.3
Provisions	155.7	178.6	282.4	265.8
Total CL and Provisions	900.6	1,213.4	1,912.9	2,398.0
Net Working Capital	321.0	174.1	1,256.7	755.5
Miscellaneous expense	0.0	0.0	0.0	0.0
Application of Funds	5060.9	6244.3	7797.7	8128.9

Source: Company, ICICIdirect.com Research

Key ratios

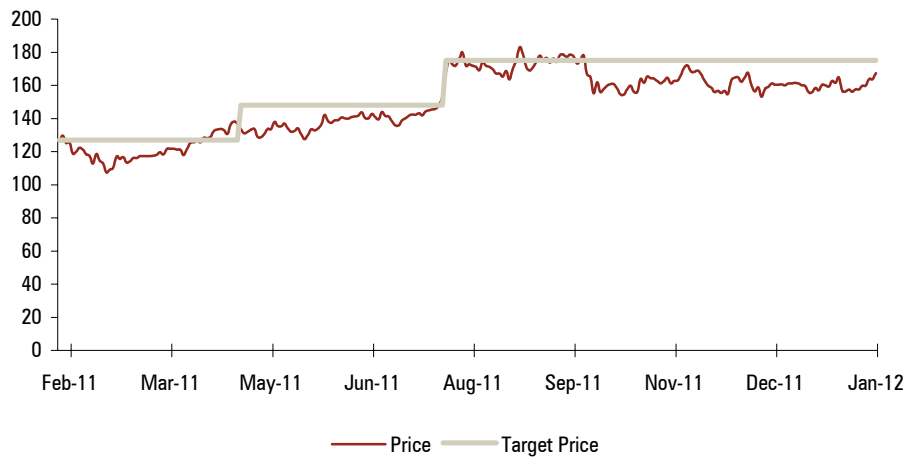
(Year-end March)	FY10	FY11	FY12E	FY13E
Per share data (₹)				
Book Value	29.8	35.7	47.1	57.5
Cash per share	4.5	2.1	17.4	10.3
EPS	5.4	8.3	14.0	13.3
Cash EPS	7.5	10.7	16.5	16.5
DPS	1.8	2.0	2.3	2.5
Profitability & Operating Ratios				
EBITDA Margin (%)	7.9	9.2	7.9	5.8
PAT Margin (%)	3.8	4.7	4.6	3.3
Fixed Asset Turnover (x)	2.5	2.7	3.6	4.2
Inventory Turnover (Days)	7.6	6.9	7.0	7.0
Debtor (Days)	17.3	23.4	20.0	20.0
Current Liabilities (Days)	25.5	28.6	26.0	26.0
Return Ratios (%)				
RoE	18.1	23.1	29.7	23.2
RoCE	14.5	17.5	22.0	19.6
RoIC	17.5	22.2	27.3	22.1
Valuation Ratios (x)				
PE	30.2	19.7	11.7	12.2
Price to Book Value	5.5	4.6	3.5	2.8
EV/EBITDA	17.0	12.6	8.2	8.5
EV/Sales	1.4	1.2	0.6	0.5
Leverage & Solvency Ratios				
Debt to equity (x)	1.1	1.2	1.1	0.8
Interest Coverage (x)	3.7	5.3	9.0	6.8
Debt to EBITDA (x)	3.0	2.6	2.1	1.9
Current Ratio	1.4	1.1	1.7	1.3
Quick ratio	1.1	0.9	1.4	1.1

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

				Sales (₹ Cr.)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Gujarat Gas										
Idirect Code	GUJGAS	CMP	389.0	CY08	1301.3	12.4	15.7	21.1	22.3	26.7
		Target	410.0	CY09	1419.7	13.5	28.8	17.8	22.4	29.8
				CY10	1849.3	20.0	19.4	12.0	30.2	42.1
				CY11E	2462.5	23.5	16.5	10.9	31.1	39.8
MCap	4988.9	Upside (%)	5.4	CY12E	3307.3	27.6	14.1	9.0	30.9	41.2
Guj. State Petronet Ltd										
Idirect Code	GSPL	CMP	84.0	FY09	487.5	2.2	36.9	13.4	10.2	10.8
		Target	118.0	FY10	1000.9	7.4	11.0	6.2	26.5	25.0
				FY11E	1046.5	9.0	9.0	6.2	25.3	24.1
				FY12E	1157.0	9.9	8.2	5.7	22.5	22.5
MCap	4555.8	Upside (%)	40.5	FY13E	1174.2	10.3	7.8	5.4	19.7	21.3
Indraprastha Gas Ltd										
Idirect Code	INDGAS	CMP	352	FY09	857.1	12.3	28.6	15.7	25.2	34.7
		Target	359	FY10	1083.8	15.4	22.9	12.4	26.1	37.4
				FY11	1750.4	18.6	19.0	10.5	25.9	29.3
				FY12E	2515.1	22.1	16.0	8.3	25.3	30.2
MCap	4928.0	Upside (%)	2.0	FY13E	3193.0	24.0	14.7	7.5	23.0	28.0
Petronet LNG Ltd										
Idirect Code	PETLNG	CMP	163.0	FY09	8428.7	6.9	23.6	15.4	26.1	18.7
		Target	175.0	FY10	10649.1	5.4	30.2	17.0	18.1	14.5
				FY11	13197.3	8.3	19.7	12.6	23.1	17.5
				FY12E	22889.2	14.0	11.7	8.2	29.7	22.0
MCap	12225.0	Upside (%)	7.4	FY13E	29933.7	13.3	12.2	8.5	23.2	19.6

Exhibit 9: Recommendation History



Source: Reuters, ICICIdirect.com Research

Exhibit 10: Recent Releases

Date	Event	CMP	Target Price	Rating
26-Oct-10	Q2FY11 Result Update	121	127	ADD
19-Jan-11	Q3FY11 Result Update	132	148	BUY
27-Apr-11	Q4FY11 Result Update	137	148	HOLD
21-Jul-11	Q1FY12 Result Update	167	175	HOLD
19-Oct-11	Q2FY12 Result Update	162	175	HOLD
30-Jan-12	Q3FY12 Result Update	163	175	HOLD

Source: ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps / midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No. 7, MIDC,
Andheri (East)
Mumbai – 400 093**

research@icicidirect.com

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