COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 275 | ⮝ 14%

PETRONET LNG | Oil & Gas | 26 September 2023

Cloudy medium-term demand visibility; HOLD

- **Volume revival surprised in H1FY24 but further upside constrained by higher availability of domestic gas in the near term**
- **Utilisation of expanded capacity to depend on RLNG demand pickup and competitive intensity under merchant model**
- **We value PLNG at a 1Y fwd target P/E of 11.7x (5Y median) and assume coverage with HOLD**

Kirtan Mehta, CFA | Yash Thakur
research@bobcaps.in

LNG volume recovery surprises…: PLNG's recovery in LNG volumes has been ahead of market expectations, with near-100% utilisation at Dahej in Q1FY24 and July-September offtake only 3% below Q1 levels (per Bloomberg data), supported by additional cargoes upon closure of Konkan LNG's Dabhol jetty during the monsoon.

…but near-term constraints exist: Improved availability of domestic gas has led to a 20mmscmd rise in its consumption over the past four years, in turn keeping RLNG demand flattish. This apart, in H2FY24, Dahej will lose the benefit of Dabhol monsoon cargoes as the latter has been converted to an all-season jetty. Gas-based power generation can offer only limited demand upside (at an estimated 5% over the July base given India envisages plant use only at peak hours for 20 days over Sep-Nov).

Medium-term visibility lacking: Though Dahej is raising capacity by 5mmtpa, usage will depend on RLNG demand evolution in India. In our view, PLNG must have at least 60% utilisation to earn a 15% post-tax return on proposed expansion capex of Rs 35bn, assuming a Rs 70/MMbtu tariff. Kochi ramp-up hinges on offtake pipeline completion.

Long-term options still evolving: While PLNG is targeting Rs 400bn of investment, commitment to the Dahej petrochemical complex is still in the pre-approval stage. Though PDH-PP plants have proliferated in China, India is yet to have an operational facility (GAIL's is still in progress). Further, the company's Gopalpur FSRU project is facing a tight global market, and it may have to settle for a land-based terminal.

Earnings growth modest: We build in flat EBITDA growth in FY24, assuming higher offtake sets off benefits of take-or-pay revenue and spot margins last year. For FY23-FY26, we factor in a 5% CAGR in EBITDA, assuming partial pickup at Dahej to 18.3mmtpa in FY26 as we await visibility on RLNG demand from the merchant model.

HOLD, TP Rs 275: Our TP of Rs 275 values PLNG at a 1Y forward target P/E of 11.7x, which is the stock's 5Y median. The current recovery is supportive, but visibility on RLNG demand within the country is essential to build comfort on utilisation of the new capacity. We thus assume coverage with a HOLD rating.

Key changes

Target	Rating
▼	▼

Ticker/Price	PLNG IN/Rs 240
Market cap	US$ 4.4bn
Free float	50%
3M ADV	US$ 7.2mn
52wk high/low	Rs 254/Rs 196
Promoter/FPI/DII	50%/34%/5%

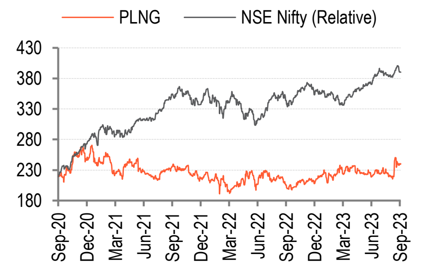
Source: NSE | Price as of 26 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,98,994	5,65,401	5,76,360
EBITDA (Rs mn)	48,558	48,505	51,364
Adj. net profit (Rs mn)	32,399	32,008	33,855
Adj. EPS (Rs)	21.6	21.3	22.6
Consensus EPS (Rs)	21.6	21.9	23.7
Adj. ROAE (%)	22.8	20.4	19.6
Adj. P/E (x)	11.1	11.3	10.6
EV/EBITDA (x)	6.7	6.6	6.0
Adj. EPS growth (%)	(3.4)	(1.2)	5.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

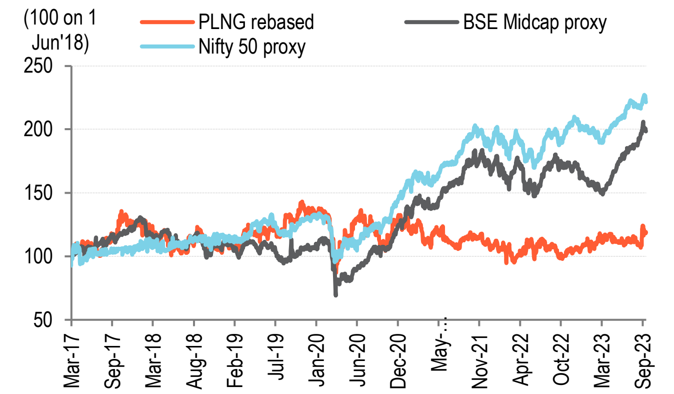
Near-term support from pickup in utilisation

Poor offtake was behind PLNG's underperformance…

PLNG has underperformed the Nifty 50 and Midcap indices since Jul'20 due to lower utilisation at its Dahej regasification terminal after a surge in LNG prices. With the easing of RLNG prices in Q1FY24 amid improvement in global demand-supply balance, the outlook for LNG demand within India is improving.

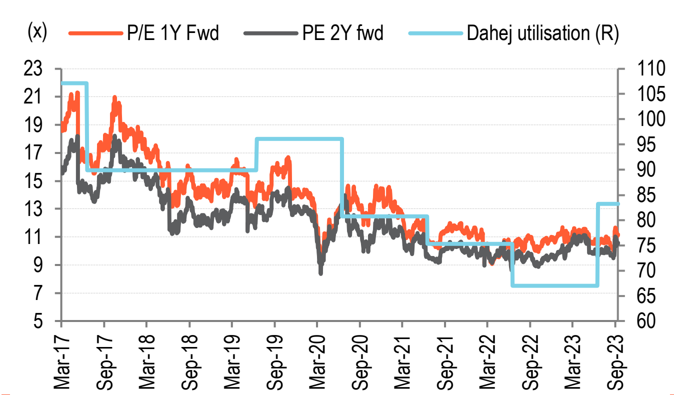
PLNG's stock price has staged a corresponding recovery in July and its P/E (two-year forward) is now within one standard deviation of the historical seven-year mean. On P/B one-year forward basis, however, the stock is still below one standard deviation of the historical average. If utilisation prospects for RLNG improve further, P/E could normalise to mid-cycle levels.

