

Industry	Oil & Gas
Bloomberg	PLNG IN
BSE CODE	532522

## Sharp decline in Spot LNG prices dented margins

RATING	HOLD
CMP	236
Price Target	255
Potential Upside	8%

Rating Change	↔
Estimate Change	↔
Target Change	↔

### Stock Info

52wk Range H/L	275/202
Mkt Capital (Rs Cr)	33682
Free float (%)	50%
Avg. Vol 1M (,000)	1,899
No. of Shares (Cr)	150
Promoters Pledged %	0%

### Research Analyst

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### 4QFY19 Result Update

- ❑ Petronet has reported 3% decline in sales to Rs. 8383 Cr. primary on account of steep decline in the spot LNG prices. However annual revenue has grown by 25% to Rs. 38395 Cr. due to higher realization as compared to last year.
- ❑ The company has reported inventory loss of Rs. 119 Cr due to steep decline in spot price of natural gas from USD 8.5 per million British thermal units (mmBtu) at the beginning of the quarter to USD 4.3 per mmBtu.
- ❑ Overall volume has declined by 4% YoY to 205 Tbtu. Volumes at Dahej and Kochi terminal was 199 Tbtu and 6 Tbtu respectively. This is mainly led by the slow-down City gas and power sector in the last quarter.
- ❑ EBITDA margin of the company has dipped by 200bps to 7.5% due to higher inventory losses and lower realization in spot volumes.
- ❑ PAT in the last quarter has dipped by 15% YoY to Rs. 440 Cr due to lower revenue and inventory loss of Rs. 119 Cr.
- ❑ Company has announced dividend of 4.5/share. Total dividend declared in FY19 is Rs. 10/share.
- ❑ Expansion at Dahej terminal is running as per schedule and is expected to be completed by June 2019.

### View and valuation:

Petronet has reported 200bps decline in margins led by the sharp decline in the spot prices of natural gas due to notional inventory loss in the Q4 FY19. This loss is likely to reverse with the rise in the spot LNG prices. Thus, we expect margins to improve sequentially by around 100bps to 8.5% in upcoming quarter. On the volume front, LNG off-take by power companies is likely to improve a bit on the back of higher power consumption in summer season, resume of 0.7 mmscmd of LNG off-take from of its existing client FACT (Fertilizers and Chemicals Travancore Limited). This customer has already tied up contract for next 300 days. Further, Dahej expansion and Kochi-Mangalore pipeline construction is running as per schedule and expected to be completed by June 2018. With this strong volume growth prospect of the company in upcoming quarters remains intact. Despite some short term headwinds, we are positive on the stock in the long and reiterate our HOLD rating in the stock.

We value stock at 10x FY20e EV/EBITDA to arrive at a target price of Rs. 255/share.

### Key Risks to our rating and target

- ❑ Weakness of rupee against dollar will make import of LNG costlier for the company
- ❑ Volatility in the spot LNG prices
- ❑ Lower off take by power and fertilizer plants

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	27133	24616	30599	38395	41624
EBITDA	1586	2592	3312	3293	3676
EBIT	1265	2223	2901	2882	3292
PAT	913	1706	2078	2155	2518
EPS (Rs)	6	11	14	14	17
EPS growth (%)	1%	87%	22%	4%	17%
ROE (%)	14%	21%	21%	21%	23%
ROCE (%)	14%	23%	28%	28%	29%
BV	44	54	65	67	74
P/B (X)	3	4	4	4	3
P/E (x)	21	18	18	17	13

