Petronet LNG

Utilisation improves; Expansion on-track

Standalone (₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%
Net revenue	7,545	10,980	*(31.3)*	8,377	*(9.9)*
EBITDA	467	519	(10.1)	361	29.3
Margin (%)	*6.2*	*4.7*	*146bp*	*4.3*	*188bp*
Reported PAT	249	263	(5.3)	248	0.5

Source: Company, Angel Research

For 2QFY2016, Petronet LNG (PLNG)'s EBITDA came in ahead of our expectation at ₹467cr, as against our estimate of ₹389cr, led by higher-than-expected contribution margin. The EBITDA declined 10% yoy but was up 29% sequentially. Contribution margin for the quarter came in at ₹37.4/MMBTU as against ₹42.0/MMBTU in the corresponding quarter last year and vs ₹35.7/MMBTU in the sequential previous quarter. The better-than-expected contribution was on account of higher utilization at the Dahej terminal, which operated at ~121% of its capacity (as against ~98% utilisation in the sequential previous quarter), processing 154TBTU during the quarter. The Management indicated that the increase in utilisation was temporary and should be ~100% going forward. Blended realisation was lower at ₹481/MMBTU as against ₹637/MMBTU in 1QFY2016 and ₹730/MMBTU in 2QFY2015, on account of lower spot LNG prices.

Expansion plan remains on track: Expansion of capacity of the Dahej terminal from 10MMTPA to 15MMTPA is going on as per schedule and the Management expects to complete the same by 2016-end. The company has also initiated the process for selection of EPC contractors for further expansion of the Dahej terminal's capacity to 17.50 MMTPA.

Outlook and valuation: PLNG is a direct play on the gas deficit story in India. The company's strong expansion plan makes it well positioned to benefit from the demand supply gap. The stock currently trades at 15x and 14x its FY2016E and FY2017E EPS. **We use DCF to arrive at our target price of ₹210 and retain our Accumulate rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net sales	31,467	37,748	39,501	29,691	31,188
% chg	*38.6*	*20.0*	*4.6*	*-24.8*	*5.0*
Adj. net profit	1,149	712	883	959	1,007
% chg	*8.7*	*(38.1)*	*24.0*	*8.6*	*5.0*
Adj. EPS (₹)	15.3	9.5	11.8	12.8	13.4
OPM (%)	6.2	4.0	3.6	5.8	6.2
P/E (x)	12.6	20.3	16.4	15.1	14.4
P/BV (x)	3.2	2.9	2.5	2.2	2.0
RoE (%)	28.8	15.1	16.5	15.8	14.8
RoCE (%)	24.5	15.1	13.5	15.7	15.8
EV/Sales (x)	0.5	0.4	0.4	0.6	0.5
EV/EBIDTA	8.4	11.0	11.7	9.7	8.5

Source: Company, Angel Research: Note CMP as of October 23, 2015

ACCUMULATE

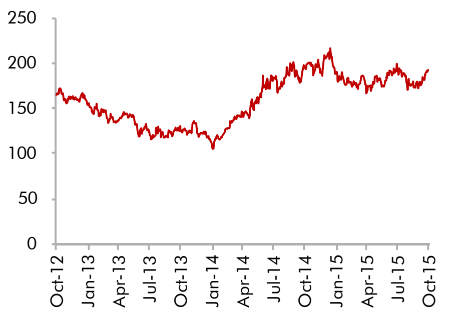
CMP	₹193
Target Price	₹210
Investment Period	12 Months

Stock Info	
Sector	Oil&Gas
Market Cap (₹ cr)	14,456
Net Debt (₹ cr)	2,310
Beta	0.7
52 Week High / Low	222/160
Avg. Daily Volume	7,75,154
Face Value (₹)	10
BSE Sensex	27,471
Nifty	8,295
Reuters Code	PLNG.BO
Bloomberg Code	PLNG IN

Shareholding Pattern (%)	
Promoters	50.0
MF / Banks / Indian FIs	5.1
FII / NRIs / OCBs	22.5
Indian Public / Others	22.5

