

## Petronet LNG

### Performance Highlights

Y/E March (₹ cr)	2QFY12	2QFY11	% chg (yoy)	1QFY12	% chg (qoq)
<b>Net sales</b>	5,367	3,058	75.5	4,623	16.1
EBITDA	448	273	64.5	438	2.3
EBITDA margin (%)	8.4	8.9	(56)bp	9.5	(112)bp
<b>PAT</b>	260	131	98.5	257	1.4

Source: Company, Angel Research

Petronet LNG's (PLNG) 2QFY2012 net sales increased by 75.5% yoy to ₹5,367cr on the back of higher volumes and improved realization. Net profit increased by 98.5% yoy to ₹260cr. **We maintain our Neutral view on the stock.**

**Robust volume growth and price increases drive sales growth:** PLNG's R-LNG increased by 35.1% yoy to 135TBTU mainly due to increased spot and contracted volumes. Contractual volumes stood at 91TBTUs and spot volumes stood at 44TBTUs. The company's utilization stood at 106% at its Dahej terminal in 2QFY2012. Also, average realization improved by 29.7% yoy to ₹397/mmbtu. On account of these, PLNG's net sales grew by 75.5% yoy to ₹5,367cr.

**Strong growth in net profit:** EBITDA/mmbtu increased to ₹33.2 (up 21.9% yoy) mainly on account of increased spot volumes, which have higher margins compared to contracted volumes. Other expenditure increased by 278.1% yoy to ₹99cr. Hence, despite higher growth in net sales, EBITDA increased by only 64.5% yoy to ₹448cr and EBITDA margin declined marginally by 56bp yoy to 8.4% in 2QFY2012. Other income increased by 8.2% yoy to ₹20cr, while tax rate decreased to 30.8% in 2QFY2012 compared to 32.3% in 2QFY2011. Hence, the company's net profit grew by 98.5% yoy to ₹260cr.

**Outlook and valuation:** For 2QFY2012, PLNG reported strong revenue and profit growth. However, the company's capacity utilization at Dahej terminal (106%) almost peaked in 2QFY2012, indicating a further increase in volume growth will remain capped in the near term. Nevertheless, demand for natural gas remains robust in India, while domestic supply fails to meet the shortfall, thus boosting prospects for PLNG's business. However, we believe the current rich valuations discount the robust growth prospects of PLNG. The stock is currently trading at 11.8x FY2012E and 11.7x FY2013E EPS. **We maintain our Neutral view on the stock.**

#### Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
<b>Net sales</b>	10,649	13,133	20,642	24,221
% chg	26.3	23.3	57.2	17.3
<b>Net profit</b>	404	555	1,030	1,039
% chg	(22.0)	37.3	85.5	0.8
<b>EPS (₹)</b>	5.4	8.3	13.7	13.8
OPM (%)	7.9	8.8	8.9	8.1
P/E (x)	29.9	19.5	11.8	11.7
P/BV (x)	5.4	4.5	3.4	2.7
RoE (%)	19.2	25.2	33.1	26.1
RoCE (%)	14.3	18.2	23.7	20.4
EV/Sales (x)	1.3	1.1	0.7	0.6
EV/EBITDA (x)	16.2	11.5	7.7	7.0

Source: Company, Angel Research

## NEUTRAL

CMP	₹161
Target Price	-

Investment Period	-
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#### Stock Info

Sector	Oil & Gas
Market Cap (₹ cr)	12,105
Beta	0.7
52 Week High / Low	186/105
Avg. Daily Volume	410129
Face Value (₹)	10
BSE Sensex	16,748
Nifty	5,038
Reuters Code	PLNG.BO
Bloomberg Code	PLNG@IN

#### Shareholding Pattern (%)

Promoters	50.0
MF / Banks / Indian Fls	7.9
FII / NRIs / OCBs	14.7
Indian Public / Others	27.3

