

January 14, 2013

 Deepak Pareek
 deepakpareek@plindia.com
 +91-22-66322241

 Dhrushil Jhaveri
 dhrushiljhaveri@plindia.com
 +91-22-66322232

Rating	Accumulate
Price	Rs165
Target Price	Rs180
Implied Upside	9.1%
Sensex	19,906
Nifty	6,024

(Prices as on January 14, 2013)
Trading data

Market Cap. (Rs bn)	123.7
Shares o/s (m)	750.0
3M Avg. Daily value (Rs m)	216.8

Major shareholders

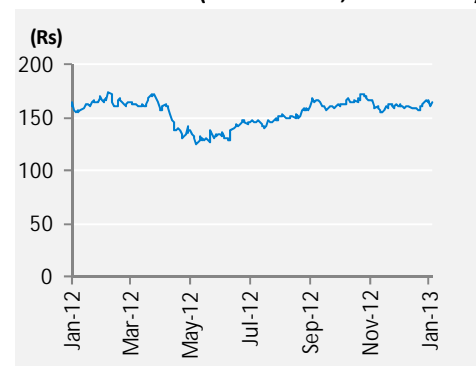
Promoters	50.00%
Foreign	13.99%
Domestic Inst.	8.74%
Public & Other	27.27%

Stock Performance

(%)	1M	6M	12M
Absolute	2.9	11.5	5.3
Relative	(0.2)	(4.2)	(17.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2014	13.3	14.7	-9.9
2015	16.1	17.0	-5.2

Price Performance (RIC: PLNG.BO, BB: PLNG IN)


Source: Bloomberg

Petronet LNG's (PLNG's) Q3FY13 result was better than our expectation on the EBITDA and bottom-line front. Top-line registered a growth of 33.1% YoY to Rs84.2bn (Rs63.30bn) on account of 38% YoY growth in realisations, while the volumes were down on YoY basis at 140.6TBTU. EBITDA/TBTU witnessed an expansion, from Rs34.7/TBTU in Q3FY12 to Rs37.6/TBTU in Q3FY13, broadly in line with our estimates. Bottom-line, during the quarter, stood at Rs3,185m (Rs2,954m), an increase of 7.8% YoY as against our expectation of Rs3,003m.

- Confluence of higher spot marketing margins and higher volumes:** Our calculation suggests that the company made gross marketing profits on spot volumes of Rs1,663m (27.4% of the reported gross margins for the quarter). Spot volumes increased ~11.3% QoQ to 30.5 TBTU, while tolling volumes declined QoQ to 13.5TBTU. Despite higher spot volumes QoQ, lower marketing margins resulted in EBITDA per TBTU declining to Rs37.6 per TBTU (-2.0% QoQ).
- Outlook:** We believe the benefit of strong marketing margins and utilizations at Dahej is adequately captured into the CMP and stock price appreciation from the current juncture will be contingent on positive developments on Kochi terminal (increased linkages at affordable prices), coupled with timely execution of the Phase-II pipeline. In our view, muted earnings growth over the next couple of years, along with potential regulatory risks (overhang of potential regulation of the re-gasification tariffs as well as marketing margins), outweighs potential positive triggers. We maintain '**Accumulate**' with DCF-based target price of Rs180/share, implying target P/E of 12.4x FY14.

Key financials (Y/e March)

	2012	2013E	2014E	2015E
Revenues (Rs m)	227,039	323,934	386,419	431,635
Growth (%)	72.0	42.7	19.3	11.7
EBITDA (Rs m)	18,373	19,790	21,279	25,377
PAT (Rs m)	10,795	11,772	9,939	12,083
EPS (Rs)	14.4	15.7	13.3	16.1
Growth (%)	74.3	9.0	(15.6)	21.6
Net DPS (Rs)	2.5	2.9	3.3	3.8

Profitability & Valuation

	2012	2013E	2014E	2015E
EBITDA margin (%)	8.1	6.1	5.5	5.9
RoE (%)	34.8	29.6	20.7	21.6
RoCE (%)	19.4	16.8	13.3	14.1
EV / sales (x)	0.6	0.5	0.4	0.3
EV / EBITDA (x)	7.8	7.7	7.2	5.9
PE (x)	11.5	10.5	12.4	10.2
P / BV (x)	3.5	2.8	2.4	2.1
Net dividend yield (%)	1.5	1.7	2.0	2.3