Fig 1 – PLNG has underperformed the midcap index…



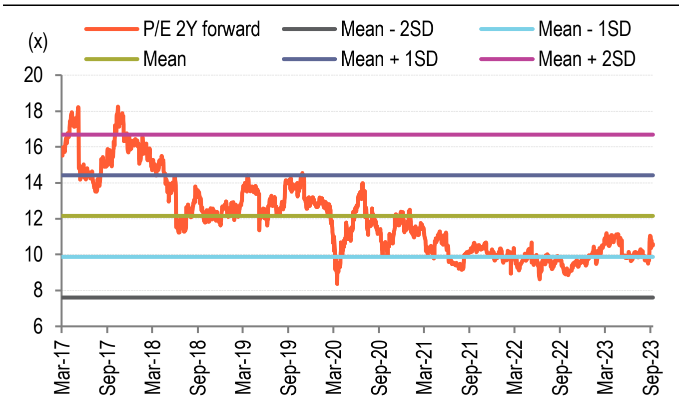
Source: Refinitiv, BOBCAPS Research

Fig 2 – …on lower utilisation of Dahej regas terminal



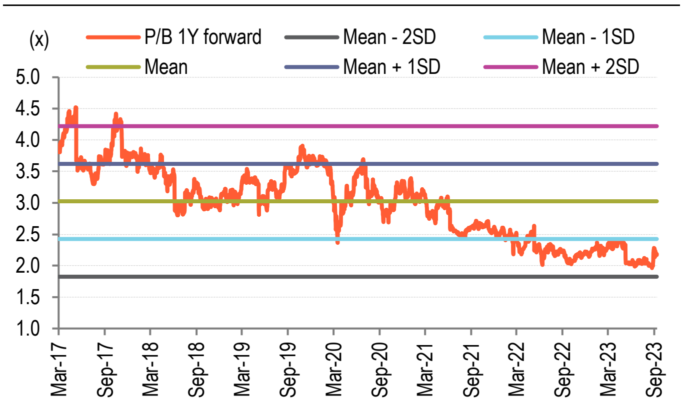
Source: Refinitiv, BOBCAPS Research

Fig 3 – P/E 2Y fwd is still below the 7Y mean



Source: Refinitiv, BOBCAPS Research

Fig 4 – P/B 1Y fwd is also still 1SD below the 7Y mean

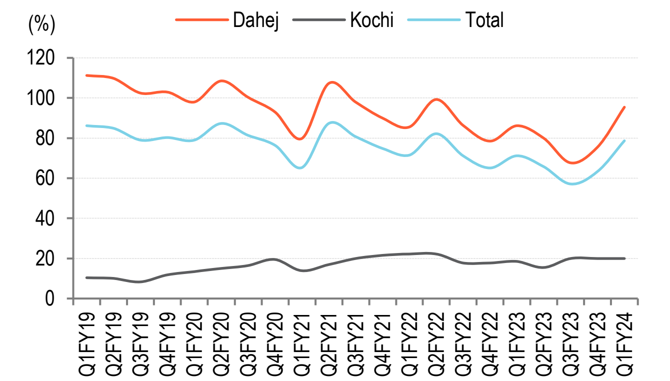


Source: Refinitiv, BOBCAPS Research

…but Dahej volumes have rebounded in Q1

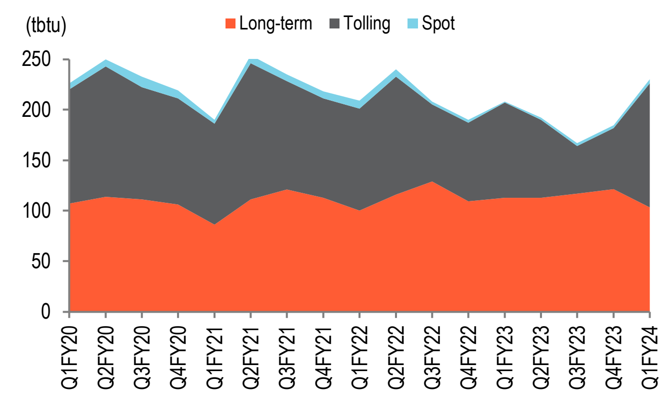
PLNG saw a sharp rise in utilisation at Dahej to near 100% levels in Q1FY24, with the revival of tolling volumes and moderation in RLNG prices.

Fig 5 – Dahej utilisation back to 100%…



Source: Company, BOBCAPS Research

Fig 6 – … with recovery in tolling volumes

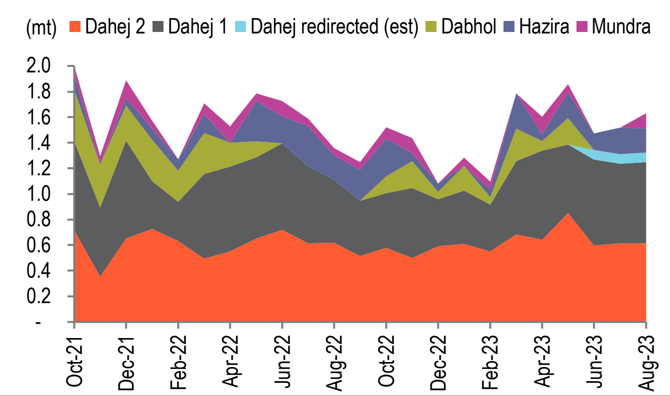


Source: Company, BOBCAPS Research

Q2 seeing a marginal drop from Q1 levels

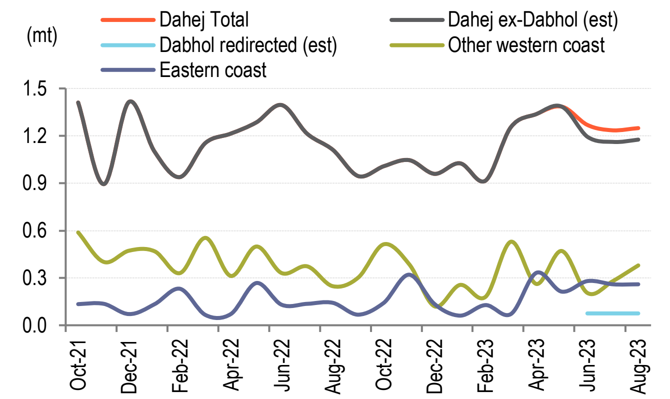
Though LNG imports have held at a higher level on the western coast in Q2 thus far (flat QoQ levels in Jul-Sep to date), imports at Dahej appear to have declined by 3% vs. Q1 based on Bloomberg data. We note that Bloomberg has recorded only marginally lower import volumes than actuals posted by PLNG over the past five quarters and, therefore, believe the data is a reliable indicator of growth trends for the company.

Fig 7 – Dahej imports only marginally down in Jul-Sep…



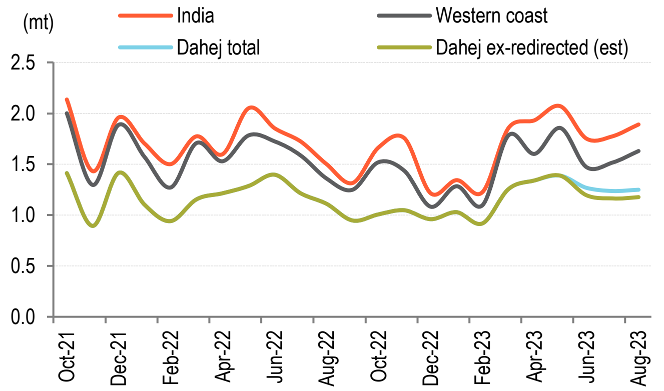
Source: Bloomberg, BOBCAPS Research | Dahej 1: Dahej Phase 1; Dahej 2: Dahej Phase 2

Fig 8 – …with LNG redirected from Dabhol during the monsoons



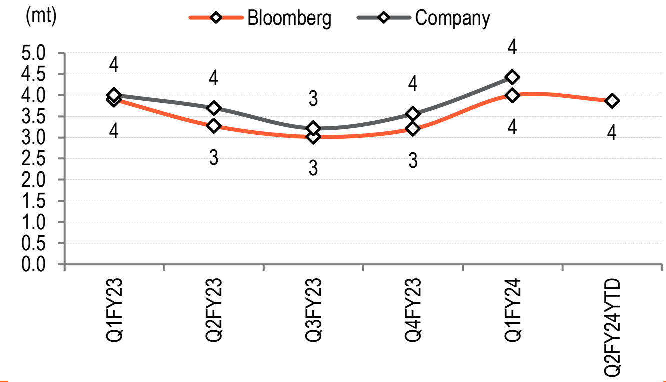
Source: Bloomberg, BOBCAPS Research

Fig 9 – Dahej utilisation likely to have fallen from Q1 levels in the absence of redirected volumes from Dabhol