Abs. (%)	3m	1yr	3yr
Sensex	(8.3)	(15.4)	67.9
PLNG	12.6	42.5	312.8

#### Bhavesh Chauhan

Tel: 022- 39357600 Ext: 6821

Bhaveshu.chauhan@angelbroking.com

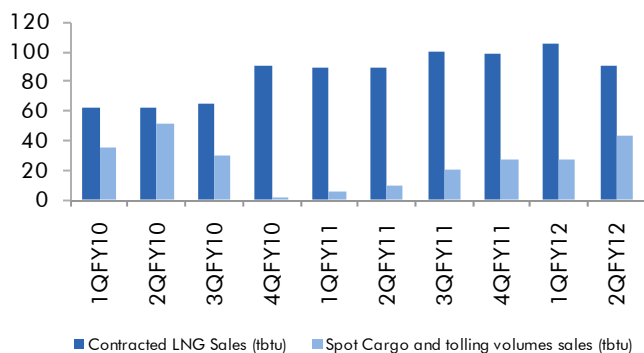
**Exhibit 1: 2QFY2012 performance**

Y/E March (₹ cr)	2QFY12	2QFY11	yoy %	1QFY12	qoq
<b>Net sales</b>	<b>5,367</b>	<b>3,058</b>	<b>75.5</b>	<b>4,623</b>	<b>16.1</b>
COGS	4,814	2,755	74.7	4,133	16.5
% of Net sales	89.7	90.1		89.4	
Operating expenditure	105	31	233.9	52	100.9
% of Net sales	2.0	1.0		1.1	
<b>Total expenditure</b>	<b>4,919</b>	<b>2,786</b>	<b>76.5</b>	<b>4,185</b>	<b>17.5</b>
% of Net sales	91.6	91.1		90.5	
Other operating income	0.0	1.0	(100.0)	0.0	
<b>EBITDA</b>	<b>448</b>	<b>273</b>	<b>64.5</b>	<b>438</b>	<b>2.3</b>
% of Net sales	8.4	8.9		9.5	
Interest	46	49	(7.4)	46	(1.2)
Depreciation	46	47	(0.7)	46	1.1
Other income	20	19	8.2	26	(23.4)
<b>Profit before tax</b>	<b>376</b>	<b>195</b>	<b>92.9</b>	<b>372</b>	<b>1.1</b>
% of Net sales	7.0	6.4		8.1	
Provision for tax	116	63	84.1	116	0.4
% of PBT	30.8	32.3		31.0	
<b>Profit after tax</b>	<b>260</b>	<b>131</b>	<b>98.5</b>	<b>257</b>	<b>1.4</b>
% of Net sales	4.9	4.3		5.6	

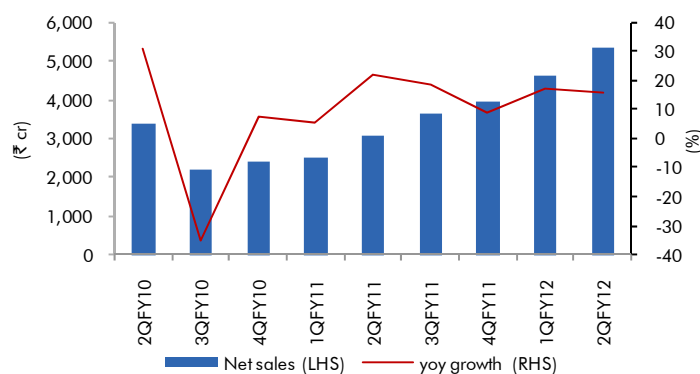
Source: Company, Angel Research

**Strong volume growth and higher realization drive net sales growth**

PLNG's R-LNG increased by 35.1% yoy to 135TBTU mainly on account of increased spot and contracted volumes. Contractual volumes stood at 91TBTUs and spot volumes stood at 44TBTUs in 2QFY2012. The company's utilization stood at 106% at its Dahej terminal during 2QFY2012. Also, average realization improved by 29.7% yoy to ₹397/mmbtu. On account of these, the company's net sales increased by 75.5% yoy to ₹5,367cr.

