

# Petronet LNG

- Net sales at Rs. 716cr was sharply lower than our and street estimates; represented a fall of 31.3% yoy and 2% qoq
- Total volumes were at 102.5 TBTUs as compared to 117.3 TBTUs in Q4 FY14 and 139.6 TBTUs in Q3 FY15; fall was mainly on account of fall in offtake of long term volumes
- OPM at 3.1% was below our expectations
- PAT at Rs. 301cr was higher than our estimates as one time tax reversal pertaining to 80IA of Income Tax Act, 1961 more than offsets poor operational performance
- While Kochi ramp up continues to be a concern recent developments such as stakeholders meeting by state government, leasing out of storage tanks and trucking of gas have been positive
- We maintain our Accumulate rating but lower our 12 month target price to Rs. 182 as clarity should emerge on Kochi terminal in medium term and current soft LNG prices should ensure robust demand for LNG

## Result table

(Rs m)	Q4 FY15	Q4 FY14	% yoy	Q3 FY15	% qoq
Sales (TBTUs)	74.8	112.8	(33.7)	111.6	(33.0)
Regas services (TBTUs)	27.7	4.5	516.2	28.0	(1.0)
<b>Net sales</b>	<b>7,162</b>	<b>10,428</b>	<b>(31.3)</b>	<b>11,198</b>	<b>(36.0)</b>
Material costs	(6,836)	(9,934)	(31.2)	(10,727)	(36.3)
Personnel costs	(22)	(19)	11.6	(12)	78.9
Other overheads	(83)	(87)	(4.8)	(118)	(29.9)
<b>Operating profit</b>	<b>221</b>	<b>387</b>	<b>(42.8)</b>	<b>341</b>	<b>(35.0)</b>
<b>OPM (%)</b>	<b>3.1</b>	<b>3.7</b>	<b>-62 bps</b>	<b>3.0</b>	<b>5 bps</b>
Depreciation	(82)	(100)	(18.3)	(79)	3.1
Interest	(67)	(79)	(15.2)	(68)	(2.6)
Other income	58	31	87.2	27	114.7
<b>PBT</b>	<b>131</b>	<b>239</b>	<b>(45.3)</b>	<b>220</b>	<b>(40.6)</b>
Tax	170	(70)	(344.5)	(58)	(395.8)
<b>Effective tax rate (%)</b>	<b>(130.3)</b>	<b>29.1</b>		<b>26.2</b>	
<b>Adjusted PAT</b>	<b>301</b>	<b>169</b>	<b>77.6</b>	<b>162</b>	<b>85.2</b>
<b>Adj. PAT margin (%)</b>	<b>4.2</b>	<b>1.6</b>	<b>258 bps</b>	<b>1.5</b>	<b>275 bps</b>
Ann. EPS (Rs)	16.0	9.0	77.6	8.7	85.2

Source: Company, India Infoline Research

## Net sales much lower than expectations

Petronet LNG for Q4 FY15 reported revenue of Rs. 7,162crs much lower than our and street estimates. Revenues slumped by 31.3% yoy and 36% qoq. The fall was mainly on the back of sharp decline in utilization at the Dahej terminal. This was due to lower offtake of long term volumes as spot prices of LNG at ~US\$7-8/mmbtu is much lower than long term pricing for Qatar gas contract which is at US\$13-14/mmbtu. Lower offtake resulted in inventory piling up which impacted availability of capacity for processing of short term contracts. Long term volumes for the quarter were at 60 TBTUs, while spot cargos were at 14.8 TBTUs and regas volumes were at 20.8 TBTUs. Plant utilization at Dahej Terminal was at 72% v/s 110% in Q3 FY15.

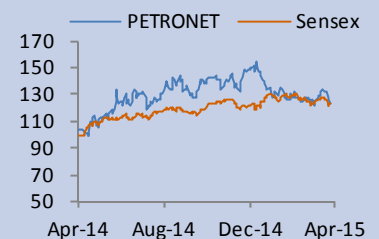
## Rating: Accumulate

Target:	Rs182
CMP:	Rs167
Upside:	9.0%

Sector:	Oil & Gas
Sector view:	Positive
Sensex:	27,278
52 Week h/l (Rs):	222 / 136
Market cap (Rscr) :	12,536
6m Avg vol ('000Nos):	1,368
Bloomberg code:	PLNG IS
BSE code:	532522
NSE code:	PETRONET
FV (Re):	10

Prices as on April 26, 2015

## Share price trend



## Share holding pattern

	Sep-14	Dec-14	Mar-15
Promoters	50.0	50.0	50.0
Institutions	26.7	26.7	27.0
Others	23.3	23.3	23.0

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### OPM was lower than expectations

During Q4 FY15, OPM for Petronet LNG was at 3.1% lower than our expectations. This represented a fall of 62bps yoy and flat trend sequentially. Operating profit was lower by 42.8% yoy and 35% sequentially. Gross margins were lower by 18bps yoy but improved 34bps qoq. Impact of operating de-leverage was seen with staff costs and other overheads increasing by 12bps yoy and 32bps yoy respectively.