Source: Bloomberg, Company, BOBCAPS Research

Fig 10 – Bloomberg indicator on LNG imports at Dahej relevant as it broadly tallies with company reported volumes



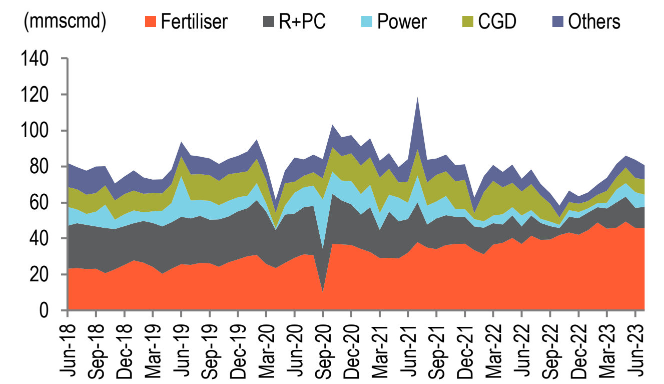
Source: Bloomberg, Company, BOBCAPS Research | Note: Company has not yet disclosed Q2 volumes

Pickup at Dahej in line with RLNG consumption revival across India

Higher utilisation at PLNG's Dahej terminal echoes the uptick in RLNG consumption across India. Consumption has recovered 38% in July (adding 22mmscmd) from the recent lows of Oct'22. The recovery has been broad-based, supported by higher offtake across segments, including refining and petrochemicals (+7.9mmscmd), power (+5.2mmscmd), CGD (+4.3mmscmd), fertiliser (+3.8mmscmd) and others (+1mmscmd).

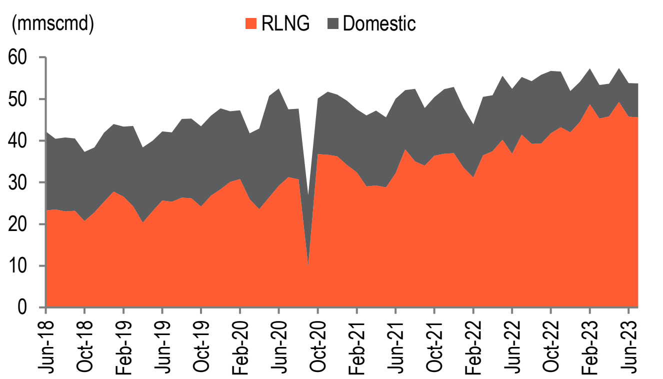
This year, LNG consumption has revived close to the average levels seen over FY19-FY21, though the demand mix has shifted. Whereas consumption from the fertiliser segment has increased, offtake from all other sectors has declined as customers have prioritised the use of domestic gas amid improving supply. Further, the refining, petrochemical and power sectors are still consuming far lower gas than levels seen over FY19-FY22.

Fig 11 – Rise in LNG consumption across India



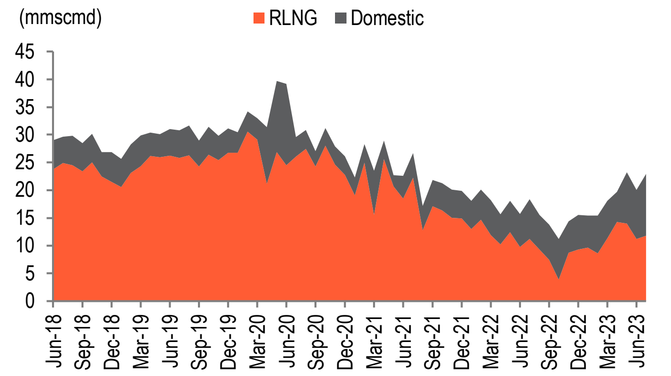
Source: CMIE, BOBCAPS Research | R+PC: Refining and Petrochemicals

Fig 12 – Fertiliser sector shifts to higher use of RLNG with lower allocation of domestic gas



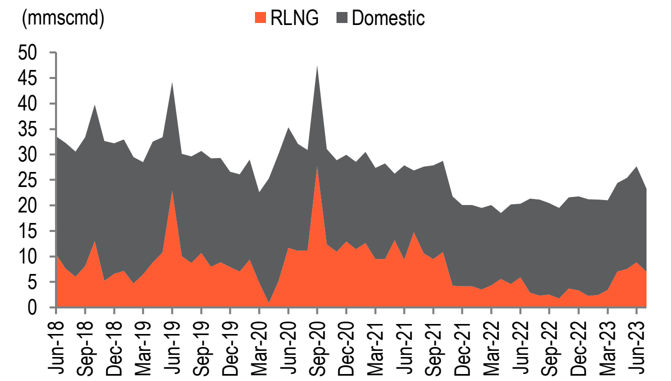
Source: CMIE, BOBCAPS Research

Fig 13 – Refining and petrochem saw only modest recovery in RLNG use due to higher availability of HPHT gas