**Exhibit 2: Sales volume trend**


Source: Company, Angel Research

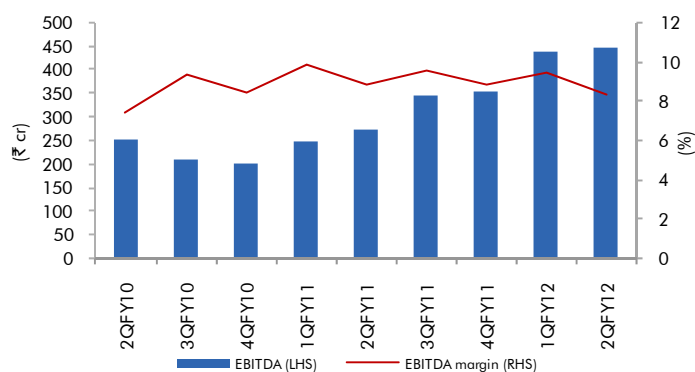
**Exhibit 3: Net sales growth trend**


Source: Company, Angel Research

### Strong growth in net profit

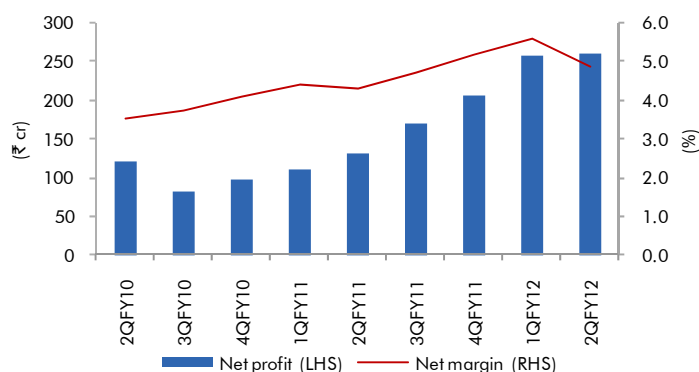
EBITDA/mmbtu grew by 21.9% yoy to ₹33.2 mainly on account of increased spot volumes, which have higher margins compared to contracted volumes. Other expenditure increased by 278.1% yoy to ₹99cr due to forex loss of ₹53cr. Hence, despite higher growth in net sales, EBITDA increased by only 64.5% yoy to ₹448cr and EBITDA margin declined marginally by 56bp yoy to 8.4% in 2QFY2012. Other income increased by 8.2% yoy to ₹20cr, while tax rate decreased to 30.8% in 2QFY2012 compared to 32.3% in 2QFY2011. Hence, net profit grew by 98.5% yoy to ₹260cr.

**Exhibit 4: EBITDA and EBITDA margin trend**



Source: Company, Angel Research

**Exhibit 5: Net profit and net margin trend**



Source: Company, Angel Research

## Investment arguments

**Capacity additions to drive volume growth:** PLNG plans to double its capacity at the Kochi terminal to 5mn tonnes by FY2013, while its phase-3 expansion at Dahej terminal will take its capacity to 15mn tonnes by FY2016.

**LNG import model viable going ahead:** We believe LNG is likely to be a key source of gas supplies in the medium term on account of strong gas demand in the country. Hence, PLNG is a proxy play on the increasing gap between natural gas supplies and demand in the country. The delay in the KG basin gas ramp-up has further helped the matters. Moreover, the government is making efforts to maintain long-term viability of LNG in the overall gas mix of the country. Government could act on the Mercados Energy Markets International report regarding uniform domestic gas pricing. This move, if implemented, is likely to increase marketability of R-LNG in the country.

## Outlook and valuation

For 2QFY2012, PLNG reported strong revenue and profit growth. However, the company's capacity utilization at Dahej terminal (106%) almost peaked in 2QFY2012, indicating a further increase in volume growth will remain capped in the near term. Nevertheless, demand for natural gas remains robust in India, while domestic supply fails to meet the shortfall, thus boosting prospects for PLNG's business. However, we believe the current rich valuations discount the robust growth prospects of PLNG. The stock is currently trading at 11.8x FY2012E and 11.7x FY2013E EPS. **We maintain our Neutral view on the stock.**

### Exhibit 6: Angel EPS forecast vs. consensus

	Angel forecast	Bloomberg consensus	Variation (%)
<b>FY2012E</b>	13.7	12.0	14.5
<b>FY2013E</b>	13.8	12.8	8.2