Source: Company Data; PL Research

Exhibit 1: Q3FY13 Result Overview (Rs m)

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	YoY gr. (%)
Net Sales	84,228	63,303	33.1	75,486	230,012	163,204	40.9
Expenditure							
Raw material	78,162	57,006	37.1	69,506	212,692	146,474	45.2
<i>% of net sales</i>	<i>92.8</i>	<i>90.1</i>		<i>92.1</i>	<i>92.5</i>	<i>89.7</i>	
Personnel cost	76	64	18.9	87	233	190	23.0
<i>% of net sales</i>	<i>0.1</i>	<i>0.1</i>		<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	
Other operating expenses	701	1,200	(41.6)	710	2,049	2,643	(22.5)
<i>% of net sales</i>	<i>0.8</i>	<i>1.9</i>		<i>0.9</i>	<i>0.9</i>	<i>1.6</i>	
EBITDA	5,289	5,032	5.1	5,184	15,038	13,897	8.2
<i>Margin (%)</i>	<i>6.3</i>	<i>7.9</i>		<i>6.9</i>	<i>6.5</i>	<i>8.5</i>	
Depreciation	472	463	1.9	467	1,398	1,384	1.0
EBIT	4,817	4,570	5.4	4,717	13,639	12,513	9.0
Interest	291	345	(15.5)	317	937	1,267	(26.0)
Other Income	149	164	(9.1)	248	663	628	5.6
PBT	4,675	4,389	6.5	4,648	13,365	11,874	12.6
Total taxes	1,490	1,435	3.8	1,500	4,330	3,750	15.5
<i>ETR (%)</i>	<i>31.9</i>	<i>32.7</i>		<i>32.3</i>	<i>32.4</i>	<i>31.6</i>	
Rep. PAT	3,185	2,954	7.8	3,148	9,035	8,124	11.2
Exceptional Items	-	-		-	-	-	
Adj. PAT	3,185	2,954	7.8	3,148	9,035	8,124	11.2

Source: Company Data, PL Research

Exhibit 2: Operating Metrics

Y/e March	Q3FY13	Q3FY12	YoY gr. (%)	Q2FY13	9MFY13	9MFY12	YoY gr. (%)
Contracted Sales (TBTUs)	96.6	98.2	(1.7)	90.2	283	279	1.5
Spot Volumes (TBTUs)	30.5	24.9	22.4	27.4	78	77	1.9
Tolling Volumes (TBTUs)	13.5	21.8	(38.0)	17.4	41	58	(28.3)
EBITDA/TBTU	37.6	34.7	8.3	38.4	37.4	33.6	11.1