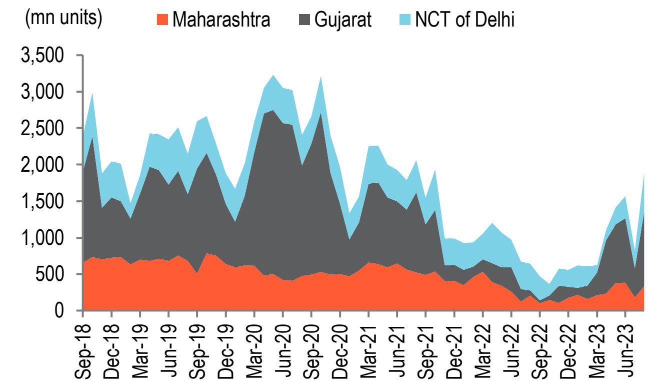
Source: CMIE, BOBCAPS Research

Fig 14 – Gas-based power generators increasing RLNG usage for peak hours



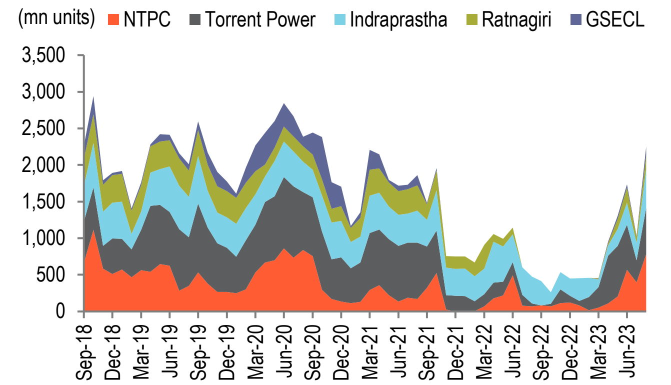
Source: CMIE, BOBCAPS Research

Fig 15 – Gas-based power generation has moved up in Gujarat and NCT of Delhi…



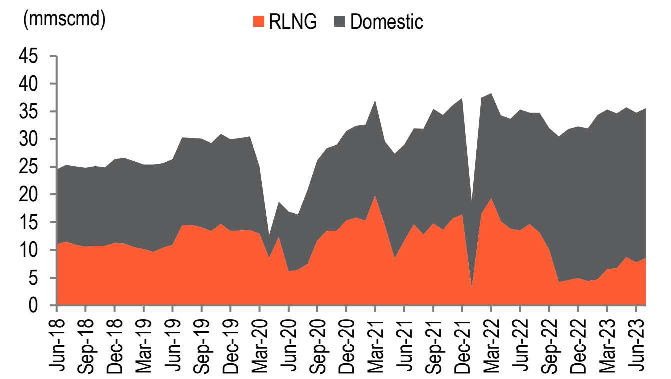
Source: CMIE, BOBCAPS Research

Fig 16 – …driven by select power plants



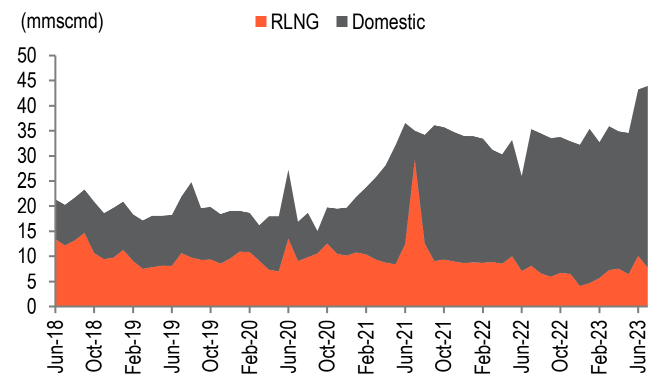
Source: Bloomberg, BOBCAPS Research | Note – Indraprastha: Indraprastha Power, Ratnagiri:: Ratnagiri Gas & Power, GSECL: Gujarat State Electricity Corp

Fig 17 – CGD has seen lower RLNG offtake due to higher allocation of domestic gas



Source: CMIE, BOBCAPS Research

Fig 18 – Other sectors saw only a marginal uptick in consumption



Source: CMIE, BOBCAPS Research

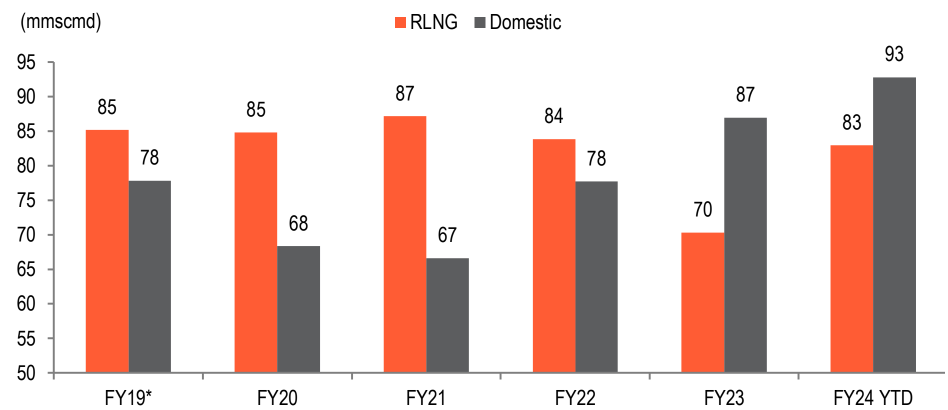
Near-term outlook

Although the revival in LNG imports has been faster than we expected, deeper recovery would depend upon demand momentum from the refining and petrochemicals sectors. Gas-based generation has only limited room for usage upsides.

Growth in India's RLNG consumption has moderated

Domestic gas offtake has increased by more than 20mmscmd over the past four years due to the ramp-up in availability, in turn keeping LNG consumption more or less flat.

Fig 19 – Improving domestic gas availability to constrain LNG usage near term



Source: Bloomberg, BOBCAPS Research | *FY19: May-March based on data availability

LNG imports to depend on price levels during winter

LNG prices have started tightening from the low levels of US$ 10-12/MMbtu seen during May'23, initially with extension of the Norwegian maintenance season and more recently with the risk of disruption to Australian supply following industrial action initiated by the LNG Workers' Union. Gorgon and Wheatstone by Chevron cover ~6% of global LNG production.

Spot prices typically tighten during Q4 and Q1 (Oct-Feb) depending on the severity of winter in Europe and recovery of Chinese volumes as the economy improves and winter demand kicks in. At this stage for H2CY23, while ICIS expects China demand to be 7.5mt higher YoY, Japan and South Korea could show a decline of 5.7mt YoY.

Recent rise in gas-based power generation only a minor positive

The increase in RLNG consumption by gas-based power plants from Q1FY24 onwards has come as a positive surprise. Power generation for the five plants fired by LNG – under NTPC, Torrent Power, Indraprastha Power, Ratnagiri Gas & Power, and GSECL – has shot up to 1.6bn kwh/month over the past four months from an average of 0.6bn kwh/month in FY22.

However, further increases are likely to be limited as the power ministry now envisages the use of gas-based power plants mainly to tide over gaps during non-solar hours. Though gas-based central PSUs have been instructed to supply at full capacity, we believe utilisation of NTPC's Kawas and Gandhar plants may not move materially above current levels of ~30% (having already risen from ~10%). The recent tender by the ministry also envisages an additional 4GW of power offtake during peak load hours for 20 days over September-November. We believe this could support a potential 5% uptick in RLNG demand from the power sector over the July base, assuming generation for 3-4 peak hours daily.

PLNG to lose 12-16 substitution cargoes in FY25

Competitor Konkan LNG (Dabhol) has converted its jetty to all-season operations. Consequently, PLNG's Dahej terminal is likely to lose out on the 12-16 cargoes it would receive during the monsoon months to substitute for the unavailability of Konkan LNG.

Medium-term stock triggers

Higher offtake potential at existing terminals

PLNG has the potential to process additional volumes at existing terminals without further capex. While a ramp-up of volumes at Dahej is contingent on higher LNG demand within the country, ramp-up at Kochi will initially depend upon completion of the offtake pipeline.

- **Dahej terminal – 1mmtpa incremental potential:** The company's Dahej terminal is capable of increasing volumes by 1mmtpa over the current 17.5mmtpa within the existing infrastructure.
- **Kochi terminal – 1mmtpa potential:** Utilisation at Kochi could improve marginally (from 18.5% in FY23) with the resumption of offtake by MRPL and OMPL once LNG prices return to the competitive zone.

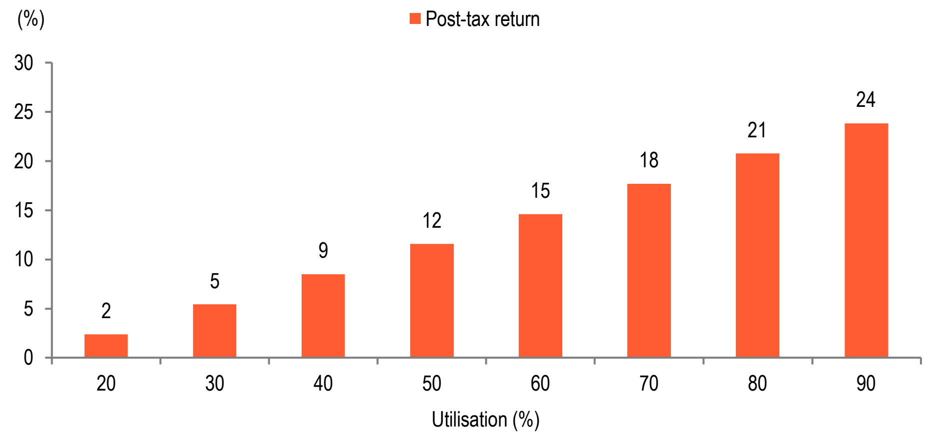
  Further over the medium term, utilisation could rise to 35% upon completion of the KKBMPL-II pipeline, translating to 1mmtpa of extra volume offtake over the next three years. GAIL is targeting commissioning of the Kochi-Bengaluru section of this pipeline by Oct-Nov'24 now that issues related to right-of-use have been resolved with a working out of new routes adjacent to the highway. Even along existing routes, large customers (such as MRPL, OMPL and NFCL) and the five CGD companies could offtake more gas volumes if LNG prices remain stable and competitive.
- **Kochi terminal – additional offtake longer term:** Any tie-up with customers for an additional 0.6-1.2mmtpa of tolling volumes (on top of the existing 1.425mmtpa available under the Gorgon LNG contract with ExxonMobil) could serve as a stock trigger in the medium term and take utilisation above 50% over FY26-FY28.

