



CMP Rs.164

Recommendation: BUY

Target Price Rs.182

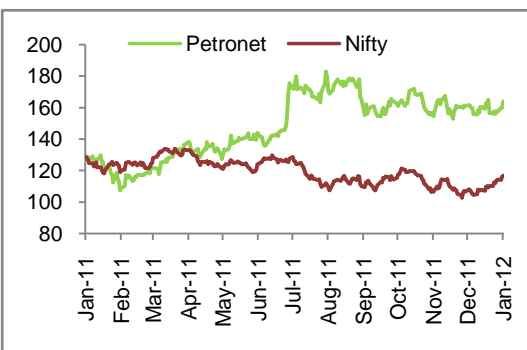
Sector: Oil & Gas

Key Data

Market Cap (Rs, cr)	12,281
Market Cap (US\$ mn)	2,474
O/S Shares, cr	75
Face Value, Rs	10
2 Wk Avg Vol, NSE	2,354k
52 Wk High	186
52 Wk Low	105
Rs/US\$	49.65
Bloomberg	PLNG IN
Reuters	PLNG.BO
NSE	PETRONET
BSE	532522

Shareholding Pattern %

	Q3 FY11	Q3 FY12
Promoters	50.0	50.0
FII	10.8	14.6
Inst Inv	10.4	7.9
Public	28.7	27.5



Siddharth Rajpurohit (Analyst)

siddharth.rajpurohit@sihl.in

Ameya Hardas (Research Head)

ameya.hardas@sihl.in

Valuation & Outlook

With the robust demand for natural gas in India and no visibility of ramping up in KG-D6 output we expect PLNG to maintain 110% utilization levels in FY13 and achieve reasonable off take from its new LNG terminals.

At CMP the stock is trading at PE multiple of 11.7x its FY13E EPS of Rs.14 (Upgraded from Rs.13.5 earlier). We value the stock at 13x its FY13E EPS of Rs.14 and revise our target price to Rs.182, up from Rs.176 earlier. We upgrade the stock to **BUY** (from HOLD) with an investment horizon of 12 months and upside potential of 11%.

Q3 FY12 Result Spotlight

Robust profitability trend maintained

In Q3 FY12 Petronet LNG Ltd. (PLNG) reported net sales and other operating income of Rs.6,330 cr (higher than our exp. Of Rs.6,181 cr) up from Rs.5,367 cr QoQ and Rs.3,628 cr YoY. The strong growth in profitability was backed by higher sales volume (up 7.3% QoQ and 21.1% YoY) and higher per unit realisation (up 12.8% QoQ and 56.9% YoY). The EBITDA in the quarter stood at Rs.503 cr up by 12.3% QoQ and 45.6% YoY however the EBITDA margin stood at 7.9% down 50bps QoQ and 160bps YoY largely due to incremental sale of high cost spot LNG. The net profit in the quarter stood at Rs.295 cr (significantly higher than our exp. of Rs.260 crs), up 13.5% QoQ and by 72.9% YoY.

Forex risk on import of LNG passed on to clients

PLNG imports LNG in foreign currency and charges its domestic clients in the same currency, hence the forex risk is been passed onto its client. Further the company has an ECB of USD 150 mn; however PLNG has hedged the entire debt and the interest payments. Hence, PLNG does not face any risk due to currency movements.

Robust growth in volume backed by high capacity utilization

In Q3 FY12 the company has done a total of 45 cargoes (Vs. 42 cargoes in Q2 FY12), of which 29 were long term, 9 were spot and 7 were re-gas for GAIL/GSPL which implies a capacity utilisation of 115% Vs 106% QoQ on annualised basis. The robust demand for natural gas in India and efficiency of the management lead to the high operating efficiency. The management guided 110% capacity utilization of the Dahej terminal in FY13.

Capacity expansion well on track

The capacity expansion of Dahej terminal from 10MTPA to 15MTPA is well on track and will be operational by 2015. The company has contracted 2.5MTPA of natural gas off take with GAIL and 1MTPA with GSPC for its new terminal at Dahej. The new Greenfield 5MTPA Kochi terminal is expected to be operational by Dec 2012.

Finalised a Greenfield 5MTPA LNG re-gasification terminal at AP

The company has finalised to set up its third Greenfield 5MTPA LNG re-gasification terminal on the eastern coast of India at Gangavaram port in Andhra Pradesh. Management expects to complete the feasibility study for the terminal by April 2012 and expected the port to commission operation by 2015-16.

Management does not expect a cap on marketing margins

Recently the petroleum ministry has asked PNGRB, the gas regulatory body, to review the marketing margins charged by the gas marketers in India. However, the management expects that with the risk associated with import of LNG on spot rate and short term contracts, the marketing margins for imported gas may not be regulated.