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## 4QFY19 Results

### Results below expectation

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	8636	9169	10745	10098	8383	-2.9%	-17.0%	30598.6	38395.4	25.5%
Other Income	103	99	111	88	151	46.4%	71.2%	317	450	41.9%
COGS	7645	8084	9695	9099	7539	-1.4%	-17.1%	26690.2	34417	28.9%
Gross Margin	11%	12%	10%	10%	10%	-1.4%	0.2%	13%	10%	-2.4%
Employee Cost	25	22	43	27	34	33.9%	28.0%	91	126	38.0%
Other Expenses	144	128	124	124	183	27.4%	47.6%	505	559	10.8%
EBITDA	822	934	884	848	627	-23.7%	-26.0%	3312	3293	-0.6%
EBITDA%	10%	10%	8%	8%	7%	-2.0%	-0.9%	11%	9%	-2.2%
Depreciation	101	102	104	104	102	0.3%	-2.0%	412	411	-0.1%
EBIT	721	832	780	744	526	-27.1%	-29.4%	2901	2882	-0.6%
Interest	33	30	25	22	23	-32.7%	4.5%	163	99	-39%
PBT	791	901	867	811	655	-17.2%	-19.3%	3055	3234	5.8%
Exceptional	-	-	-	-	-					
Tax	268	314	304	246	214	-20.1%	-12.9%	977	1078	10.3%
PAT	523	587	563	565	440	-15.8%	-22.1%	2078	2155	3.7%
PAT Margin	6%	6%	5%	6%	5%	-0.8%	-0.3%	7%	6%	-1.2%

### Dahej expansion:

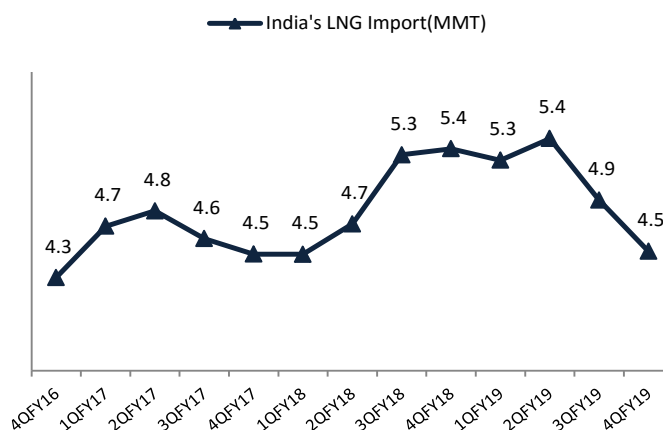
In Q4 FY19, volume at Dahej terminal has declined by 3% YoY to 199 TBTU's due to the lower off-take by the power sector and shut down at IOC's Panipat refinery. Going forward, in Q1 FY20 volumes are likely to improve sequentially on the back of higher power consumption in summer season. Apart from that company's client FACT (Fertilisers and Chemicals Travancore Limited) has resumed off taking natural gas from Petronet. FACT has tied up 300 days contract to supply 0.7 mmstd of gas. Further, post expansion at Dahej, volume is likely to go up by 10-12% YoY from second half of FY20. The company is in negotiation with its existing clients like BPCL and HPCL to take any additional volumes from this terminal.

### Kochi Terminal utilization:

Utilization at Kochi terminal has remained at 10% and has reported volume of 6 TBTU's in the last quarter. Petronet Kochi terminal has remained underutilized from the long period of time due to non-availability of proper evacuation pipeline. Gail is building Kochi-Mangalore pipeline and management of GAIL has guided that construction work at this pipeline will be completed by June 2019. Post which volume should go up to 1-1.2 MTPA from current level of 0.5 MTPA taking utilization level to around 20-25% in second half of FY20.

### Margin pressure to ease in upcoming quarter:

EBITDA margin of the company has dipped by 200bps to 7.5% in the last quarter, primarily on account of sharp decline in the spot LNG prices. Sharp decline in prices has led to lower realization and higher inventory loss of Rs. 119 Cr in the last quarter. 40% of the total volumes are sold at spot prices and thus are vulnerable to the spot LNG prices. Going forward, as spot LNG prices has reversed and now it is expected to offset some inventory losses in Q1 FY20.