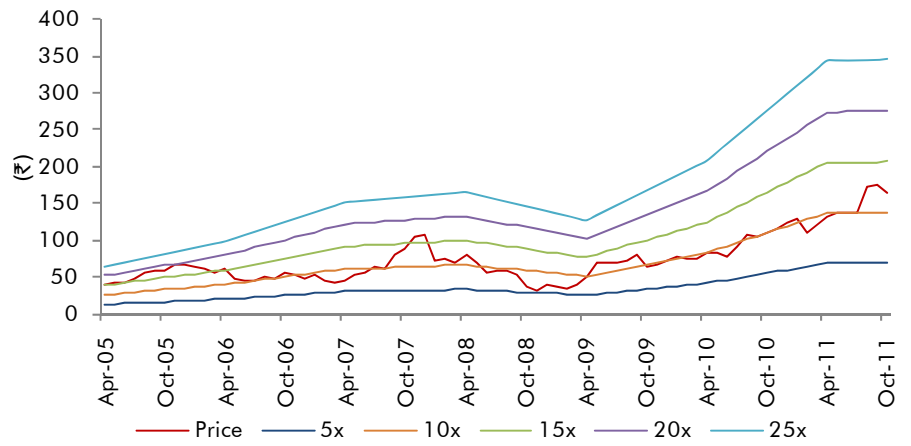
Source: Company, Angel Research

### Exhibit 7: Recommendation summary

Companies	CMP	TP	Reco	Mcap	Upside	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(₹)	(₹)				(₹ cr)	(%)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Ind. Gas	396	-	Neutral	5,537	-	16.8	15.8	4.4	3.6	9.0	8.2	29.1	25.3	33.1	31.0
GSPL	97	117	Buy	5,446	21	9.5	8.8	2.2	1.8	6.1	5.4	25.6	22.7	23.5	22.3
Gujarat Gas	421	-	Neutral	5,396	-	18.0	16.2	5.4	4.6	10.2	9.0	32.6	30.7	34.0	32.9
<b>Petronet LNG</b>	<b>161</b>	<b>-</b>	<b>Neutral</b>	<b>12,105</b>	<b>-</b>	<b>11.8</b>	<b>11.7</b>	<b>3.4</b>	<b>2.7</b>	<b>7.7</b>	<b>7.0</b>	<b>33.1</b>	<b>26.1</b>	<b>23.7</b>	<b>20.4</b>

Source: Company, Angel Research

**Exhibit 8: One-year forward P/E**



Source: Company, Angel Research

**Profit & loss statement**

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>Total income</b>	<b>6,555</b>	<b>8,429</b>	<b>10,649</b>	<b>13,133</b>	<b>20,642</b>	<b>24,221</b>
% chg	19.0	28.6	26.3	23.3	57.2	17.3
<b>Total Expenditure</b>	<b>5,689</b>	<b>7,527</b>	<b>9,803</b>	<b>11,981</b>	18,806	22,256
Net Raw Materials	5,566	7,376	9,665	11,801	18,578	21,993
Personnel	21	20	20	31	34	40
Other	102	132	117	149	194	223
<b>EBITDA</b>	<b>866</b>	<b>901</b>	<b>846</b>	<b>1,152</b>	<b>1,836</b>	<b>1,965</b>
% chg	33.7	4.1	(6.1)	36.1	59.4	7.0
(% of Net Sales)	13.2	10.7	7.9	8.8	8.9	8.1
Depreciation & Amortization	102	103	161	185	199	286
<b>EBIT</b>	<b>764</b>	<b>799</b>	<b>686</b>	<b>967</b>	<b>1,637</b>	<b>1,679</b>
% chg	39.9	4.6	(14.2)	41.1	69.3	2.6
(% of Net Sales)	11.7	9.5	6.4	7.4	7.9	6.9
Interest & other Charges	102	101	184	193	225	259
Other Income	54	77	98	68	92	96
(% of PBT)	7.5	9.9	16.3	8.1	6.1	6.4
Share in profit of Associates	-	-	-	-	-	-
<b>Recurring PBT</b>	<b>715</b>	<b>774</b>	<b>599</b>	<b>842</b>	<b>1,504</b>	<b>1,516</b>
% chg	50.4	8.2	(22.5)	40.5	78.6	0.8
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
<b>PBT (reported)</b>	<b>715</b>	<b>774</b>	<b>599</b>	<b>842</b>	<b>1,504</b>	<b>1,516</b>
Tax	241	256	195	287	474	478
(% of PBT)	33.6	33.0	32.5	34.1	31.5	31.5
<b>PAT (reported)</b>	<b>475</b>	<b>518</b>	<b>404</b>	<b>555</b>	<b>1,030</b>	<b>1,039</b>
<b>PAT after MI (reported)</b>	<b>475</b>	<b>518</b>	<b>404</b>	<b>555</b>	<b>1,030</b>	<b>1,039</b>
<b>ADJ. PAT</b>	<b>475</b>	<b>518</b>	<b>404</b>	<b>555</b>	<b>1,030</b>	<b>1,039</b>
% chg	51.5	9.2	(22.0)	37.3	85.5	0.8
(% of Net Sales)	7.2	6.2	3.8	4.2	5.0	4.3
<b>Basic EPS (₹)</b>	<b>6.3</b>	<b>6.9</b>	<b>5.4</b>	<b>8.3</b>	<b>13.7</b>	<b>13.8</b>
<b>Fully Diluted EPS (₹)</b>	<b>6.3</b>	<b>6.9</b>	<b>5.4</b>	<b>8.3</b>	<b>13.7</b>	<b>13.8</b>
% chg	51.5	9.2	(22.0)	53.2	66.3	0.8