Source: Company Data, PL Research

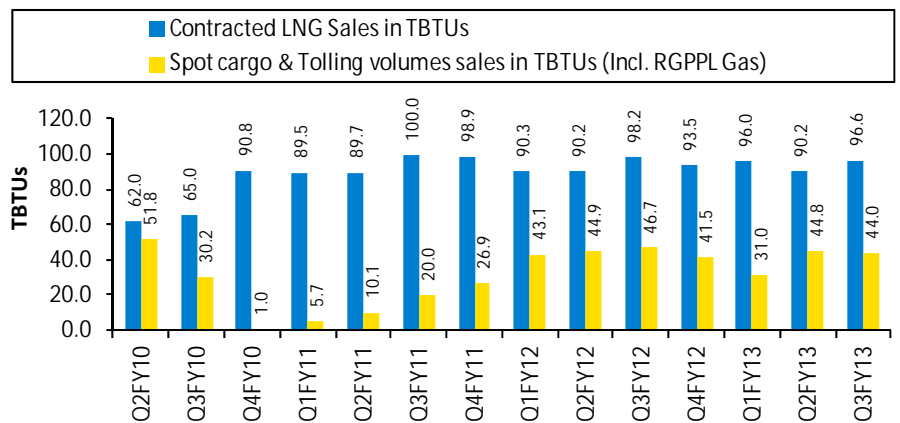
Key concall highlights

Kochi terminal developments: Kochi terminal is expected to be commissioned in Q1CY13. Of the total capex of Rs42bn, around Rs6.0bn is left to be spent on the project. Phase-1 pipeline for Kochi terminal has been completed, while customers on Phase-1 are preparing their plants to be able to utilize RLNG (1.8mmscmd in take capacity). Company expected lower utilization of the terminal for first couple of years and expects conservative utilisation of 40% in FY16. Management indicated that regas margins for the new Kochi terminal will be higher than Dahej but market forces will also play its role in initial few years. An indication of lower regas margins keeping in mind affordability of the customer was communicated by the management.

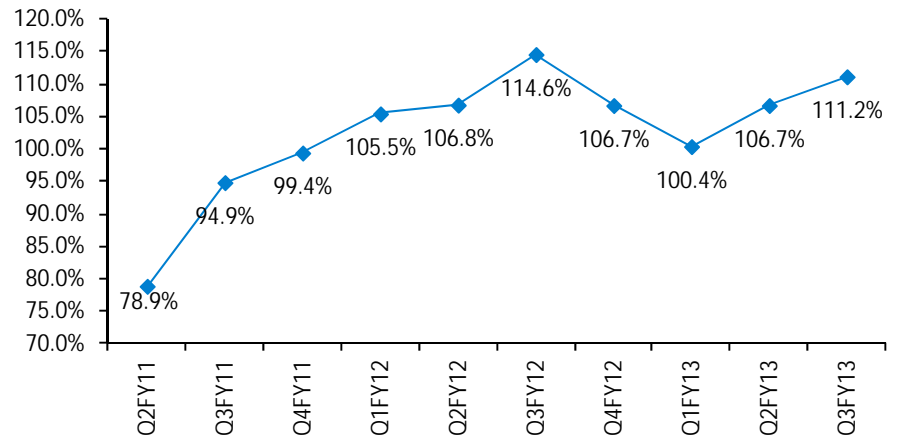
Dahej volume mix outlook: Company has provided 16 slots and 12 slots, respectively, to GAIL and GSPC. Thus, there is shift in the volumes mix, going ahead, from 75:25 (spot to tolling volumes) as stated in earlier concall to almost 50:50 mix for CY13. As per our estimates, adverse impact of the volume mix gets offsetted by upgrade in marketing margin estimate for FY13-FY15.

Dahej expansion update: The Company shortlisted the EPC contract for expansion after receiving environmental clearance. Thus, the expansion is expected to come on stream by the end of CY15, while the jetty is expected to come on stream by end of 2013/early 2014. Incremental capacity addition will be ~2MMTPA on commissioning of jetty.