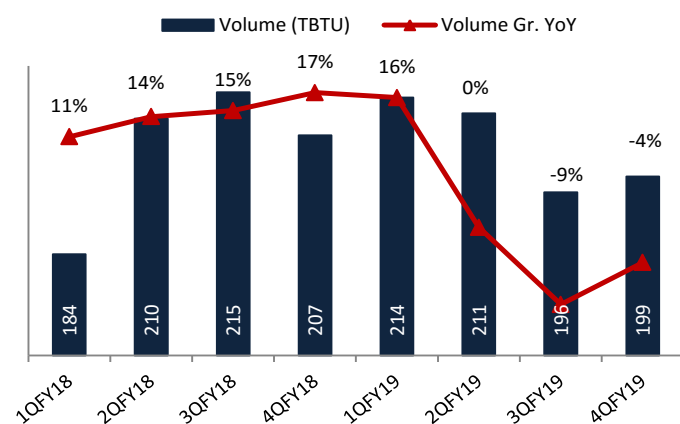


## Concall Highlights

- There was a notional inventory loss of Rs. 119 Cr. Spot prices has started rising from the April 2019, and Rs. 25 Cr is already recovered as inventory gain.
- There is a drop in volume of 4% YoY in Q4 FY19 due to the lower off-take from fertilizer plants and shut down of IOC Panipat refinery.
- Management has guided for 10% volume growth in FY20e. Management expects demand from power companies to pick up in summer season. Further, the volume would be better on the back of Dabhol terminal which is closed and some volumes may shift some to Dahej.
- FACT(Fertilisers and Chemicals Travancore Limited) has come back and has tied up LNG contracts with Petronet for next 300 days because of current lucrative spot LNG prices. Company might see a small increase in the volume of around 0.7 mmscmd.
- Revenue from Rasgas service is Rs. 437 Cr in Q4 FY19.
- Management of GAIL has shown confidence to Petronet's management that Kochi Mangalore pipeline will be completed by June 2019. Post which utilization at Kochi terminal will go up to 25-30% from current level of 10%.
- Expansion of Dahej terminal by 2.5 MTPA is running as per schedule and is expected to be completed by June 2019.
- Company is in discussion with the Sri Lankan government and has submitted various drafts of 2.5 MTPA project which may involves capex of Rs. 2000 Cr, if plans materialize.
- In Bangladesh Terminal project, there are some issues. Expression of interest has been shown by the company.
- Management plans to bring LNG in India at a price below USD 6/mmbtu.
- Capex planned for FY20e is Rs. 443 Cr (It may go up to Rs. 600 Cr. if work on second tank starts)
- Company is planning to build two new tanks at Dahej from earlier plan of one new tank.
- Management is planning to expand Dahej capacity further to 19.5 MTPA from earlier planning of 17.5MTPA.
- As per the management, spot LNG prices has bottomed out and likely to remain around USD 6/mmbtu.
- In OPAL deal, Petronet supplies gas to ONGC C2-C3 extraction plant and also supplies gas to OPAL for consumption in gas turbines. Around 1.2-1.3 mmscmd goes in C2-C3 and 0.3-.4 mmscmd goes in OPAL.
- Other expense is higher by 60 Cr. on account of higher foreign exchange fluctuations.
- Considering the upcoming projects in City Gas in India consumption is likely to go up from 25 mmscmd to 100 mmscmd in next 5-8 years. Management sees a huge upsurge of LNG demand in next 5-8 years.
- Long term volume is 437 Tbtu in FY19.
- Net cash in books stands at Rs. 4575 Cr.

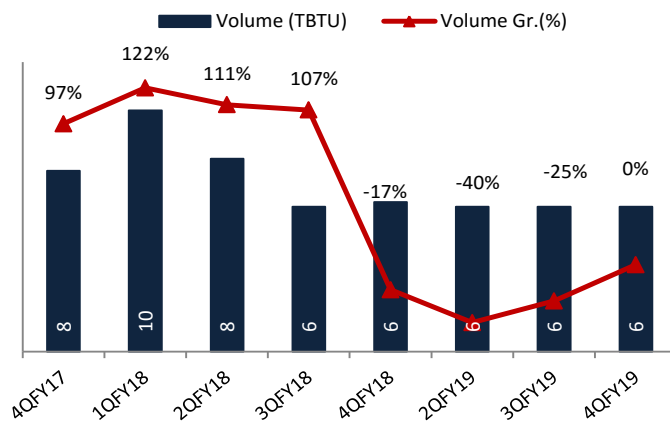
## Exhibit: Dahej Volume Trend

Dahej terminal remain at its optimum capacity utilization level of 104% in Q4 FY19