Abs. (%)	3m	1yr	3yr
Sensex	(3.2)	2.3	46.8
PLNG	(3.6)	(2.4)	17.3

3-year price chart



Source: Company, Angel Research

Rahul Dholam
Tel: 022- 3935 7800 Ext: 6847
rahul.dholam@angelbroking.com

Exhibit 1: 2QFY2016 performance (Standalone)

(₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%	FY2015	FY2014	yoy%
Net sales	**7,545**	**10,980**	*(31.3)*	**8,377**	*(9.9)*	**39,501**	**37,748**	*4.6*
Raw material	6,959	10,349	*(32.8)*	7,908	*(12.0)*	37,611	35,849	*4.9*
% of net sales	*92.2*	*94.2*		*94.4*		*95.2*	*95.0*	
Gross Margin	**586**	**631**	*(7.1)*	**469**	*25.0*	**1,890**	**1,898**	*(0.4)*
Margin (%)	7.8	5.8	*202bp*	5.6	*217bp*	4.8	5.0	*274bp*
Employee Cost	14	11	*30.6*	15	*(4.4)*	*57*	*47*	*22.5*
% of net sales	*0.2*	*0.1*		*0.2*		*0.1*	*0.1*	
Other expenditure	105	101	*3.8*	93	*13.1*	*394*	*353*	*11.6*
% of net sales	*1.4*	*0.9*		*1.1*		*1.0*	*0.9*	
Total expenditure	7,078	10,461	*(32.3)*	8,016	*(11.7)*	38,062	36,249	*5.0*
% of net sales	*93.8*	*95.3*		*95.7*		*96.4*	*96.0*	
EBITDA	**467**	**519**	*(10.1)*	**361**	*29.3*	**1,439**	**1,498**	*(4.0)*
Margin (%)	6.2	4.7	*146bp*	4.3	*188bp*	3.6	4.0	*222bp*
Interest	61	80	*(23.5)*	61	*(0.0)*	293	220	*33.7*
Depreciation	81	77	*4.5*	80	*0.9*	315	308	*2.4*
Other income	36	35	*2.7*	33	*8.0*	155	84	*84.8*
Exceptional items	0	0		0		0	0	
Profit before tax	**361**	**397**	*(9.1)*	**253**	*42.6*	**985**	**1,055**	*(70.1)*
% of net sales	*4.8*	*3.6*		*3.0*		*2.5*	*2.8*	
Tax	112	134		6		102	343	*(70.1)*
% of PBT	*31.0*	*33.8*		*2.2*		*10.4*	*32.5*	
Adj. PAT	**249**	**263**	*(5.3)*	**248**	*0.5*	**883**	**712**	*24.0*

Source: Company, Angel Research

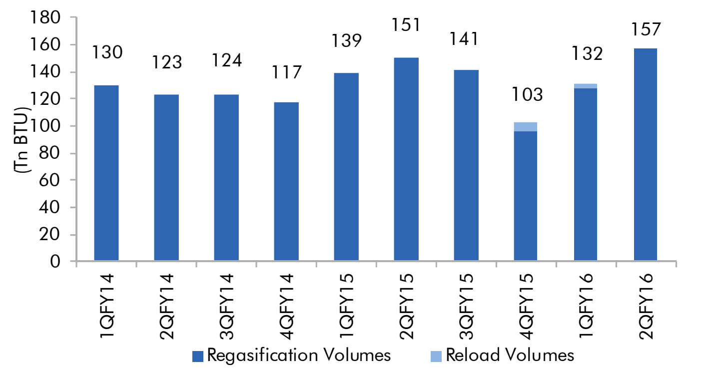
Result highlights

Better than expected volumes led by higher utilisation

PLNG reported a healthy contribution margin of ₹586cr, well ahead of our expectation, led by higher volumes at the Dahej terminal. Contribution margin declined 7% yoy, but increased 25% on a sequential basis. Contribution margin came in at ₹37.4/MMBTU as against ₹42.0/MMBTU in the corresponding quarter last year and vs ₹35.7/MMBTU in the sequential previous quarter.

