

July 24, 2024

RESULT REPORT Q1 FY25 | Sector: Energy

# Petronet LNG Ltd

## Strong performance on higher volumes and margins

### Our View

Petronet LNG's Q1FY25 revealed a stronger performance with an EBITDA and PAT which experienced a growth of 32.3% and 44.5% YoY. The volumes in Q1 saw a commendable 13.9% YoY increase at 262tbtu. Dahej terminal continued to play a crucial role in India's LNG imports, accounting for about ~89% of the total and having ~110% Dahej terminal utilization. The company has provisioned Rs 1.3bn of Use-or-Pay (UoP) charges as a matter of accounting prudence during Q1FY25. We maintain a REDUCE rating, with an unchanged TP of Rs325, valuing the stock at 12.5x PER.

### Result Highlights

- Performance:** Petronet's adjusted revenue was up 15.2% YoY but down 2.7% QoQ, to Rs134.2bn; its EBITDA was up 32.3% YoY and 41.6% QoQ, to Rs15.6bn; its PAT was up 44.5% YoY, 54.8% QoQ, to Rs11.4bn. The other expenses at Rs 3.3bn; were up 166% YoY and 61% QoQ. Overall volumes are higher than our est, EBITDA and PAT are also higher on better volumes and margins on time-based provision of Rs4.9bn.
- Volumes:** The total re-gasified volumes were higher by 13.9% YoY and 12% QoQ, to 262tbtu, of which 248tbtu was from Dahej (at ~111.5% utilization), 14tbtu from Kochi (at 22% utilization). In terms of volume break-up, Dahej's 97tbtu is long-term, up 7.8% YoY but down 9.3% QoQ, spot 7tbtu and Service 144tbtu, up 17.1% YoY and 33.3% QoQ.
- Market Share:** India imported ~294tbtu of LNG (per PPAC volumes) in the quarter, improved sequentially on stronger gas demand across sectors, especially power. Petronet's share was at ~89% on stronger Dahej terminal utilization (81.6% the quarter prior, 89.4% a year ago).
- Provisions:** There is a time-based provision of Rs4.87bn as on 30/6/24 (Rs3.58bn as at 31/3/24) regarding its Use-or-Pay (UoP) charges. As per the settlement agreement for Up dues for CY21 & CY22, one of its customer had bought LNG quantities upto 30/6/24 for which the revenue has been recognized. Correspondingly PLNG has waived off UoP charges amounting to Rs0.63bn by charging it to the P&L. The company has so provisioned Rs 1.3bn of UoP charges as a matter of accounting prudence during Q1FY25.
- Unit margins:** The gross margin was Rs74.4/mmbtu; Opex was higher at Rs 14.7/mmbtu while EBITDA was Rs59.7/mmbtu (vs our expectations of 47.9).

### Valuation

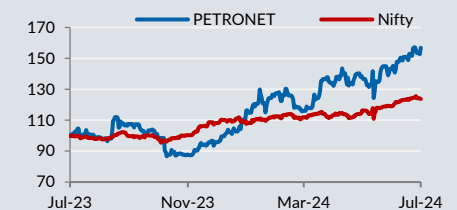
We believe earnings would record a ~6.5% CAGR over FY24-26e, driven by the Dahej utilization and a further ramp-up at Kochi. Large capex under way with Dahej expansion, a greenfield LNG terminal at Gopalpur and foray into petchem which would be the key to monitor as cash on books would be utilized for the same. Long term take-or-pay contracts end in 2036 and Rasgas sourcing contract in 2048, leading to stable long-term volumes. Kochi capacity ramp up was delayed due to lack of evacuation pipeline, however, it has been completed while Kochi-Bengaluru pipeline is still in progress. Dahej and Kochi terminals current capacities are 17.5/5mtpa and the contracted volumes at Dahej/Kochi Terminal are 15.75/1.44mtpa, would lend key support. We expect that petchem margins could be weak and would impact the returns. We maintain a REDUCE rating, with an unchanged TP of Rs325, valuing the stock at 12.5x PER.