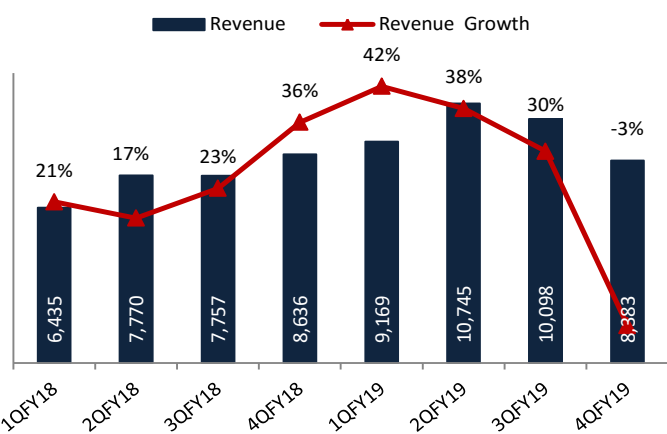
## Exhibit: Kochi Volume Trend

Kochi terminal has remian under utilized at 10% of utilization level due to lack of evacuation pipeline



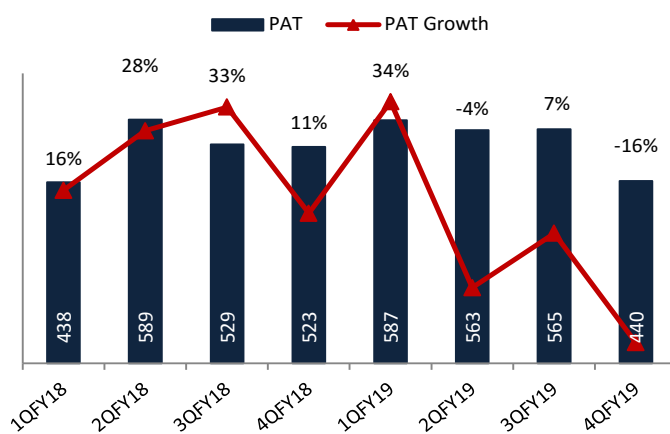
## Exhibit: Revenue and Revenue growth YoY

Revenue declined on account of lower realization led by the sharp dip in LNG prices