**Balance sheet**

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>SOURCES OF FUNDS</b>						
Equity Share Capital	750	750	750	750	750	750
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	869	1,233	1,485	1,930	2,792	3,653
<b>Shareholders' Funds</b>	<b>1,619</b>	<b>1,983</b>	<b>2,235</b>	<b>2,680</b>	<b>3,542</b>	<b>4,403</b>
Minority Interest	-	-	-	-	-	-
Total Loans	1,578	2,282	2,500	3,216	3,703	4,138
Net Deferred Tax Liability	269	272	326	348	348	348
<b>Total Liabilities</b>	<b>3,465</b>	<b>4,537</b>	<b>5,061</b>	<b>6,244</b>	<b>7,593</b>	<b>8,889</b>
<b>APPLICATION OF FUNDS</b>						
Gross Block	1,972	1,975	3,550	3,554	3,754	6,354
Less: Acc. Depreciation	404	506	667	851	1,050	1,336
<b>Net Block</b>	<b>1,568</b>	<b>1,469</b>	<b>2,883</b>	<b>2,702</b>	<b>2,703</b>	<b>5,018</b>
Capital Work-in-Progress	1,061	1,847	1,318	2,203	3,203	1,403
Goodwill	-	-	-	-	-	-
<b>Investments</b>	<b>547</b>	<b>304</b>	<b>539</b>	<b>1,165</b>	<b>1,165</b>	<b>1,165</b>
Current Assets	1,148	1,810	1,222	1,387	2,329	3,410
Cash	359	658	340	154	469	1,252
Loans & Advances	361	78	152	138	138	138
Other	428	1,074	729	1,095	1,721	2,020
Current liabilities	859	892	901	1,213	1,807	2,107
<b>Net Current Assets</b>	<b>289</b>	<b>917</b>	<b>321</b>	<b>174</b>	<b>521</b>	<b>1,304</b>
Mis. Exp. not written off	-	-	-	-	-	-
<b>Total Assets</b>	<b>3,465</b>	<b>4,537</b>	<b>5,061</b>	<b>6,244</b>	<b>7,593</b>	<b>8,889</b>