Reco	: REDUCE
CMP	: Rs 351
Target Price	: Rs 325
Potential Return	: -7.4%

### Stock data (as on July 24, 2024)

Nifty	24,414
52 Week h/l (Rs)	358 / 192
Market cap (Rs/USD mn)	500325 / 5979
Outstanding Shares (mn)	1,500
6m Avg t/o (Rs mn):	1,839
Div yield (%):	0.9
Bloomberg code:	PLNG IN
NSE code:	PETRONET

### Stock performance



	1M	3M	1Y
Absolute return	8.1%	17.3%	56.6%

### Shareholding pattern (As of Mar '24 end)

Promoter	50.0%
FII+DII	37.6%
Others	12.4%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	325	285

### Δ in estimates

(1-Yr)	FY25e	FY26e
EPS (New)	23.7	26.0
EPS (Old)	23.7	26.0
% Change	-	-

### Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	527.3	520.1	510.7
YoY Growth	(12.0)	(1.4)	(1.8)
EBIDTA	52.1	52.3	57.1
OPM %	9.9	10.1	11.2
PAT	35.4	35.6	39.0
YoY Growth	9.1	0.7	9.5
ROE	22.2	19.6	18.8
EPS	23.6	23.7	26.0
P/E	14.9	14.8	13.5
BV	113.1	129.3	147.3
EV/EBITDA	8.7	8.5	7.6

### HARSHRAJ AGGARWAL

Lead Analyst

harshraj.aggarwal@ysil.in



## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	134,151	143,685	142,286	-6.64	-5.72	Above estimates on stronger volumes, margins, and gains
EBITDA	15,630	11,506	13,054	35.84	19.73	
EBITDA Margin (%)	11.65	8.01	9.17	364bps	248bps	
Adjusted PAT	11,416	7,768	8,969	46.95	27.28	

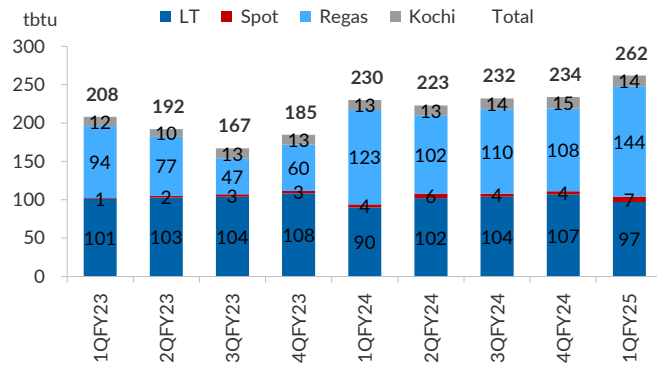
## Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
Revenue	116,561	125,320	141,372	137,932	134,151	15.1	(2.7)	598,994	527,284	(12.0)
Expenditure	104,743	113,173	130,412	126,891	118,521	13.2	(6.6)	550,436	475,219	(13.7)
-Raw Material	103,009	111,069	126,179	124,385	114,666	11.3	(7.8)	539,524	464,641	(13.9)
-Staff Cost	500	445	502	470	577	15.4	23.0	1,675	1,917	14.5
- Other expenses	1,234	1,658	3,732	2,037	3,278	165.7	60.9	9,237	8,661	(6.2)
Operating Profit	11,818	12,147	10,960	11,040	15,630	32.3	41.6	48,558	52,065	7.2
OPM(%)	10.1	9.7	7.8	8.0	11.7	14.9	45.6	8.1	9.9	177 bps
Other Income	1,467	1,567	1,565	1,568	2,181	48.7	39.1	5,736	6,167	7.5
Depreciation	1,919	1,948	1,955	1,944	1,946	1.4	0.1	7,643	7,766	1.6
Interest	746	747	697	708	667	(10.5)	(5.7)	3,305	2,897	(12.4)
Excpnl Loss/(Profit)	-	-	-	-	-	-	-	-	-	n.a.
PBT	10,621	11,020	9,873	9,957	15,199	43.1	52.7	43,345	47,570	9.7
Tax	2,723	2,839	2,485	2,581	3,783	38.9	46.6	10,946	12,208	11.5
PAT	7,899	8,181	7,388	7,376	11,416	44.5	54.8	32,399	35,362	9.1
Adj PAT	7,898	8,181	7,388	7,376	11,416	44.5	54.8	32,399	35,362	9.1