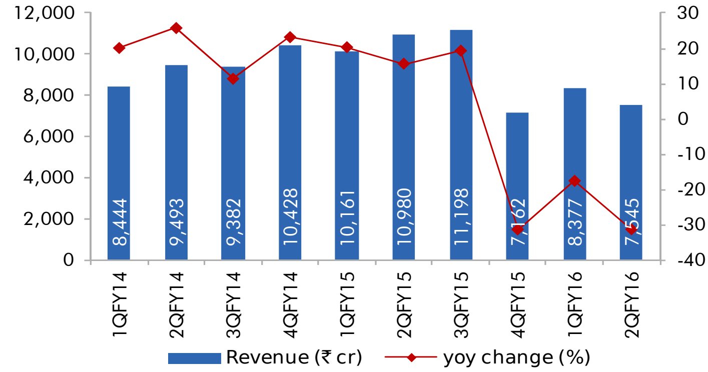
During the quarter, the Dahej terminal operated at ~121% of its capacity, processing 154TBTU, as against ~98% utilisation in the sequential previous quarter. The Management indicated that the increase in utilisation was temporary and should be at ~100%, going forward. Volumes continued to remain low at the Kochi terminal at 2.7TBTU (no reload sales) as against 6.11TBTU in 1QFY2016. Total volumes at 156.7TBTU were well ahead of our expectation, increasing 23% over the sequential previous quarter (127.9TBTU). Blended realisation was lower at ₹481/MMBTU as against ₹637/MMBTU in 1QFY2016 and ₹730/MMBTU in 2QFY2015, on account of lower spot LNG prices.

Exhibit 2: Strong volume growth



Source: Company, Angel Research

Exhibit 3: Revenue declines due to lower realisation



Source: Company, Angel Research

The EBITDA for the quarter came in ahead of our expectation at ₹467cr, as against our estimate of ₹389cr, led by higher-than-expected contribution margin. EBITDA declined 10% yoy but was up 29% sequentially. Depreciation and finance expenses were in line with our expectations. The Net profit declined 5% yoy to ₹249cr, but remained flat on a sequential basis on account of tax reversals in 1QFY2015 pertaining to prior years under Section 80-IA of the Income Tax Act.

Exhibit 4: Quarterly Performance Trend

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Blended Realisation (₹/MMBTU)	652	772	759	890	733	730	792	699	637	481
EBITDA (₹/MMBTU)	31	30	28	33	26	34	24	22	27	30

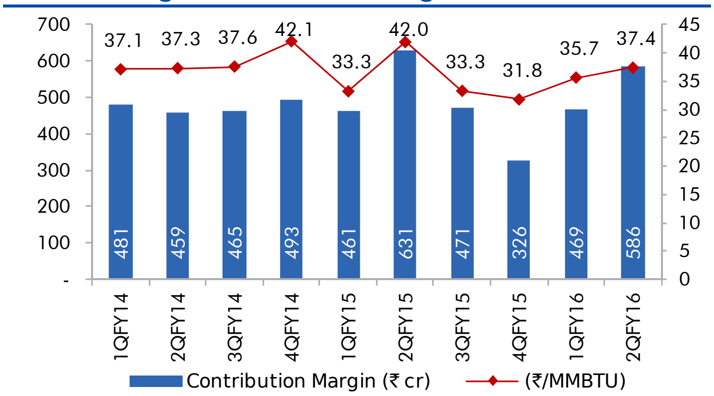
Source: Company, Angel Research

Exhibit 5: 2QFY2016 Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	7,545	7,866	*(4.1)*
EBITDA	467	389.2	*19.9*
EBITDA margin (%)	*6.2*	*4.9*	*50bp*