Expansion: Benefits kick in only above 60% utilisation

Though PLNG is progressing on the 5mmtpa expansion plan at its Dahej terminal, volume ramp-up will depend upon higher LNG demand within the country and the company's ability to secure volumes against competition. At present, India imports ~22mmtpa of RLNG.

PLNG needs to achieve at least 60% utilisation to earn a post-tax return of 15% on proposed expansion capex of Rs 35bn, assuming a tariff of Rs 70/MMbtu. Our tariff assumption is in line with that applicable at the Dahej terminal for FY27 under the current mechanism and does not include upsides from additional spot volumes.

Fig 20 – Sensitivity of returns from Dahej expansion to utilisation



Source: BOBCAPS Research

Targeting addition of 5mmtpa over 2-3 years

- **Dahej terminal – expansion of spot trade:** PLNG is expanding existing storage tank capacity by 0.37mmscm to 1.37mmscm via the addition of two tanks at a capex of Rs 12.5bn. The company has achieved 70% progress as on Mar'23 and aims to complete the project by Sep'24.

- **Dahej terminal – 2.5mmtpa expansion to 20mmtpa in phase-1:** PLNG aims to add 5mmtpa of capacity by debottlenecking the existing facility at a capex of Rs 6bn. Upon completion of this investment, the existing jetty could permit scale-up of operations to 20mmtpa (i.e. 2.5mmtpa expansion). Management has indicated that most of the supply-related packages have been awarded and is looking to complete the expansion by FY25.

- **Dahej terminal – 2.5mmtpa expansion to 22.5mmtpa in phase-2:** A third jetty is being built at an outlay of Rs 17bn to take capacity to 22.5mmtpa. In a bid to invest in petrochemicals, PLNG is also setting up facilities to handle liquified ethane and propane besides LNG. Per the company, the award of major EPCC packages is underway.

Increase in competitive intensity a concern

Though PLNG's Dahej terminal has ramped utilisation above 95% by dint of competitive regas tariffs and long-term tie-ups for 15.5mmtpa of volumes, other terminals run by peers on the west coast (Hazira, Mundra) continue to operate below 50%.

Competitive intensity is increasing along the west coast with the likely addition of HPCL's Chhara LNG terminal in FY24 that will raise total capacity along the coast to 38mmtpa. Completion of the all-season breakwater facility at Dabhol terminal will divert substitution cargoes during the monsoon, leading to a potential reduction of 12-16 shipments a year for PLNG, as discussed earlier. Further, debottlenecking of GSPC's LNG terminal evacuation pipeline could also intensify competition.

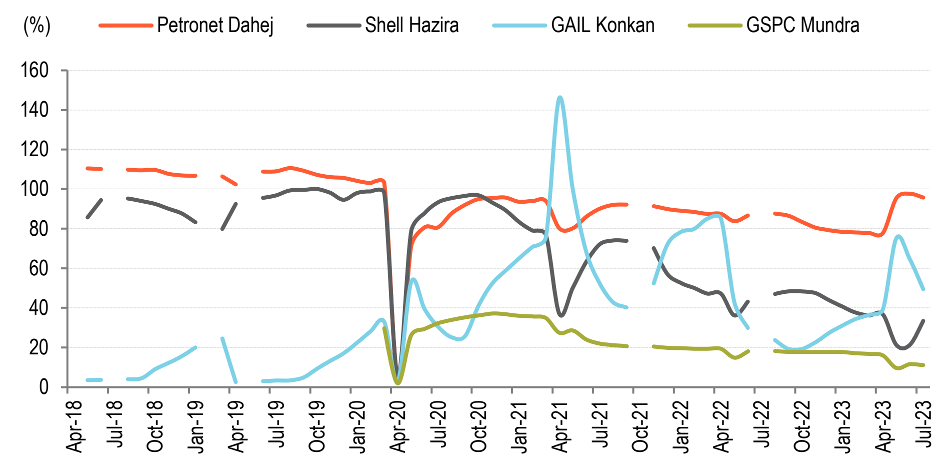
PLNG is discussing the tie-up of an additional 1mmtpa of volumes with RasGas and extension of the ongoing 8.5mmtpa contract, but the proposed new capacity remains largely open at this juncture. Competition against this upcoming capacity could pose a risk.

Fig 21 – LNG imports

State	Location	Company	Year of commissioning	Capacity (mmtpa)	Capacity utilisation (%)		
					FY21	FY22	FY23
Gujarat	Dahej	Petronet LNG	2004	17.5	94	88	78
Gujarat	Hazira	Shell Energy	2005	5.2	77	47	37
Maharashtra	Dabhol	Ratnagiri Gas & Power	2012	5	76	85	39
Gujarat	Mundra	Adani Group, Gujarat State Petronet Corporation	2020	5	35	19	16
Gujarat	Chhara	HPCL	2023E	5	-	-	-
West Coast	-	-	-	**37.7**	-	-	-
Kerala	Kochi	Petronet LNG	2013	5	17	21	19
Tamil Nadu	Ennore	IOCL	2019	5	13	14	13
Odisha	Dhamra	Adani Group	2023	5	-	-	-
East Coast	-	-	-	**15**	-	-	-
-	-	-	-	**52.7**	-	-	-

Source: Bloomberg, BOBCAPS Research

Fig 22 – LNG terminal utilisation on west coast



Source: CMIE, BOBCAPS Research

Realisation of billed Use-or-Pay revenue

- **Sum of Rs 12.7bn billed for use-or-pay:** PLNG billed use or pay (UOP) revenue of Rs 4.15bn in FY22 and Rs 8.5bn in FY23 for lower-than-committed use of regasification facilities by clients and has realised Rs 0.16bn against the same so far.
- **Middling track record:** Against Rs 2bn billed over FY17-FY21, the company has realised Rs 1.3bn and reversed Rs 0.65bn to customers as a settlement.
- **Dues collection a balancing act:** Although UOP revenues are legally enforceable under contracts, PLNG needs to evolve the right solution to maintain long-term relations with customers, particularly in view of an evolving competitive climate on

the west cost for LNG imports and customers' inability to earn profits during Covid years due to subdued demand. We think a plausible solution could entail future commitments of additional volumes to offset billing in NPV terms.

Long-term options under evaluation

PLNG generates more than Rs 30bn in annual cash flow by operating its Dahej terminal above 90% utilisation. For the next leg of growth, it has committed to capex of ~Rs 400bn over the next three years and has the bandwidth to undertake further investments. As part of its "1-5-10-40" vision, management has set a target of Rs 1tn in annual turnover and Rs 100bn in net profit over the next five years (from Rs 0.6tn and Rs 32bn respectively in FY23), with an investment of Rs 400bn, but is still in the early stages of finalising growth avenues. Among the options under consideration are a floating LNG terminal and a petrochemical complex. Other early-stage options include compressed biogas and l-CNG stations on highways.