**Cash flow statement**

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	715	774	599	906	1,504	1,516
Depreciation	102	103	161	185	199	286
Change in Working Capital	159	(338)	303	(108)	(32)	1
Less: Other income	(50)	(73)	(45)	142	-	-
Direct taxes paid	(169)	(266)	(164)	(218)	(474)	(478)
<b>Cash Flow from Operations</b>	<b>757</b>	<b>199</b>	<b>854</b>	<b>907</b>	<b>1,197</b>	<b>1,326</b>
(Inc.)/ Dec. in Fixed Assets	(604)	(788)	(1,047)	(889)	(1,200)	(800)
(Inc.)/ Dec. in Investments	(261)	246	(234)	(626)	-	-
Other income	41	69	45	39	-	-
<b>Cash Flow from Investing</b>	<b>(823)</b>	<b>(473)</b>	<b>(1,236)</b>	<b>(1,477)</b>	<b>(1,200)</b>	<b>(800)</b>
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	194	704	218	716	487	435
Dividend Paid (Incl. Tax)	(110)	(132)	(154)	(131)	(169)	(177)
Others				(202)	-	-
<b>Cash Flow from Financing</b>	<b>85</b>	<b>572</b>	<b>65</b>	<b>383</b>	<b>318</b>	<b>258</b>
Inc./(Dec.) in Cash	18	299	(317)	(187)	315	783
<b>Opening Cash balances</b>	<b>340</b>	<b>359</b>	<b>658</b>	<b>340</b>	<b>154</b>	<b>469</b>
<b>Closing Cash balances</b>	<b>359</b>	<b>658</b>	<b>340</b>	<b>154</b>	<b>469</b>	<b>1,252</b>

**Key Ratios**

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
<b>Valuation Ratio (x)</b>						
P/E (on FDEPS)	25.5	23.3	29.9	19.5	11.8	11.7
P/CEPS	21.0	19.5	21.4	15.1	9.8	9.1
P/BV	7.5	6.1	5.4	4.5	3.4	2.7
Dividend yield (%)	0.9	1.1	1.1	1.1	1.2	1.3
EV/Sales	1.9	1.6	1.3	1.1	0.7	0.6
EV/EBITDA	14.8	14.9	16.2	11.5	7.7	7.0
EV/Total Assets	3.7	3.0	2.7	2.2	1.9	1.6
<b>Per Share Data (₹)</b>						
EPS (Basic)	6.3	6.9	5.4	8.3	13.7	13.8
EPS (fully diluted)	6.3	6.9	5.4	8.3	13.7	13.8
Cash EPS	7.7	8.3	7.5	10.7	16.4	17.7
DPS	1.5	1.8	1.8	1.8	1.9	2.0
Book Value	21.6	26.4	29.8	35.7	47.2	58.7
<b>Dupont Analysis (%)</b>						
EBIT margin	11.7	9.5	6.4	7.4	7.9	6.9
Tax retention ratio	66.4	67.1	67.5	68.4	68.5	68.5
Asset turnover (x)	2.7	2.7	2.7	2.9	3.8	8.1
ROIC (Post-tax)	20.9	17.5	11.9	14.5	20.6	38.6
Cost of Debt (Post Tax)	4.6	3.5	5.2	4.6	4.5	4.5
Leverage (x)	0.7	0.8	0.8	0.8	0.3	0.2
Operating ROE	32.2	28.8	17.5	22.5	26.0	46.0
<b>Returns (%)</b>						
ROCE (Pre-tax)	24.0	20.0	14.3	18.2	23.7	20.4
Angel ROIC (Pre-tax)	46.3	49.5	29.9	36.9	59.8	60.9
ROE	32.8	28.8	19.2	25.2	33.1	26.1
<b>Turnover ratios (x)</b>						
Asset Turnover (Gross Block)	3.3	4.3	3.9	3.7	5.6	4.8
Inventory / Sales (days)	8.4	10.3	10.4	6.5	5.6	6.4
Receivables (days)	18.5	21.7	20.1	18.8	19.3	21.8
Payables (days)	26.5	28.3	27.6	27.1	25.8	29.2
WC cycle (ex-cash) (days)	2.5	4.1	4.1	0.0	0.6	0.4
<b>Solvency ratios (x)</b>						
Net debt to equity	0.4	0.7	0.7	0.7	0.6	0.4
Net debt to EBITDA	0.8	1.5	1.9	1.6	1.1	0.9
Interest Coverage (EBIT/Interest)	7.5	7.9	3.7	5.3	7.3	6.5

Research Team Tel: 022 - 3935 7800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

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### Disclosure of Interest Statement

### Petronet LNG

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.

<b>Ratings (Returns) :</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	