## Exhibit 3: Operating highlights

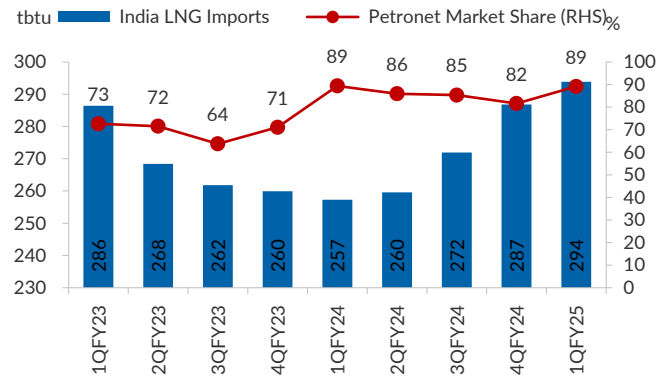
Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	y/y (%)	q/q (%)	FY23	FY24	y/y (%)
<b>Volumes (tbtu)</b>										
Long term	90.0	102.0	104.0	107.0	97.0	7.8	(9.3)	416	403	(3.2)
Spot	4.0	6.0	4.0	4.0	7.0	75.0	75.0	9.0	18.0	100.0
Service	123.0	102.0	110.0	108.0	144.0	17.1	33.3	278.4	443.0	59.1
Total	217.0	210.0	218.0	219.0	248.0	14.3	13.2	703.8	864.0	22.8
Kochi	13.0	13.0	14.0	15.0	14.0	7.7	(6.7)	48.0	55.0	14.6
Total	230.0	223.0	232.0	234.0	262.0	13.9	12.0	751.8	919.0	22.2
<b>Market Share</b>										
India LNG Imports (tbtu)	257.3	259.6	271.9	286.8	293.9	14.2	2.5	1,076.6	1,077.1	0.1
Petronet Mkt Shr	89.4	85.9	85.3	81.6	89.2	(0.3)	9.3	69.8	85.4	22.5
<b>Utilization %</b>										
Dahej	97.6	94.4	98.0	98.5	111.5	14.3	13.2	78.9	97.1	23.1
Kochi	20.5	20.5	22.0	23.6	22.0	7.7	(6.7)	18.8	21.6	14.8
<b>Rs/tbtu</b>										
Gross margin	58.9	63.9	65.5	57.9	74.4	26.2	28.5	79.1	68.2	(13.8)
Opex	7.5	9.4	18.2	10.7	14.7	95.2	37.4	14.5	11.5	(20.7)
EBITDA	51.4	54.5	47.2	47.2	59.7	16.1	26.4	64.6	56.7	(12.3)

