

# Petronet LNG Ltd

September 2018

3 Year  
XIRR RETURNS

28%

5 Year  
XIRR RETURNS

33%

10 Year  
XIRR RETURNS

29%

## Risks and concerns

- Any gas supply disruption from Qatar could hurt earnings
- Concerns over long-term availability of LNG at reasonable prices
- Capping of margins will negatively affect earnings and growth

## Valuation & prospect

- Stock trades at attractive valuations for RoE of more than 20%
- The demand story for LNG is long term in nature
- Strong parental support, consistent cash flows, and healthy return ratios to bring comfort

## Why to start SIP in Petronet LNG?

### 1. India's largest importer of liquefied natural gas (LNG)

- The company has two RLNG terminals: Dahej (15 mmtpa) and Kochi (5 mmtpa)
- Currently, Petronet and GAIL are the only operating players in this business

### 2. Supported by sales contracts and high imports

- Firm supply contract with Qatar's RasGas
- Import of LNG on a spot basis (generally with better margins) depending on domestic demand
- Import of cargos on behalf of other importers for a fee
- Regasification charges for LNG processing to rise by 5% annually for Dahej and Kochi

### 3. Safe and economical means of transporting natural gas

- Cooling the gas to minus 162 degrees Celsius reduces it to 1/600th of its original volume
- LNG is a clear, non-toxic liquid; good option for locations not reached by pipelines
- LNG is loaded on specialised ships and delivered to regasification terminal
- LNG is reheated at the terminal, turned into gas, and distributed through a pipeline network

### 4. Prospects for LNG are better now

- KG D6 production has decreased and should remain subdued over the medium term
- Consequently, consumption of R-LNG has increased (50% of India's total gas consumption)
- Costlier than domestic gas but economical in comparison to liquid fuels

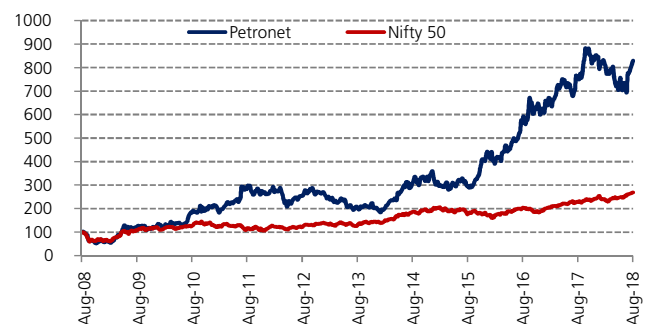
### 5. Increased capacities should drive up Petronet's earnings

- Higher volumes through expansion expected at Dahej
- Higher operating rates likely at Kochi terminal
- Good progress on construction of pipeline to transport gas from Kochi
- Future investments in the overseas LNG market could ensure geographical diversification
- Launch of 20 LNG fuel stations to boost LNG consumption in India

FINANCIALS (Rs.cr)	FY16	FY17	FY18
Net Sales	27,133	24,963	30916
Growth	-31.3%	-8.0%	23.8%
EBITDA	1,605	2,939	3,630
EBITDA margin	5.9%	11.8%	11.7%
PBT	1,200	2,360	3,088
Net profit	914	1,706	2,110
EPS (Rs.)	10.9	11.4	14.1
EPS Growth	4.0%	4.0%	23.7%
BVPS (Rs.)	43.0	55.0	65.0
DPS (Rs.)	2.5	2.5	4.5
ROE (%)	13.3	22.7	22.1
ROCE (%)	10.0	17.1	18.5

Source: Capitaline, Kotak Institutional Equities and Kotak PCG

### 10 Year Performance



Source: Company, Kotak PCG

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## RATING SCALE

### Definitions of ratings

**XIRR returns** : These are extended internal rate of return (XIRR) returns generated by the stock over various time frames. For XIRR returns we have assumed investment of Rs.10,000 made on a monthly basis for different time frames. For example XIRR Return over 3 years means returns on investment of Rs,10,000 done per month for 3 years (including dividends).

**Note** : The time frame and investment objective for auto invest stocks is five years with decent expected XIRR returns. Since the time frame is very long (i.e. 5 years) we have not provided any target price. To this extent the views and write-ups prepared in this document may or may not match with the views of Kotak Institutional Equities research or Kotak Private Client Group research for the company.

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