Gopalpur FSRU project – faces a tight global market

PLNG has earmarked Rs 23bn to set up a floating storage and regasification terminal (FSRU) at Gopalpur in Odisha and recently put out a tender for a consultant who will source and charter the facility. With the global FSRU market turning tight following a rise in European demand for these terminals as a fallout of the Russia-Ukraine war, securing a cost-effective floating facility could prove difficult.

In case of non-availability, PLNG may have to settle for a land-based terminal, which would require another detailed feasibility report, additional clearances and board approval. A land-based terminal will also take longer to implement than an FSRU.

Dahej petrochemical complex – still in early stages

PLNG is contemplating forward integration into a propane-based petrochemical complex comprising a 750ktpa propane dehydrogenation (PDH) unit, a 500ktpa polypropylene (PP) unit, and an ethane and propane import facility planned as part of the third jetty. The company has indicated an initial project cost of Rs 120bn.

- **Integration advantage:** PLNG has the requisite land bank at Dahej and plans to integrate the petrochem project with its existing LNG terminal to optimise operations. The PDH-PP plant requires a refrigerated liquid propane terminal. By integrating with the LNG terminal, the use of some existing facilities as well as cold energy can be optimised. As PLNG is already planning an ethane/propane import facility along with the third jetty, the incremental project cost for PDH-PP could be lower.

- **No precedence in India yet:** While PDH-PP plants have proliferated in China, India is yet to have an operational facility. GAIL could be first off the mark with ongoing implementation of a 500ktpa PP capacity at Usar in Maharashtra. It recently revised project capex for the proposed PDH-PP facility to Rs 112.6bn from a prior estimate of Rs 78.2bn in 2017 and is targeting phased commissioning from Oct'25.

- **Still in pre-approval stage:** PLNG is currently preparing a detailed feasibility report and aims to approach the board in FY24 for approval. Some pre-project activities such as licensor selection and area development have been completed, but environment clearances are pending.

Evolving avenues for growth

- **Compressed biogas (CBG):** PLNG has scaled back its near-term vision to the implementation of 4-5 CBG projects. Among the project locations under review are the states of Haryana, Uttar Pradesh, Madhya Pradesh, Gujarat, Maharashtra and Odisha.
- **L-CNG stations on highways:** The company has been promoting small-scale LNG as a fuel for medium and heavy commercial vehicles and has developed four dispensing stations on southern national highways, besides identifying locations for another 10 stations. Progress has been slow due to the high LNG prices.

Valuation methodology

We forecast a 5% CAGR in PLNG's EBITDA over FY23-FY26 on the back of higher utilisation of the Dahej terminal from 13.6mmtpa in FY23 to an estimated 18.3mmtpa in FY26. We assume only a modest 0.7mmtpa increase in FY26 from the upcoming 2.5mmtpa capacity. Utilisation could scale up faster if global LNG prices retract below US$ 10/MMbtu upon ramp-up of new liquefaction terminals. Our conservative stance on volume assumptions also reflects the availability of higher domestic supply and increased competitive intensity along the west coast.

We expect blended EBITDA to normalise in FY24 as actual LNG volumes replace revenue from UOP charges. We are not factoring in realisation of UOP charges billed over FY22-FY23 as we await indications from customers on payment. Our forecast are broadly in line with consensus over FY24-FY26.

Fig 23 – Forecasts

(Rs bn)	Actuals	Forecasts			Consensus			Delta to Consensus (%)		
	FY23	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	5,98,994	5,65,401	5,76,360	5,95,717	5,46,081	5,63,145	5,91,877	3.5	2.3	0.6
EBITDA	48,558	48,505	51,364	56,068	48,365	52,362	56,034	0.3	(1.9)	0.1
EBITDA growth (%)	(7.6)	(0.1)	5.9	9.2	(0.4)	8.3	7.0	-	-	-
Net income	32,399	32,008	33,855	37,051	31,869	34,803	36,236	0.4	(2.7)	2.2

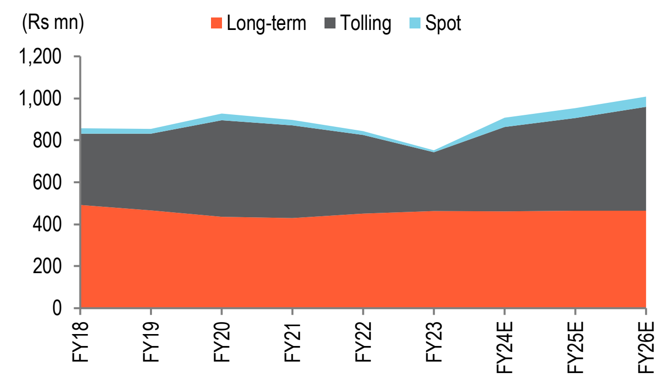
Source: Bloomberg, BOBCAPS Research

Fig 24 – Key assumptions

Parameter		FY23	FY24E	FY25E	FY26E
Dahej terminal					
Volume	mmtpa	13.6	16.9	17.4	18.3
Regas tariffs	Rs/mmbtu	57.8	60.6	63.7	66.9
Kochi terminal					
Volume	mmtpa	0.9	1.0	1.1	1.2
Regas tariffs	Rs/mmbtu	85.7	82.0	86.1	90.5
Company aggregate					
Volume	mmtpa	14.5	17.8	18.5	19.4
Volumes	Tbtu	752	927	959	1009
Blended EBITDA	Rs/MMbtu	64.6	52.3	53.5	55.6
Blended Regas tariffs	Rs/MMbtu	78.9	64.8	67.3	70.7

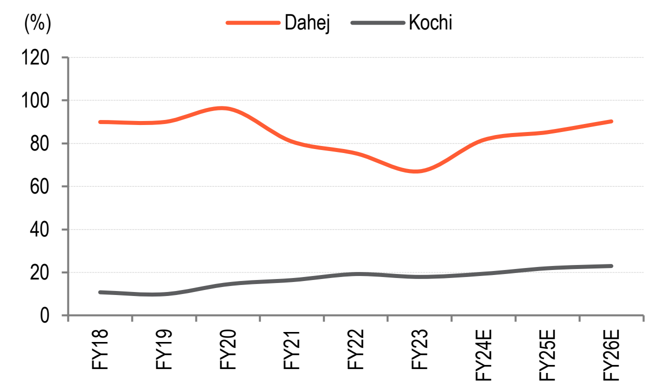
Source: Company, BOBCAPS Research

Fig 25 – Expect recovery in volumes with easing of prices



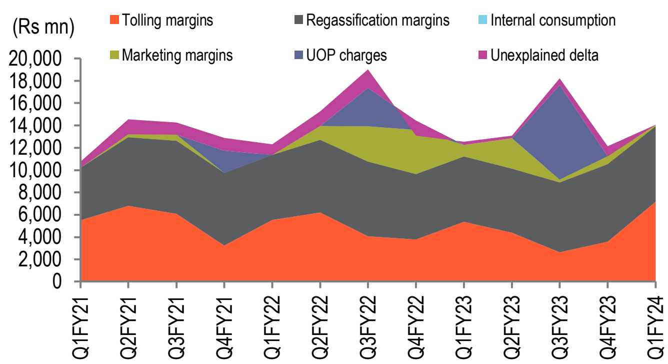
Source: Company, BOBCAPS Research

Fig 26 – Avg. utilisation assumed at <100% on improved domestic gas availability and higher competitive intensity