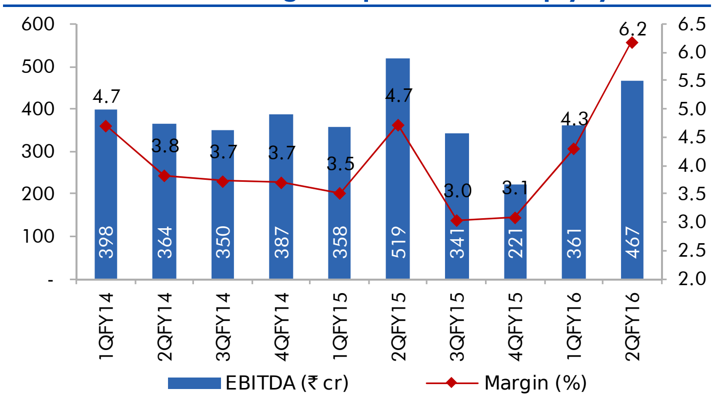
Source: Company, Angel Research

Exhibit 6: High Contribution margin



Source: Company, Angel Research

Exhibit 7: EBITDA margin improves ~150bp yoy

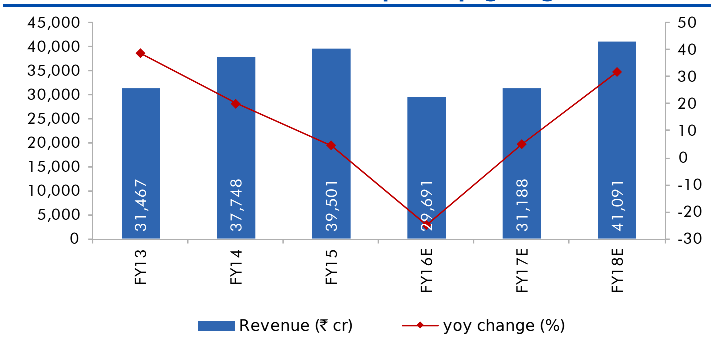


Source: Company, Angel Research

Conference Call Highlights

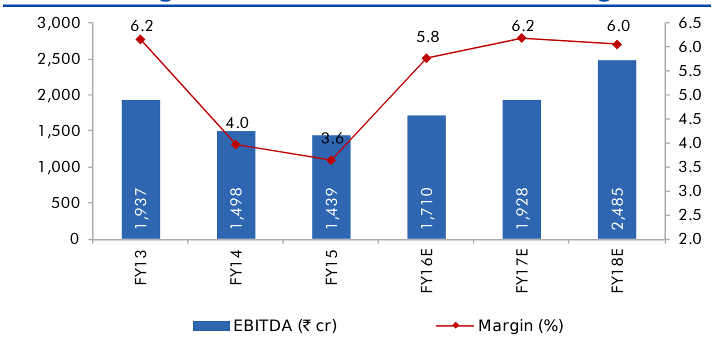
- PLNG's off-take volume from Ras Gas for 9MCY2015 stood at 68% of the contracted long term volume as the current spot LNG price is significantly lower than the contracted price. The Management remains positive with regards to its negotiations with Ras Gas and expects to review the take-or-pay contract by the year-end. The Management believes that there would be no risk to the company on account of this take-or-pay contract, as off-takers will have to pay for any volume shortfall.
- Expansion of the Dahej terminal from 10MMTPA to 15MMTPA is going on as per schedule and the Management expects to complete the capacity expansion by 2016- end. The company has also initiated the process for selection of EPC contractors for further expansion of the Dahej terminal's capacity to 17.50MMTPA.
- The Kochi terminal reported an EBITDA loss in the absence of reloading revenue during the quarter.
- Gorgon volumes are to start from mid CY2016 and will be processed at the Kochi terminal, if the pipelines are ready. In case they are not, then the Dahej terminal will get utilized.
- PLNG once again reiterated that it is not giving any concessions to power plants and its regas tariffs are based entirely on commercial considerations.

Exhibit 8: Revenue Growth to pick up going forward



Source: Company, Angel Research

Exhibit 9: Higher volumes to drive EBITDA margin



Source: Company, Angel Research

Investment arguments

Huge demand for gas at lower prices

The demand-supply gap for LNG is expected to increase from ~180mmscmd in FY2015 to ~285mmscmd by FY2020. If crude prices remain at low levels, this gap will increase even further. PLNG currently operates ~60% of the country's LNG import capacity and is expected to remain the leader over the next five years led by its expansion at Dahej, which will position it well to benefit from the massive demand for gas.

Capacity expansion remains on track

PLNG remains on track to expand the Dahej terminal capacity from 10MMTPA to 15MMTPA by the end of CY2016. A major portion of the expansion work is complete and almost the entire capacity post expansion is already booked, which would ensure a quick ramp-up in volumes, post commissioning.