**Exhibit 4: Volume break-up**

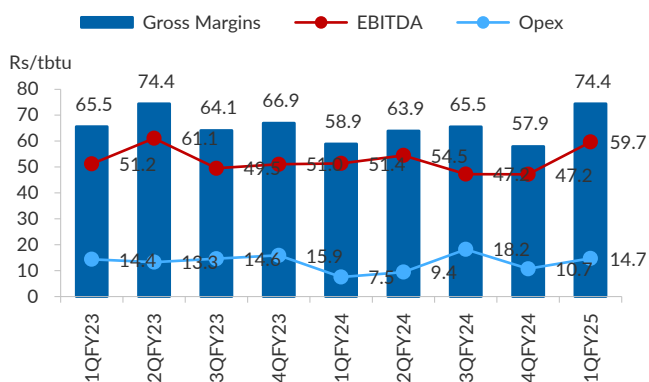


Source: Company, YES Sec

**Exhibit 5: Petronet's market share in India**

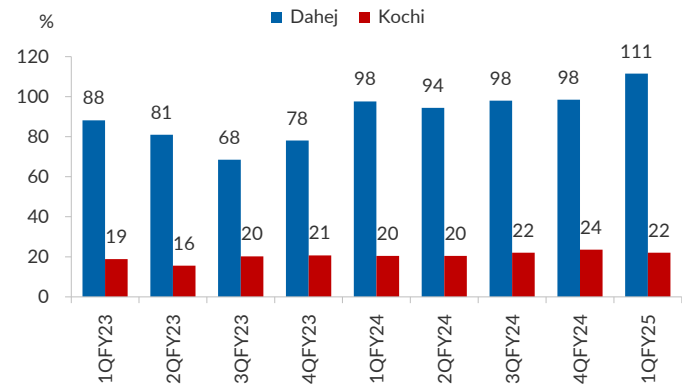


**Exhibit 6: Margin and Opex trends**



Source: Company, YES Sec

**Exhibit 7: Capacity utilisation**



## CONCALL HIGHLIGHTS

- **Expansions:** Undertaking significant capacity expansion at Dahej terminal and a new terminal at Gopalpur. The expansion work at Dahej is progressing and is expected to be completed by March 2025, are increasing the terminal's capacity from 17.5mmtpa to 22.5mmtpa by FY26.
- **Operations:** Of 144 tbtu of tolling services volumes, ~11tbtu is brought in by a single customer during this qtr. GAIL's Dhabol LNG terminal is not operational till Sep'24, so Q2 is also expected to strong but could be weaker than Q1 as the power sector demand has come down.
- **Utilization:** Currently, the Dahej terminal is operating at ~100% utilization, while the Kochi terminal is at 22%. For FY25, Petronet LNG expects to handle higher volumes and India LNG imports could reach 27mtpa. The recent decline in LNG prices, India's price sensitivity, increased power demand, and the government's push for greater gas use in power generation are key factors driving LNG volume growth.
- **Consumption and Growth:** India's consumption of natural gas crossed 210mmscmd, with LNG accounting over 50%. The strong growth in demand is expected to drive the utilization of the expanded capacity at the Dahej terminal.
- **Inventory and trading gains:** Inventory gains were Rs2.61bn while trading gains at Rs580m.
- **Ind-AS impact:** Service revenue stood 1.61bn at Gross Margin level, forex loss 10mn, other exp 100mn, finance charges and depreciation 640mn and 830mn, respectively.
- **Regas volumes:** Regas service charges were 8.51bn for service cargos.
- **Gorgon volumes** at Dahej were at 5.22tbtu during the qtr.
- **Qatar Optic Arrangement:** The timeline for tying in the optic arrangement for renewed cash flows is currently under discussion. Although the specific timeframe cannot be confirmed, it is expected to be finalized within the next year, ideally before 2026. Negotiations with off-takers for new terms under the Gas Sales Purchase Agreement (GSPA) are ongoing, and while details cannot be disclosed at this stage, it is anticipated that these will be concluded as early as possible.
- **Use or Pay Provisions:** During the quarter, as per the settlement mechanism the company has reversed Rs 0.63bn of provisions along with Rs1.29bn of Use-or-Pay under other expense (total Rs1.92bn). Provisions for Use or Pay charges are structured, with 20% set aside in the 1st year, 30% in the 2nd year, and 50% in the 3rd year. In the last concall, the management has highlighted a furthermore, adjustments for 3.5mmt of cargos from the last two fiscal years (FY21 & FY22) are anticipated.
- **Capex:** The Dahej Terminal expansion, allocated Rs 5.7bn, aims to increase capacity by 5 mtpa by Mar'25. Rs 17bn is earmarked for the construction of a jetty, to be expended over three years. The Gopalpur Terminal project, with a total capex of Rs 230bn, is slated for completion over 3 years. Investments in the petrochemical project to commence in FY25, with an increase in capex in FY26. A capex of Rs 35bn is targeted for FY25 of which Rs3bn was made in Q1FY25.
- **Petchem:** Progress on long lead items is underway, with consultants working on arrangements. Financial commitments exist as licensors have been appointed for EPCM and EPC packages. While outlay may commence in the current year, it's expected to be modest initially, pending contract awards and material ordering. International licensors like UOP have been awarded, representing recognized entities for PP and PDH technologies globally. The Ethane and Propane will be done through 3rd jetty and will be a tolling/utility business. The capex would pick-up from FY26 will be funded through a debt of Rs120bn and Rs40-50bn from equity.