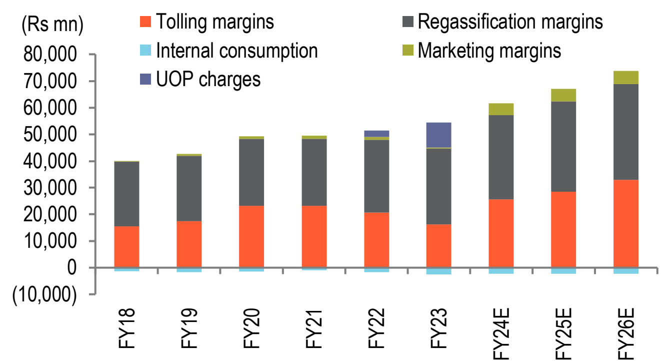
Source: Company, BOBCAPS Research

Fig 27 – Gross margin was supported by higher marketing margin and UOP charges in FY22-FY23



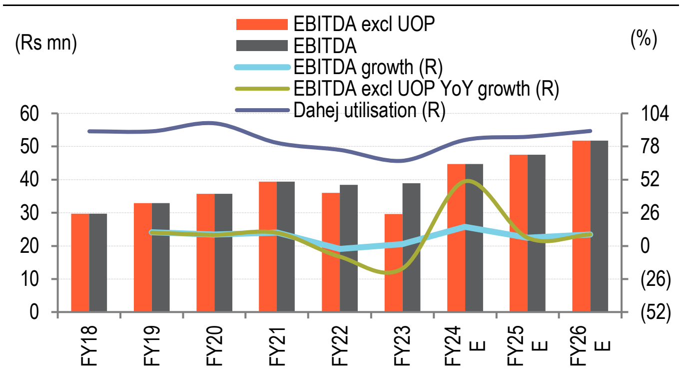
Source: Company, BOBCAPS Research

Fig 28 – Uptick in utilisation till contractual volume level does not lend material upside to gross margin



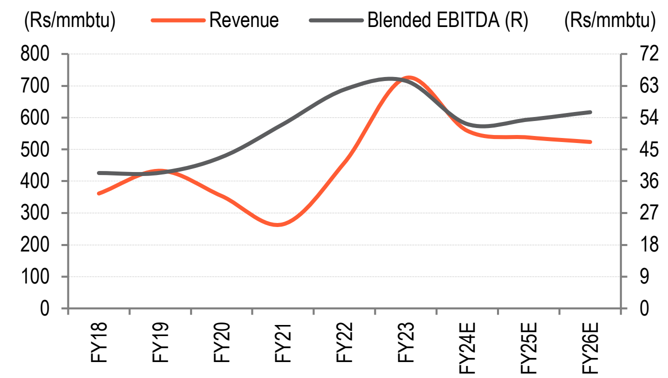
Source: Company, BOBCAPS Research

Fig 29 – EBITDA likely to stay flattish in FY24E as actual volumes replace UOP charges



Source: Company, BOBCAPS Research

Fig 30 – EBITDA margin (Rs/mmbtu) to normalise with return of volumes and normalisation of marketing margin



Source: Company, BOBCAPS Research

HOLD, TP Rs 275

We set our TP for PLNG at Rs 275 based on a one-year forward P/E multiple of 11.7x, which is based on the five-year median. The stock has derated over the past five years, evidenced by a decline in median P/E from 13.5x over seven years to 11.7x over five years and 11x over three years.

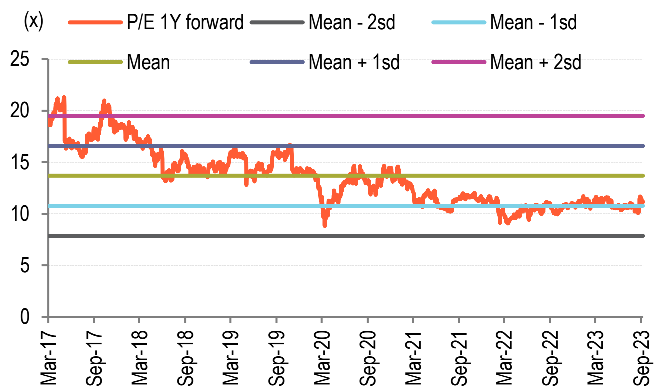
Given the expected recovery in volumes, we believe valuations should revert to at least the five-year median, which is more representative of steady-state volumes. To price in growth from the capacity expansion planned over the next two years, we need more visibility on LNG offtake within the country amid higher domestic availability of natural gas and increased competition. Hence, we assume coverage on PLNG with HOLD.

Fig 31 – Valuation summary

(Rs)	Value
FY25E EPS (Rs)	22.6
Target P/E multiple (x)	11.7
Target price (Mar'24)	264
Target price (Sep'24)	277
Target price rounded to nearest Rs 5 (Sep'24)	275

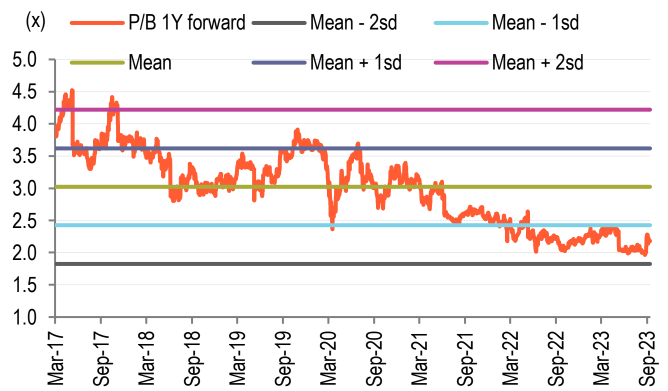
Source: BOBCAPS Research

Fig 32 – P/E 1Y forward



Source: Refinitiv, BOBCAPS Research

Fig 33 – P/B 1Y forward



Source: Refinitiv, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **RLNG plant utilisation:** A key upside risk is higher LNG utilisation than current assumptions should usage within India improve, possibly led by a sharp reduction in global LNG prices. Similarly, LNG utilisation below our current assumptions is a key downside risk. This is possible with an increase in global LNG prices driven by a sharper rise in demand from Europe (with a severe winter) and China (with faster recovery).
- **Project execution:** Slower execution of projects than assumed is a downside risk while faster approval of long-term options could be an upside risk.

Glossary

Glossary of Abbreviations			
CBG	Compressed Biogas	**MRPL**	Mangalore Refinery and Petrochemicals
CGD	City Gas Distribution	**NFCL**	Nagarjuna Fertilisers and Chemicals
EPCC	Engineering, Procurement, Construction and Commissioning	**NPV**	Net Present Value
FSRU	Floating Storage and Regasification Terminal	**OMPL**	ONGC Mangalore Petrochemicals
HPHT	High Pressure High Temperature	**PSU**	Public Sector Undertakings
KKBMPL-II	Kochi-Koottanad-Bengaluru-Mangalore Pipeline-II project	**RLNG**	Regasified LNG
L-CNG	Liquefied Compressed Natural Gas	**UOP**	Use or Pay
LNG	Liquified Natural Gas		

Source: BOBCAPS Research

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Bharat Petroleum Corp	BPCL IN	9.3	352	450	BUY
Gujarat State Petronet	GUJS IN	2.0	284	370	BUY
Hindustan Petroleum Corp	HPCL IN	4.5	260	410	BUY
Indian Oil Corp	IOCL IN	10.5	92	150	BUY
Indraprastha Gas	IGL IN	3.9	455	550	BUY
Mahanagar Gas	MAHGL IN	1.2	1,030	1,210	HOLD
Petronet LNG	PLNG IN	4.4	240	275	HOLD
Reliance Industries	RIL IN	192.9	2,343	3,015	BUY