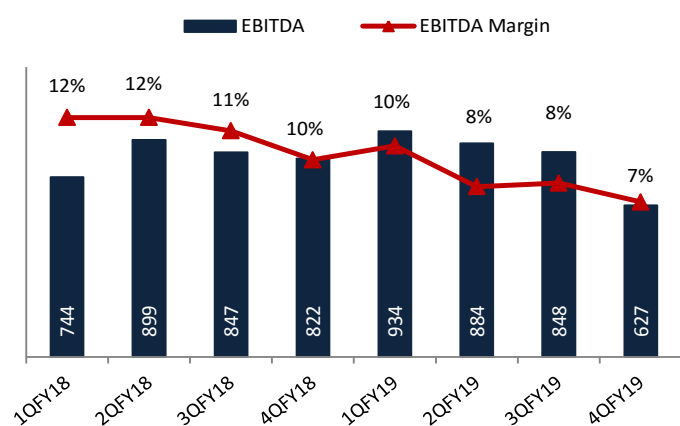
## Exhibit: PAT and PAT growth YoY

Lower revenue and margin pressure has led to decline in PAT



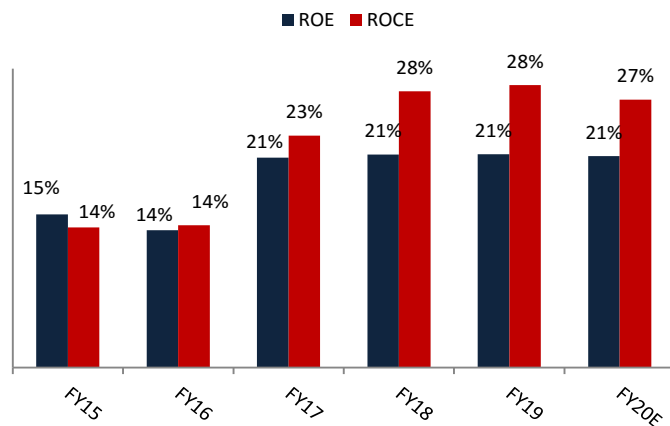
## Exhibit: EBITDA and EBITDA margin

EBITDA margin declines due to the huge inventory loss incurred in last quarter



## Exhibit: Return Ratios

Healthy return ratios on the back of gradual volume growth with almost stable margins on yearly basis