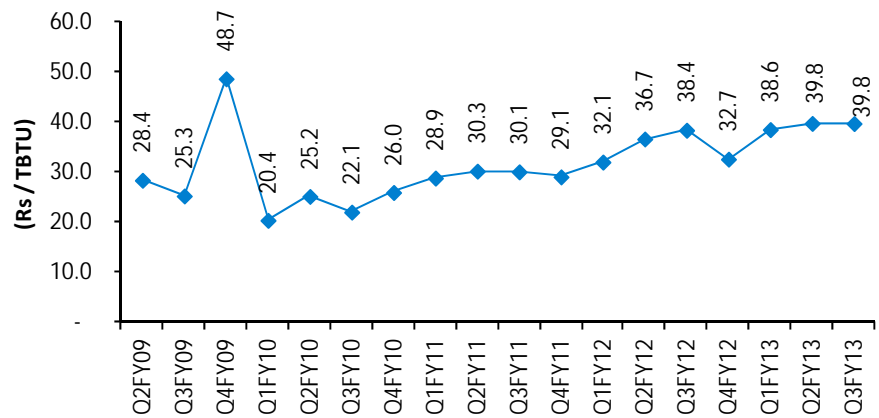
Exhibit 3: R-LNG Volumes



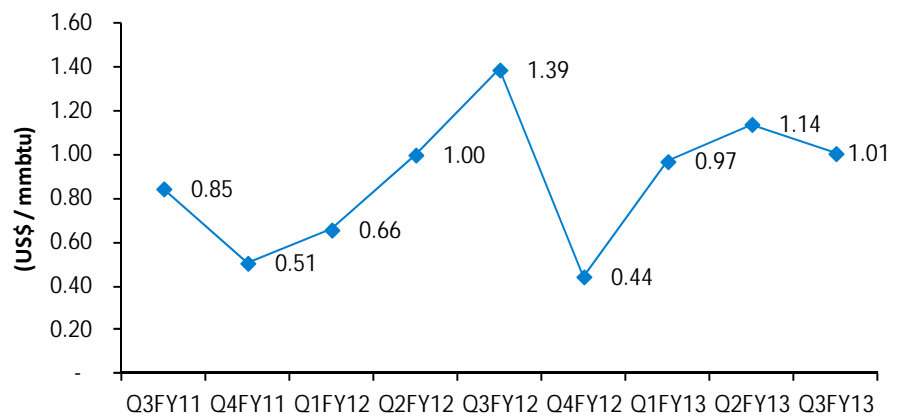
Source: Company Data, PL Research

Exhibit 4: Capacity Utilisation


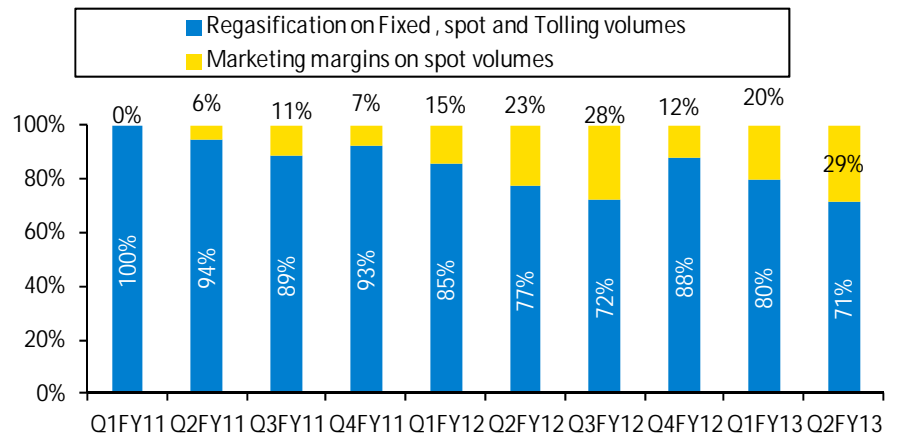
Source: Company Data, PL Research

Exhibit 5: Netback margin trend


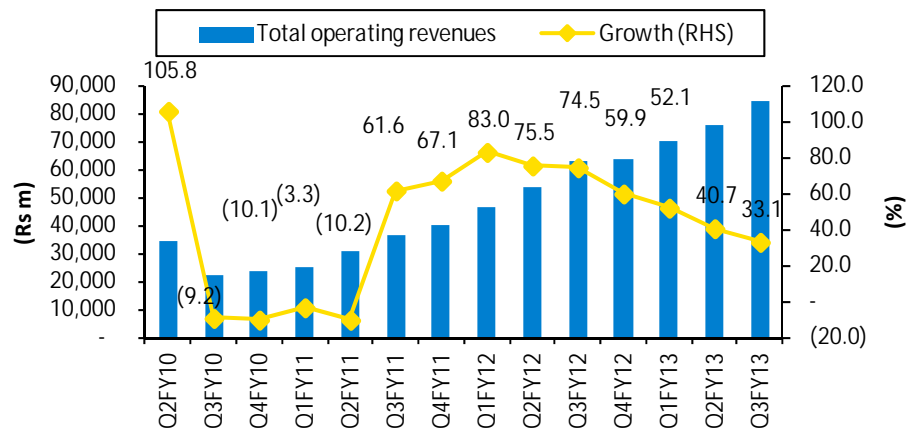
Source: Company Data, PL Research

Exhibit 6: Marketing margins on Spot Gas


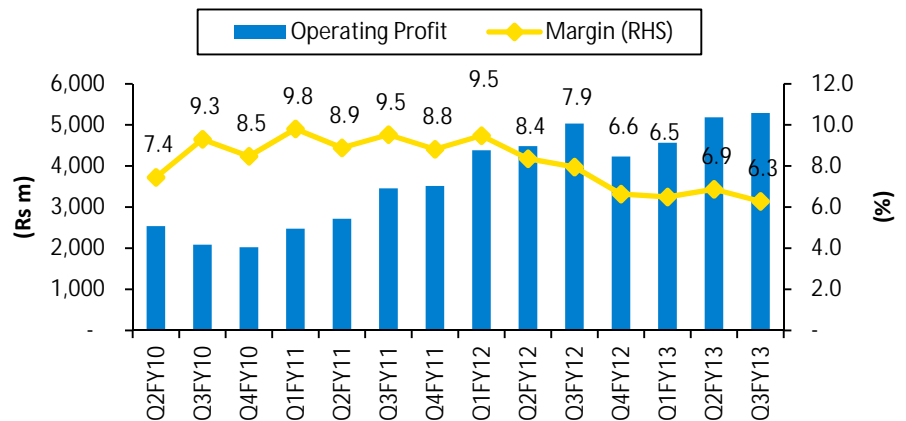
Source: Company Data, PL Research

Exhibit 7: Gross Margin Composition


Source: Company Data, PL Research

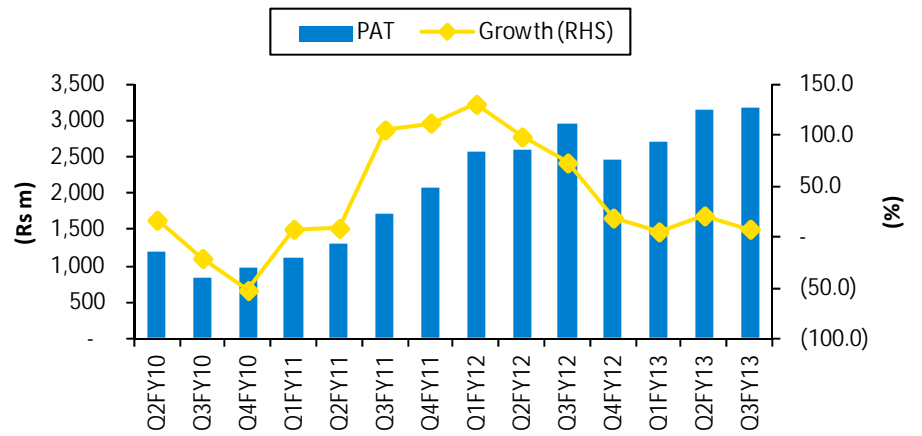
Exhibit 8: Operating revenue – Growth trend (YoY)


Source: Company Data, PL Research

Exhibit 9: Operating performance trend


Source: Company Data, PL Research

Exhibit 10: PAT – Growth trend (YoY)



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2012	2013E	2014E	2015E
Net Revenue	227,039	323,934	386,419	431,635
Raw Material Expenses	205,867	300,801	360,998	401,701
Gross Profit	21,171	23,133	25,421	29,934
Employee Cost	298	467	547	602
Other Expenses	2,501	2,876	3,595	3,955
EBITDA	18,373	19,790	21,279	25,377
Depr. & Amortization	1,842	1,842	4,274	4,669
Net Interest	1,609	1,271	3,372	4,315
Other Income	849	950	1,250	1,700
Profit before Tax	15,771	17,627	14,883	18,093
Total Tax	4,975	5,855	4,944	6,010
Profit after Tax	10,795	11,772	9,939	12,083
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	10,795	11,772	9,939	12,083
Avg. Shares O/S (m)	750.0	750.0	750.0	750.0
EPS (Rs.)	14.4	15.7	13.3	16.1

Cash Flow Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
C/F from Operations	12,386	11,530	16,438	19,357
C/F from Investing	203	(15,200)	(11,400)	(8,700)
C/F from Financing	(4,325)	5,952	1,201	(2,349)
Inc. / Dec. in Cash	8,264	2,283	6,239	8,308
Opening Cash	1,575	9,839	12,122	18,361
Closing Cash	9,839	12,122	18,361	26,670
FCFF	12,595	10,741	(40,780)	15,862
FCFE	13,043	20,470	(33,325)	21,142