High probability of RasGas contract being negotiated

Off-take volumes from RasGas have declined sharply as the LNG pricing formula will need a long time to reflect the current spot prices (contract price linked to 60M average oil price) in a low oil price scenario. The Management has clarified that while the 'take-or-pay' provisions would apply, off-takers will have the option to pay upfront and defer the off-take till the pricing formula reflects the lower prices. RasGas may then have to refund the excess amount paid by the off-takers. Deferment of off-take would not be in the interest of either parties and we believe that RasGas's Management will take a practical view of this situation and ensure that the contract is renegotiated.

Outlook and valuation

PLNG is a direct play on the gas deficit story in India. The company's strong expansion plan makes it well positioned to benefit from the demand-supply gap. However, near term concerns such as declining off-take volumes from RasGas and delays in the Kochi – Bangalore pipeline, which is critical for the ramp up at the Kochi terminal, weigh on the stock. The stock currently trades at 15.1x and 14.5x its FY2016E and FY2017E EPS.

We use DCF to arrive at our target price of ₹210 and retain our Accumulate rating on the stock.

Exhibit 10: DCF valuation

	(₹ cr)
WACC	11.5%
PV of forecast period FCF (till FY25)	8,495
Terminal Growth	2.5%
PV of Terminal Value	9,436
Enterprise Value	17,930
Less: Net Debt (FY16E)	2,216
Equity Value	**15,715**
Shares (cr)	75
Target Price	**210**

Source: Angel Research

Company background

Formed as a joint venture by the Government of India to import LNG and set up LNG terminals in the country, PLNG was promoted by GAIL (India) Ltd (GAIL), Oil & Natural Gas Corporation Limited (ONGC), Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL). PLNG has set up India's first LNG receiving and regasification terminal at Dahej, Gujarat, and another terminal at Kochi, Kerala. While the Dahej terminal has a nominal capacity of 10MMTPA [equivalent to 40mmscmd of natural gas], the Kochi terminal has a capacity of 5MMTPA [equivalent to 20mmscmd of natural gas]. The company is in the process to build a third terminal at Gangavaram, Andhra Pradesh.

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	**31,297**	**37,545**	**39,093**	**28,900**	**30,357**
Other operating income	170	203	408	791	830
Total operating income	**31,467**	**37,748**	**39,501**	**29,691**	**31,188**
% chg	*38.6*	*20.0*	*4.6*	*(24.8)*	*5.0*
Total Expenditure	29,531	36,249	38,062	27,981	29,259
Net Raw Materials	29,212	35,849	37,611	27,565	28,822
Other Mfg costs	282	353	394	354	372
Personnel	37	47	57	62	65
Other	-	-	-	-	-
EBITDA	**1,937**	**1,498**	**1,439**	**1,710**	**1,928**
% chg	*5.9*	*(22.6)*	*(4.0)*	*18.9*	*12.7*
(% of Net Sales)	*6.2*	*4.0*	*3.6*	*5.8*	*6.2*
Depreciation& Amortisation	187	308	315	322	394
EBIT	**1,750**	**1,190**	**1,124**	**1,388**	**1,534**
% chg	*6.4*	*(32.0)*	*(5.6)*	*23.5*	*10.5*
(% of Net Sales)	*5.6*	*3.2*	*2.8*	*4.7*	*4.9*
Interest & other Charges	118	220	293	245	244
Other Income	89	84	155	141	148
Share in profit of Associates	-	-	-	-	-
Recurring PBT	**1,720**	**1,055**	**985**	**1,285**	**1,438**
% chg	*10.8*	*(38.7)*	*(6.6)*	*30.4*	*12.0*
Extraordinary Inc/(Expense)	-	-	-	-	-
PBT (reported)	**1,720**	**1,055**	**985**	**1,285**	**1,438**
Tax	571	343	102	326	432
(% of PBT)	*33.2*	*32.5*	*10.4*	*25.4*	*30.0*
PAT (reported)	**1,149**	**712**	**883**	**959**	**1,007**
% chg	*8.7*	*(38.1)*	*24.0*	*8.6*	*5.0*
(% of Net Sales)	*3.7*	*1.9*	*2.2*	*3.2*	*3.2*
Basic EPS (₹)	**15.3**	**9.5**	**11.8**	**12.8**	**13.4**
% chg	*8.7*	*(38.1)*	*24.0*	*8.6*	*5.0*