## VIEW & VALUATION

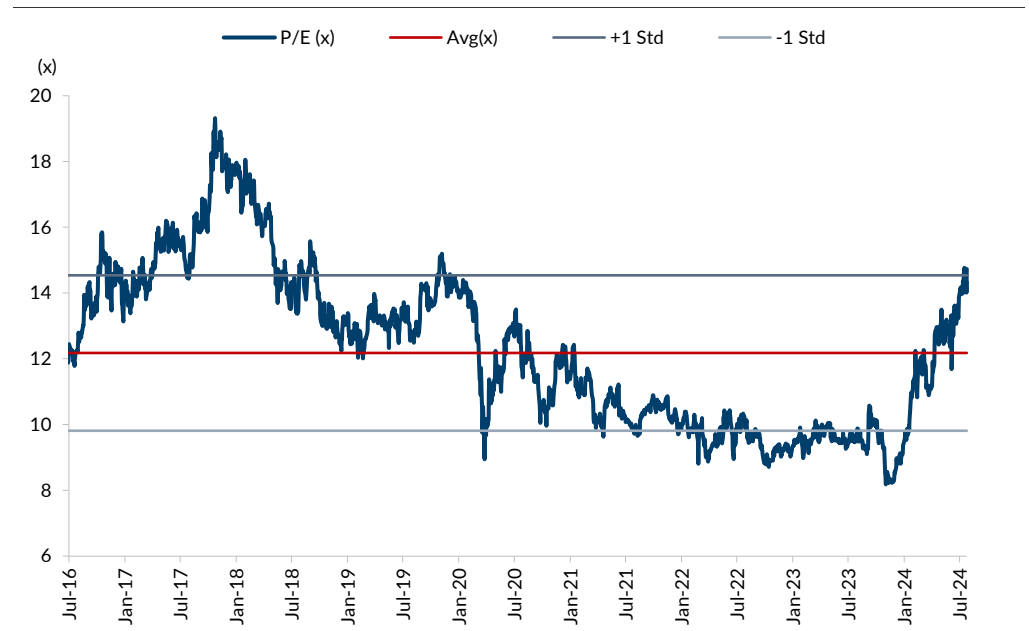
### REDUCE with a TP of Rs 325/sh

We believe earnings would record a ~6.5% CAGR over FY24-26e, driven by the Dahej utilization and a further ramp-up at Kochi. Large capex under way with Dahej expansion, a greenfield LNG terminal at Gopalpur and foray into petchem which would be the key to monitor as cash on books would be utilized for the same. Long term take-or-pay contracts end in 2036 and Rasgas sourcing contract in 2048, leading to stable long-term volumes. Kochi capacity ramp up was delayed due to lack of evacuation pipeline, however, it has been completed while Kochi-Bengaluru pipeline is still in progress. Dahej and Kochi terminals current capacities are 17.5/5mtpa and the contracted volumes at Dahej/Kochi Terminal are 15.75/1.44mtpa, would lend key support. We expect that petchem margins could be weak and would impact the returns. We maintain a REDUCE rating, with an unchanged TP of Rs325, valuing the stock at 12.5x PER.