Quarterly performance

Exhibit 1: Standalone income statement (Quarterly)

Particulars, Rs. cr	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Net Sales & Other Op. Income	3,628	3,986	4,623	5,367	6,330	74.5%	18.0%
Total Expenditure	3,282	3,635	4,185	4,919	5,827	77.5%	18.5%
Cost of Raw Materials	3,239	3,574	4,133	4,814	5,701	76.0%	18.4%
Operating Expenses	37	48	46	99	120	221.0%	21.8%
Employee Cost	6	12	6	6	6	11.7%	4.1%
EBITDA	346	351	438	448	503	45.6%	12.3%
EBITDA Mgn	9.5%	8.8%	9.5%	8.4%	7.9%	-	-
Depreciation	46	45	46	46	46	-0.4%	0.0%
EBIT	299	306	392	402	457	52.8%	13.7%
Other Income	5	31	26	20	16	203.1%	-18.5%
Interest	51	43	46	46	34	-32.0%	-24.8%
PBT	254	294	372	376	439	72.9%	16.6%
Tax	83	88	116	116	144	72.9%	23.7%
Profit After Tax	171	206	257	260	295	72.9%	13.5%
NPM	4.7%	5.2%	5.6%	4.9%	4.7%	-	-
EPS, Rs.	2.3	2.8	3.4	3.5	3.9	72.9%	13.5%

Source: Company, SIHL Research

Exhibit 2: Sales volume

Sales Volume (tbtu*)	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Total Volume	119.72	125.75	133.37	135.09	144.93	21.1%	7.3%
Sales	111.14	112.13	114.65	117.86	123.15	10.8%	4.5%
Re-gasification	8.58	13.62	18.72	17.23	21.78	153.8%	26.4%

Source: Company, SIHL Research

* Trillion British Thermal Unit

Exhibit 3: Margin analysis

Particulars	Q3 FY11	Q4 FY11	Q1 FY12	Q2 FY12	Q3 FY12	YoY	QoQ
Gross Margin	10.7%	10.3%	10.6%	10.3%	9.9%	-0.8%	-0.4%
EBITDA Margin	9.5%	8.8%	9.5%	8.4%	7.9%	-1.6%	-0.4%
EBIT Margin	8.2%	7.7%	8.5%	7.5%	7.2%	-1.0%	-0.3%
PBT Margin	7.0%	7.4%	8.1%	7.0%	6.9%	-0.1%	-0.1%
PAT Margin	4.7%	5.2%	5.6%	4.9%	4.7%	0.0%	-0.2%

Source: Company, SIHL Research



Technical Corner



Petronet has been trading in the price range of 150 on the lower side and 170 on the upper side of the range since last 4 months. At the same time we have also observed on the daily chart that it has broken the Downward sloping Trend Lines from the all time high but couldn't sustain above the same. We believe once the stock successfully breaches this trading range with momentum and withstands the selling pressure at the same level only then it will start trading in the new range of 185 plus or else if it breaks below the 150 level which is the lower band of the range the stock will start trading in the new price range of 145 & below. Investor can buy Petronet at CMP of Rs.164 with the strict stop loss of 150 for the target price of 185 & 220.



Contact Details

Shah Investor's Home Ltd.
105/B, 1st Floor, Sahayog Tower,
Above Central Bank of India,
SV Road, Kandivali (W)
Mumbai 400 067
www.sihl.in

Contact: research@sihl.in, +91-2801 6715/16
You can also access our reports on Bloomberg (ERH SIH<GO>)

Disclaimer:-

The Information provided by SMS or in newsletter or in any document has been prepared by Shah Investor's Home Ltd (SIHL). The Information provided by SMS or in newsletter does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. SIHL or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report or SMS. This Information provided by SMS, reports or in newsletter is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this Information provided by SMS, report or in newsletter should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this information provided by SMS, report or in newsletter (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This information is strictly confidential and is being furnished to you solely for your information.

The information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. The information provided by report or SMS is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SIHL and affiliates/ group companies to any registration or licensing requirements within such jurisdiction. The distribution of this Information provided by SMS or in newsletter in certain jurisdictions may be restricted by law, and persons in whose possession this Information provided by SMS or in newsletter comes, should inform themselves about and observe, any such restrictions. The information given or Information provided by SMS, report or in newsletter is as of the date of the issue date of report or the date on which SMS provided and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. SIHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, SIHL is under no obligation to update or keep the information current.

Nevertheless, SIHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither SIHL nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in the Information provided by SMS, report or in newsletter are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.