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	750	750	750	750	750	1500	1500	1500
Reserves	3700	4236	5132	5864	7344	8220	8566	9655
<b>Networth</b>	<b>4450</b>	<b>4986</b>	<b>5882</b>	<b>6614</b>	<b>8094</b>	<b>9720</b>	<b>10066</b>	<b>11155</b>
Debt	2718	2896	2569	2233	1450	733	101	95
Total Capital Employed	7168	7634	8450	8847	9544	10454	10167	11250
<b>Net Fixed Assets (incl CWIP)</b>	<b>6688</b>	<b>7145</b>	<b>7689</b>	<b>8361</b>	<b>8472</b>	<b>8250</b>	<b>8013</b>	<b>8266</b>
Non Current Investments	140	90	0	0	0	0	0	0
Other Non Current Assets	-	-	303	98	95	80	73	73
Non Current Assets	6946	7487	8381	8840	8926	8627	9123	9342
<b>Inventory</b>	<b>1037</b>	<b>956</b>	<b>883</b>	<b>246</b>	<b>541</b>	<b>491</b>	<b>569</b>	<b>617</b>
Debtors	1690	2016	1343	989	1211	1651	1382	1499
Cash & Bank	1269	1233	362	2183	327	863	2960	1244
Other Current Assets	3	14	75	35	25	55	51	55
Current Assets	4137	4426	2769	3586	4903	7027	5962	6904
<b>Creditors</b>	<b>2297</b>	<b>1887</b>	<b>321</b>	<b>772</b>	<b>945</b>	<b>1570</b>	<b>1295</b>	<b>1404</b>
Provisions	227	269	9	10	9	12	17	0
Other Current Liabilities	997	1017	275	233	268	447	487	416
Curr Liabilities	3521	3173	1302	1585	2163	2860	2484	2563
<b>Net Current Assets</b>	<b>617</b>	<b>1252</b>	<b>1467</b>	<b>2001</b>	<b>2740</b>	<b>4167</b>	<b>3477</b>	<b>4340</b>
<b>Total Assets</b>	<b>11083</b>	<b>11913</b>	<b>11150</b>	<b>12426</b>	<b>13829</b>	<b>15654</b>	<b>15085</b>	<b>16246</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>31467.4</b>	<b>37747.6</b>	<b>39627</b>	<b>27133.4</b>	<b>24616</b>	<b>30598.6</b>	<b>38395.4</b>	<b>41623.7</b>
Change (%)	39%	20%	5%	-32%	-9%	24%	25%	8%
Other Income	88.7	83.75	156.43	173.34	346.64	317.4	450.29	540.562
<b>EBITDA</b>	<b>1937</b>	<b>1498</b>	<b>1518</b>	<b>1586</b>	<b>2592</b>	<b>3312</b>	<b>3293</b>	<b>3676</b>
Change (%)	6%	-23%	1%	5%	63%	28%	-1%	12%
Margin (%)	6%	4%	4%	6%	11%	11%	9%	9%
Depr & Amor.	187	308	329	322	369	412	411	384
<b>EBIT</b>	<b>1750</b>	<b>1190</b>	<b>1189</b>	<b>1265</b>	<b>2223</b>	<b>2901</b>	<b>2882</b>	<b>3292</b>
Int. & other fin. Cost	118	220	308	239	210	163	99	17
Other Income	89	84	156	173	347	317	450	541
<b>EBT</b>	<b>1720</b>	<b>1055</b>	<b>1037</b>	<b>1199</b>	<b>2360</b>	<b>3055</b>	<b>3234</b>	<b>3815</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	<b>571</b>	<b>343</b>	<b>132</b>	<b>286</b>	<b>655</b>	<b>977</b>	<b>1078</b>	<b>1297</b>
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	1149	712	905	913	1706	2078	2155	2518
<b>Adjusted PAT</b>	<b>1149</b>	<b>712</b>	<b>905</b>	<b>913</b>	<b>1706</b>	<b>2078</b>	<b>2155</b>	<b>2518</b>
Change (%)	<b>9%</b>	<b>-38%</b>	<b>27%</b>	<b>1%</b>	<b>87%</b>	<b>22%</b>	<b>4%</b>	<b>17%</b>
Margin(%)	4%	2%	2%	3%	7%	7%	6%	6%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	26%	14%	15%	14%	21%	21%	21%	23%
ROCE	24%	16%	14%	14%	23%	28%	28%	29%
Asset Turnover	2.8	3.2	3.6	2.2	1.8	2.0	2.5	2.6
Debtor Days	20	19	12	13	18	20	13	13
Inv Days	12	9	8	3	8	6	5	5
Payable Days	27	18	3	10	14	19	12	12
Int Coverage	14.8	5.4	3.9	5.3	10.6	17.8	29.1	192.5
P/E	9	14	14	21	18	18	17	13
Price / Book Value	2.3	2.1	2.2	2.8	3.7	3.7	3.7	3.0
EV/EBITDA	6	8	10	12	12	11	11	9
FCF per Share	12.2	6.4	6.0	16.0	10.2	18.8	35.8	(2.0)
Div Yield	3.7%	3.6%	2.9%	2.0%	1.2%	1.0%	1.0%	1.1%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	1720	1055	1037	1199	2360	3055	3234	3815
(inc)/Dec in Working Capital	404	-353	-443	1934	-327	295	2593	-2579
Non Cash Op Exp	187	308	329	322	369	412	411	384
Int Paid (+)	-41	-43	-50	-25	-19	-10	-	-
Tax Paid	-539	-193	-220	-200	-378	-697	-1078	-1297
others	93	189	247	144	62	-59	387	17
<b>CF from Op. Activities</b>	<b>1823</b>	<b>964</b>	<b>901</b>	<b>3374</b>	<b>2068</b>	<b>2996</b>	<b>5546</b>	<b>340</b>
(inc)/Dec in FA & CWIP	-23	-864	-51	-972	-546	-175	-175	-636
Free Cashflow	1800	99	849	2402	1521	2820	5372	-296
(Pur)/Sale of Inv	0	0	50	94	-2574	-951	-	-
others	-745	62	-715	25	-54	-1	-	-
<b>CF from Inv. Activities</b>	<b>-769</b>	<b>-803</b>	<b>-717</b>	<b>-854</b>	<b>-3175</b>	<b>-1127</b>	<b>-175</b>	<b>-636</b>
inc/(dec) in NW								
inc/(dec) in Debt	-242	205	-619	-280	-313	-705	-632	-6
Int. Paid	-310	-182	-263	-239	-210	-178	-99	-17
Div Paid (inc tax)	-218	-219	-175	-181	-226	-451	-1799	-1439
others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>-770</b>	<b>-197</b>	<b>-1058</b>	<b>-699</b>	<b>-748</b>	<b>-1335</b>	<b>-2530</b>	<b>-1463</b>
Inc(Dec) in Cash	285	-36	-874	1821	-1856	534	2841	-1759
<b>Add: Opening Balance</b>	<b>984</b>	<b>1269</b>	<b>1231</b>	<b>356</b>	<b>2177</b>	<b>321</b>	<b>863</b>	<b>2960</b>
Closing Balance	1269	1233	358	2177	321	855	3704	1201

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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