Source: BOBCAPS Research, NSE | Price as of 26 Sep 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**4,31,686**	**5,98,994**	**5,65,401**	**5,76,360**	**5,95,717**
EBITDA	52,523	48,558	48,505	51,364	56,068
Depreciation	(7,685)	(7,643)	(8,062)	(8,894)	(9,893)
EBIT	44,839	40,914	40,443	42,470	46,175
Net interest inc./(exp.)	(3,173)	(3,305)	(3,029)	(2,751)	(2,472)
Other inc./(exp.)	3,073	5,736	5,376	5,541	5,830
Exceptional items	0	0	0	0	0
EBT	44,738	43,345	42,791	45,261	49,533
Income taxes	(11,215)	(10,946)	(10,783)	(11,406)	(12,482)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**33,524**	**32,399**	**32,008**	**33,855**	**37,051**
Adjustments	0	0	0	0	0
Adjusted net profit	**33,524**	**32,399**	**32,008**	**33,855**	**37,051**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	15,265	16,440	16,610	16,819	17,235
Other current liabilities	8,423	8,609	8,269	8,402	8,637
Provisions	1,203	1,926	1,926	1,926	1,926
Debt funds	9,566	7,423	7,423	7,423	7,423
Other liabilities	42,479	40,481	35,893	31,304	26,716
Equity capital	15,000	15,000	15,000	15,000	15,000
Reserves & surplus	1,19,255	1,34,347	1,49,551	1,65,632	1,83,231
Shareholders' fund	1,34,255	1,49,347	1,64,551	1,80,632	1,98,231
Total liab. and equities	**2,11,191**	**2,24,226**	**2,34,672**	**2,46,506**	**2,60,169**
Cash and cash eq.	43,196	56,800	58,252	60,540	64,503
Accounts receivables	26,844	38,397	38,524	39,156	40,464
Inventories	5,767	11,531	11,074	10,512	10,054
Other current assets	5,158	4,826	4,650	4,702	4,790
Investments	30,772	11,394	11,457	11,773	12,427
Net fixed assets	95,572	87,903	96,100	1,05,706	1,19,413
CWIP	1,926	11,259	12,500	12,000	6,400
Intangible assets	0	0	0	0	0
Deferred tax assets, net	1,956	2,116	2,116	2,116	2,116
Other assets	0	0	0	0	0
Total assets	**2,11,191**	**2,24,226**	**2,34,672**	**2,46,506**	**2,60,169**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**31,408**	**18,392**	**34,031**	**36,426**	**39,827**
Capital expenditures	(16,611)	10,119	(17,564)	(18,316)	(18,654)
Change in investments	0	0	0	0	0
Other investing cash flows	3,073	5,736	5,376	5,541	5,830
Cash flow from investing	**(13,539)**	**15,855**	**(12,187)**	**(12,775)**	**(12,824)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(2,334)	(2,848)	(3,589)	(3,589)	(3,589)
Interest expenses	0	0	0	0	0
Dividends paid	(15,750)	(17,250)	(16,804)	(17,774)	(19,452)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**(18,084)**	**(20,098)**	**(20,392)**	**(21,362)**	**(23,040)**
Chg in cash & cash eq.	**(214)**	**14,149**	**1,452**	**2,288**	**3,963**
Closing cash & cash eq.	**43,209**	**57,344**	**58,252**	**60,540**	**64,503**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	22.3	21.6	21.3	22.6	24.7
Adjusted EPS	22.3	21.6	21.3	22.6	24.7
Dividend per share	10.5	11.5	11.2	11.8	13.0
Book value per share	89.5	99.6	109.7	120.4	132.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	0.8	0.5	0.6	0.5	0.5
EV/EBITDA	6.2	6.7	6.6	6.0	5.5
Adjusted P/E	10.7	11.1	11.3	10.6	9.7
P/BV	2.7	2.4	2.2	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.9	74.7	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.8	105.9	105.8	106.6	107.3
EBIT margin (EBIT/Revenue)	10.4	6.8	7.2	7.4	7.8
Asset turnover (Rev./Avg TA)	215.6	275.1	246.4	239.6	235.1
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.3
Adjusted ROAE	26.7	22.8	20.4	19.6	19.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	65.9	38.8	(5.6)	1.9	3.4
EBITDA	11.8	(7.6)	(0.1)	5.9	9.2
Adjusted EPS	13.7	(3.4)	(1.2)	5.8	9.4
Profitability & Return ratios (%)					
EBITDA margin	12.2	8.1	8.6	8.9	9.4
EBIT margin	10.4	6.8	7.2	7.4	7.8
Adjusted profit margin	7.8	5.4	5.7	5.9	6.2
Adjusted ROAE	26.7	22.8	20.4	19.6	19.6
ROCE	24.8	20.3	18.4	17.6	17.5
Working capital days (days)					
Receivables	19	20	25	25	24
Inventory	4	6	8	8	7
Payables	12	11	12	12	12
Ratios (x)					
Gross asset turnover	3.2	4.5	4.0	3.6	3.3
Current ratio	3.3	4.1	4.2	4.2	4.3
Net interest coverage ratio	14.1	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
Brand Name: **BOBCAPS**
Trade Name: **www.barodaetrade.com**
CIN: **U65999MH1996GOI098009**

Logo:

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

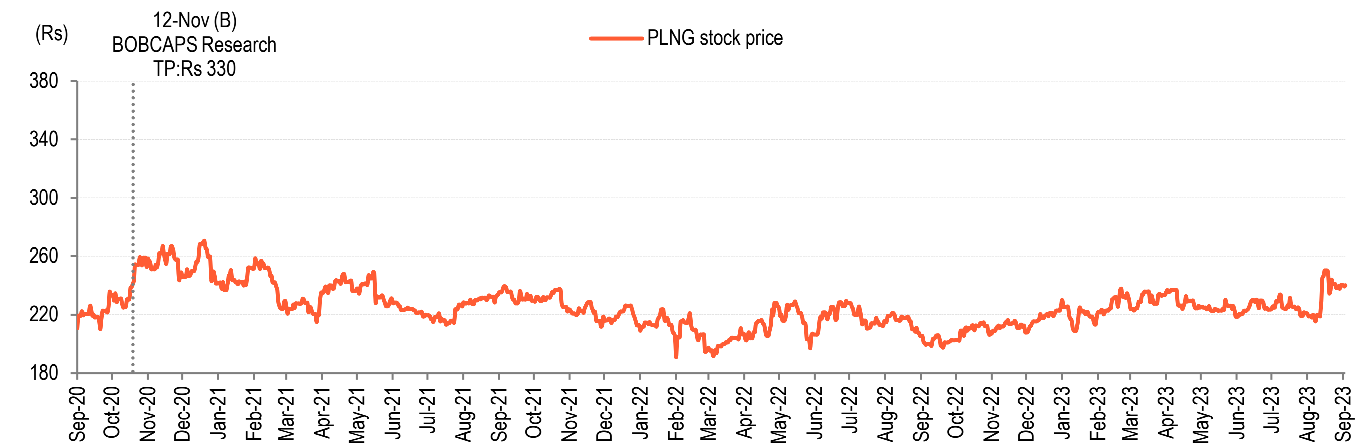
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): PETRONET LNG (PLNG IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company. Research Analyst Kirtan Mehta has served as an employee of Reliance Industries (RIL IN) during the period 2002-2003, as disclosed by the research analyst.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd) ("**MSL**") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as **"MAYBANK**"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.