### Tax write back improves PAT performance

The company reported a headline PAT of Rs. 301cr which was higher than our expectations. This was possible on account of tax reversal worth Rs. 132cr pertaining to deduction under section 80IA of Income Tax Act, 1961 for the earlier years, accounted for on the basis of favourable Income Tax Assessment order received during the current quarter. Accordingly, current year tax provision has also been made after considering Section 80IA benefits.

### Cost analysis

As a % of net sales	Q4 FY15	Q4 FY14	bps yoy	Q3 FY15	bps qoq
Material costs	95.4	95.3	18	95.8	(34)
Personnel Costs	0.3	0.2	12	0.1	20
Other overheads	1.2	0.8	32	1.1	10
<b>Total costs</b>	<b>96.9</b>	<b>96.3</b>	<b>62</b>	<b>97.0</b>	<b>(5)</b>

Source: Company, India Infoline Research

### Key takeaways from the conference call

- ✧ The current market situation does not encourage scale up in volumes of long term contracts as the pricing of fuel oil are now cheaper than LNG prices considering the fall in crude oil prices. While Petronet LNG has take or pay agreements with its customers, the company is not enforcing the clause as the customers have one full year to meet their commitments.
- ✧ The Kochi terminal performance improved with losses of Rs. 75crs for the quarter a fall of 25% qoq. This was possible as impact of lower utilization was partially offset by recent implementation of reloading of cargos done at the terminal.
- ✧ For Dahej terminal, the company cited that the current expansion to 15mtpa is on schedule to complete by November 2016. In fact certain segments of work are running ahead of schedule. The company has received board of directors' approval for further expansion of the Dahej terminal to 17.5mtpa. This will entail a cost of Rs. 1,200crs and is expected to be complete in 3-4 years.

### Maintain Accumulate

We maintain our Accumulate rating on the stock but lower our 12 month target price to Rs. 182. We expect clarity to emerge on the two pipelines in the near term which should enhance visibility for Kochi terminal. Softness in crude prices have resulted in weak spot LNG prices which have increased potential for short term volumes for PLNG. Healthy marketing margins will ensure good profitability. Furthermore, majority of the contracts are fixed at both seller and buyer ends.

**Financial summary**

Y/e 31 Mar (Rs. cr)	FY14	FY15E	FY16E	FY17E
Revenues	37,748	39,501	44,643	48,981
yoy growth (%)	20.0	4.6	13.0	9.7
Operating profit	1,498	1,439	1,823	1,965
OPM (%)	4.0	3.6	4.1	4.0
Pre-exceptional PAT	712	883	985	1,090
Reported PAT	712	883	985	1,090
yoy growth (%)	(38.1)	24.0	11.6	10.7
EPS (Rs)	9.5	11.8	13.1	14.5
P/E (x)	17.6	14.2	12.7	11.5
Price/Book (x)	2.5	2.2	1.9	1.7
EV/EBITDA (x)	9.7	10.7	7.5	6.4
Debt/Equity (x)	0.6	0.6	0.5	0.4
RoE	15.1	16.5	16.2	15.7
RoCE	15.6	13.9	17.1	17.9

Source: Company, India Infoline Research

## 'Best Broker of the Year' – by Zee Business for contribution to broking

Nirmal Jain, Chairman, IIFL, received the award for The Best Broker of the Year (for contribution to broking in India) at India's Best Market Analyst Awards 2014 organised by the Zee Business in Mumbai. The award was presented by the guest of Honour Amit Shah, president of the Bharatiya Janata Party and Piyush Goel, Minister of state with independent charge for power, coal new and renewable energy.

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## Other awards



### Recommendation parameters for fundamental reports:

**Buy** – Absolute return of over +15%

**Accumulate** – Absolute return between 0% to +15%

**Reduce** – Absolute return between 0% to -10%

**Sell** – Absolute return below -10%

**Call Failure** - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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