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	750	750	750	750	750
Reserves & Surplus	3,700	4,236	4,939	5,678	6,465
Shareholders Funds	**4,450**	**4,986**	**5,689**	**6,428**	**7,215**
Total Loans	3,034	3,267	2,674	2,941	2,794
Deferred Tax Liability	391	553	727	922	1,181
Other Long term liabilities	3	304	604	604	604
Total Liabilities	**7,878**	**9,110**	**9,694**	**10,896**	**11,795**
APPLICATION OF FUNDS					
Gross Block	3,580	7,795	7,954	8,114	11,584
Less: Acc. Depreciation	1,222	1,530	1,845	2,167	2,562
Net Block	**2,358**	**6,265**	**6,110**	**5,946**	**9,023**
Capital Work-in-Progress	4,331	880	1,580	2,671	250
Goodwill	0	0	0	0	0
Investments	140	140	90	90	90
Current Assets	**4,137**	**4,376**	**2,665**	**2,654**	**2,998**
Cash	1,269	1,233	364	725	844
Loans & Advances	1,037	956	883	691	726
Other	1,832	2,187	1,419	1,237	1,428
Current liabilities	**3,205**	**2,803**	**1,425**	**1,139**	**1,239**
Net Current Assets	**933**	**1,573**	**1,240**	**1,515**	**1,759**
Other Assets	117.3	252.0	673.9	673.9	673.9
Total Assets	**7,878**	**9,110**	**9,694**	**10,896**	**11,795**

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	1,720	1,055	985	1,285	1,438
Depreciation	187	308	315	322	394
Change in Working Capital	404	(353)	(536)	87	(125)
Others	51	146	48	0	0
Direct taxes paid	(539)	(193)	(102)	(130)	(173)
Cash Flow from Operations	1,823	964	710	1,563	1,535
(Inc.)/ Dec. in Fixed Assets	(841)	(876)	(860)	(1,250)	(1,050)
(Inc.)/ Dec. in Investments	-	11.6	49.9	-	-
Share of profit/ (loss) from asso.	72	62	0	0	0
Cash Flow from Investing	(769)	(803)	(810)	(1,250)	(1,050)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(242)	205	(593)	267	(147)
Dividend Paid (Incl. Tax)	(218)	(219)	(176)	(219)	(219)
Others	(310)	(182)	-	-	-
Cash Flow from Financing	(770)	(197)	(769)	48	(367)
Inc./(Dec.) in Cash	285	(36)	(869)	361	119
Opening Cash balances	984	1,269	1,233	364	725
Closing Cash balances	1,269	1,233	364	725	844

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Per Share Data (₹)					
Reported EPS	15.3	9.5	11.8	12.8	13.4
Cash EPS	17.8	13.6	16.0	17.1	18.7
DPS	2.5	2.0	2.5	2.5	2.5
Book Value	59.3	66.5	75.8	85.7	96.2
Valuation Ratio (x)					
P/E (on FDEPS)	12.6	20.3	16.4	15.1	14.4
P/CEPS	10.8	14.2	12.1	11.3	10.3
P/BV	3.2	2.9	2.5	2.2	2.0
Dividend yield (%)	1.3	1.0	1.3	1.3	1.3
EV/Sales	0.5	0.4	0.4	0.6	0.5
EV/EBITDA	8.4	11.0	11.7	9.7	8.5
EV/Total Assets	2.1	1.8	1.7	1.5	1.4
Returns (%)					
ROCE	24.5	15.1	13.5	15.7	15.8
ROE	28.8	15.1	16.5	15.8	14.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	8.8	6.6	5.0	3.7	3.2
Inventory (days)	10.1	9.6	8.5	9.7	8.3
Receivables (days)	17.3	17.9	15.5	15.5	14.9
Payables (days)	27.8	26.6	17.4	13.5	11.8
WC cycle (ex-cash) (days)	11.5	12.1	13.0	16.9	19.2
Solvency ratios (x)					
Net debt to equity	0.4	0.4	0.4	0.3	0.3
Net debt to EBITDA	0.6	0.6	0.9	0.8	0.7
Interest Coverage (EBIT / Int.)	14.8	5.4	3.8	5.7	6.3

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
		Reduce (-5% to -15%)	*Sell (< -15)*