### Exhibit 8: Valuation table

Valuation	FY26E
EPS (Rs)	26.0
PER (x)	12.5
Target (PER based)	325

### Exhibit 9: PER (x) band, one-year-forward



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	431,686	598,994	527,284	520,100	510,720
Total Expense	379,162	550,436	475,219	467,768	453,630
<b>Operating Profit</b>	<b>52,523</b>	<b>48,558</b>	<b>52,065</b>	<b>52,332</b>	<b>57,090</b>
Other Income	3,073	5,736	6,167	6,167	6,167
Depreciation	7,685	7,643	7,766	7,999	8,239
EBIT	47,911	46,651	50,467	50,500	55,019
Interest	3,173	3,305	2,897	2,897	2,897
Extraordinary Item	-	-	-	-	-
<b>PBT</b>	<b>44,738</b>	<b>43,345</b>	<b>47,570</b>	<b>47,604</b>	<b>52,122</b>
Tax	11,215	10,946	12,208	11,982	13,119
<b>PAT</b>	<b>33,524</b>	<b>32,399</b>	<b>35,362</b>	<b>35,622</b>	<b>39,003</b>
Adj. PAT	33,524	32,399	35,362	35,622	39,003
Eps	22.3	21.6	23.6	23.7	26.0

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves	119,255	134,347	154,628	179,000	206,003
<b>Net worth</b>	<b>134,255</b>	<b>149,347</b>	<b>169,628</b>	<b>194,000</b>	<b>221,003</b>
Debt	230	-	-	-	-
Deferred tax liab (net)	8,324	7,031	6,172	6,172	6,172
<b>Capital Employed</b>	<b>142,809</b>	<b>156,378</b>	<b>175,800</b>	<b>200,172</b>	<b>227,175</b>
Fixed assets	97,498	99,162	96,994	120,473	137,909
Investments	10,502	10,445	1,748	1,644	1,644
Net working capital	34,808	46,772	77,058	78,055	87,622
Inventories	5,767	11,531	14,654	7,837	7,696
Sundry debtors	26,844	38,397	36,261	36,927	36,261
Cash & Bank Balance	43,196	56,800	74,097	80,927	90,334
Other current assets	27,384	7,891	27,005	27,005	27,005
Sundry creditors	15,265	16,440	28,646	29,613	28,646
Other liabilities	53,117	51,408	46,313	45,027	45,027
<b>Application of Funds</b>	<b>142,809</b>	<b>156,378</b>	<b>175,800</b>	<b>200,172</b>	<b>227,175</b>

## Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	44,738	43,345	47,570	47,604	52,122
Depreciation & amortization	7,685	7,644	7,766	7,999	8,239
Interest expense	3,173	3,305	2,897	2,897	2,897
(Inc)/Dec in working capital	(2,261)	(3,873)	(5,314)	-	-
Tax paid	(6,641)	(15,943)	5,909	5,833	(160)
Less: Interest/Dividend Income Received	(12,642)	(12,386)	(12,373)	(11,982)	(13,119)
Other operating Cash Flow	670	3,100	2,270	-	-
<b>Cash flow from operating activities</b>	<b>34,721</b>	<b>25,193</b>	<b>48,725</b>	<b>52,350</b>	<b>49,978</b>
Capital expenditure	(723)	(10,560)	(8,413)	(31,478)	(25,675)
Inc/(Dec) in investments	2,186	508	86	-	-
Add: Interest/Dividend Income Received	(12,096)	(1,309)	(2,288)	104	-
<b>Cash flow from investing activities</b>	<b>(10,633)</b>	<b>(11,361)</b>	<b>(10,615)</b>	<b>(31,373)</b>	<b>(25,675)</b>
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(6,271)	(6,177)	(6,429)	-	-
Interest Paid	(88)	(253)	(116)	(2,897)	(2,897)
Dividend Paid	(15,750)	(17,250)	(15,000)	(11,250)	(12,000)
Others	-	-	-	-	-
<b>Cash flow from financing activities</b>	<b>(22,109)</b>	<b>(23,681)</b>	<b>(21,545)</b>	<b>(14,147)</b>	<b>(14,897)</b>
<b>Net cash flow</b>	<b>1,979</b>	<b>(9,848)</b>	<b>16,565</b>	<b>6,830</b>	<b>9,406</b>