Key Financial Metrics

Y/e March	2012	2013E	2014E	2015E
Growth				
Revenue (%)	72.0	42.7	19.3	11.7
EBITDA (%)	51.1	7.7	7.5	19.3
PAT (%)	74.3	9.0	(15.6)	21.6
EPS (%)	74.3	9.0	(15.6)	21.6
Profitability				
EBITDA Margin (%)	8.1	6.1	5.5	5.9
PAT Margin (%)	4.8	3.6	2.6	2.8
RoCE (%)	19.4	16.8	13.3	14.1
RoE (%)	34.8	29.6	20.7	21.6
Balance Sheet				
Net Debt : Equity	0.6	0.6	0.6	0.4
Net Wrkng Cap. (days)	(3)	1	1	1
Valuation				
PER (x)	11.5	10.5	12.4	10.2
P / B (x)	3.5	2.8	2.4	2.1
EV / EBITDA (x)	7.8	7.7	7.2	5.9
EV / Sales (x)	0.6	0.5	0.4	0.3
Earnings Quality				
Eff. Tax Rate	31.5	33.2	33.2	33.2
Other Inc / PBT	5.4	5.4	8.4	9.4
Eff. Depr. Rate (%)	5.2	5.2	4.7	5.2
FCFE / PAT	120.8	173.9	(335.3)	175.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2012	2013E	2014E	2015E
Shareholder's Funds	35,198	44,464	51,521	60,289
Total Debt	30,340	40,069	47,524	52,804
Other Liabilities	3,630	4,098	4,494	4,975
Total Liabilities	69,168	88,631	103,538	118,068
Net Fixed Assets	58,115	72,422	80,798	86,529
Goodwill	—	—	—	—
Investments	1,399	1,399	1,399	1,399
Net Current Assets	9,654	14,810	21,341	30,140
<i>Cash & Equivalents</i>	<i>9,839</i>	<i>12,122</i>	<i>18,361</i>	<i>26,670</i>
<i>Other Current Assets</i>	<i>22,758</i>	<i>31,345</i>	<i>36,915</i>	<i>40,973</i>
<i>Current Liabilities</i>	<i>22,943</i>	<i>28,657</i>	<i>33,935</i>	<i>37,503</i>
Other Assets	—	—	—	—
Total Assets	69,168	88,631	103,538	118,068

Quarterly Financials (Rs m)

Y/e March	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Revenue	63,754	70,298	75,486	84,228
EBITDA	4,230	4,565	5,184	5,289
<i>% of revenue</i>	<i>6.6</i>	<i>6.5</i>	<i>6.9</i>	<i>6.3</i>
Depr. & Amortization	458	459	467	472
Net Interest	342	329	317	291
Other Income	221	266	248	149
Profit before Tax	3,651	4,042	4,648	4,675
Total Tax	1,200	1,340	1,500	1,490
Profit after Tax	2,451	2,702	3,148	3,185
Adj. PAT	2,451	2,702	3,148	3,185

Key Operating Metrics

Y/e March	2012	2013E	2014E	2015E
Contracted Sales (TBTUs)	372	409	505	630
Spot LNG (TBTUs)	103	96	250	222
EBITDA/MMBTU	34	36	36	36

Source: Company Data, PL Research.

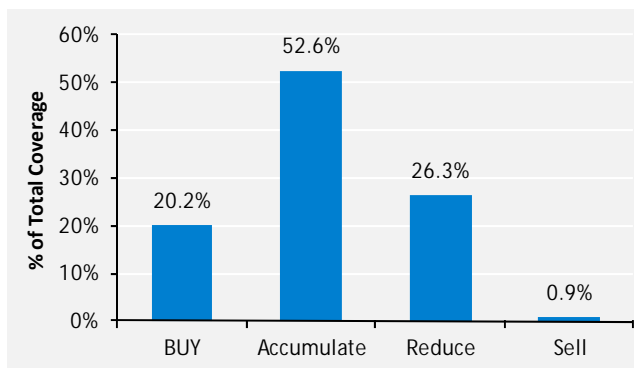


Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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