## Exhibit 13: Du-pont analysis

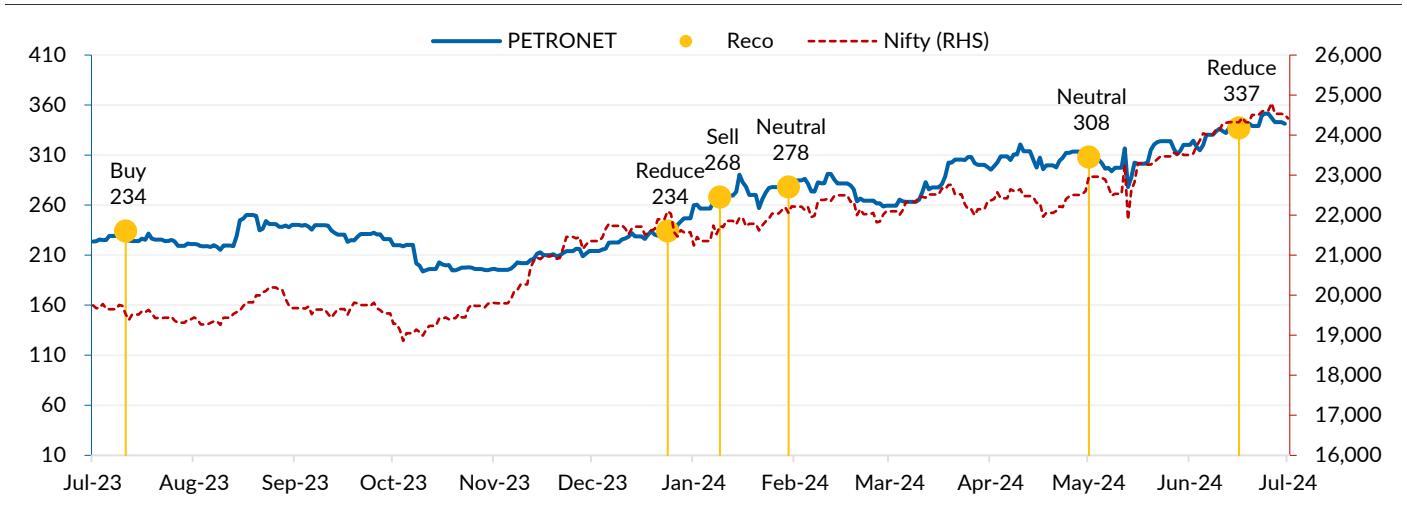
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Interest burden (x)	0.9	0.9	0.9	0.9	0.9
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	5.1	5.8	4.3	4.0	3.8
Financial leverage (x)	0.7	0.7	0.8	0.7	0.6
RoE (%)	26.7	22.8	22.2	19.6	18.8

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	65.9	38.8	(12.0)	(1.4)	(1.8)
Op profit growth	11.8	(7.6)	7.2	0.5	9.1
EBIT growth	11.3	(2.6)	8.2	0.1	8.9
Net profit growth	13.7	(3.4)	9.1	0.7	9.5
<b>Profitability ratios (%)</b>					
OPM	12.2	8.1	9.9	10.1	11.2
EBIT margin	11.1	7.8	9.6	9.7	10.8
Net profit margin	7.8	5.4	6.7	6.8	7.6
RoCE	35.7	31.2	30.4	26.9	25.7
RoE	26.7	22.8	22.2	19.6	18.8
RoA	39.7	31.5	28.6	27.6	29.1
<b>Per share ratios</b>					
EPS	22.3	21.6	23.6	23.7	26.0
Dividend per share	10.5	11.5	10.0	7.5	8.0
Cash EPS	27.5	26.7	28.8	29.1	31.5
Book value per share	89.5	99.6	113.1	129.3	147.3
<b>Valuation ratios</b>					
P/E	8.7	10.6	14.9	14.8	13.5
P/CEPS	7.1	8.6	12.2	12.1	11.1
P/B	2.2	2.3	3.1	2.7	2.4
EV/EBIDTA	4.7	5.9	8.7	8.5	7.6
<b>Payout (%)</b>					
Dividend payout	47.0	53.2	42.4	31.6	30.8
Tax payout	25.1	25.3	25.7	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	22.70	23.40	25.10	25.91	25.91
Inventory days	4.4	5.7	10.1	8.8	6.2
Creditor days	12.3	10.5	17.3	22.7	23.4



## Recommendation Tracker



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