Petronet LNG

Market panics over PNGRB case study

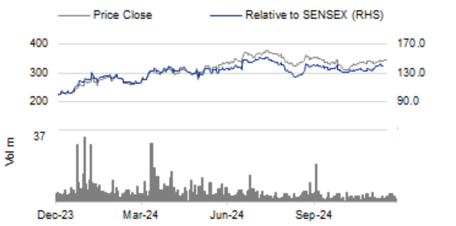
- The 5% decline in the stock price was driven by a misunderstanding of the PNGRB case study, which was an analytical report and not a formal proposal.
- Regasification tariffs constitute only 4-5% of the total cost to consumers and regulating them would have a minimal impact on pricing.
- EPS to post ~19% CAGR over FY24-27F led by volume growth of ~13%.

India

ADD *(no change)*

Consensus ratings*:	Buy 10 Hold 12 Sell 14
Current price:	Rs328
Target price:	Rs519
Previous target:	Rs519
Up/downside:	58.2%
InCred Research / Consensus:	56.5%
Reuters:	PLNG.NS
Bloomberg:	PLNG IN
Market cap:	US$5,733m
	Rs491,625m
Average daily turnover:	US$15.0m
	Rs1285.2m
Current shares o/s:	1,500.0m
Free float:	50.0%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.2)	(4.8)	44.6
Relative (%)	(2.1)	(1.7)	29.1

Major shareholders	% held
BPCL/GAIL/IOC/ONGC each	12.5
SBI PSU	6.0
Kotak MF	2.3

PNGRB's case study on regasification tariffs creates panic in market

The recent news surrounding the PNGRB case study on LNG regasification tariffs has led to significant concern in the market, particularly impacting Petronet LNG, which witnessed a 5% drop in its stock price. The root of the market panic lies in fears that the Petroleum and Natural Gas Regulatory Board (PNGRB) may move forward on regulating regasification tariffs, potentially altering the pricing structure and profitability of established terminals like Petronet LNG's Dahej terminal. However, it is important to clarify that the PNGRB case study is not an official regulatory proposal or a directive. Rather, it is an analytical report designed to review and compare the current regasification tariff structures in India with global benchmarks. The intent behind the report was to encourage dialogue within the industry about potential optimization in tariff structure rather than to propose any immediate regulatory changes or enforcement measures. The market's reaction was therefore based on a misunderstanding of the case study's purpose.

Why PNGRB can't regulate regasification tariffs currently?

The 2006 Act grants the PNGRB the authority to regulate transportation tariffs for natural gas pipelines but excludes regasification tariffs. Sections 11, 12, and 22 of the Act provide PNGRB with jurisdiction over transportation tariffs and approval of new gas infrastructure capacities, but not regasification. For PNGRB to regulate regasification tariffs, a legal amendment is required, making any immediate regulatory action unfeasible. Moreover, regulating regasification tariffs is ineffective as it constitutes only about 4-5% of the total cost borne by consumers. The main cost drivers are global LNG prices and transportation charges, which means lowering regasification tariffs would have a minimal impact on reducing the final consumer cost or increasing consumption. Lastly, implementing uniform tariffs across terminals would further penalize the low utilized terminals like Kochi, Dhamra, Dabhol etc., with some running below the breakeven level at the current regas tariffs, and having a minimal effect on the Dahej terminal which has the lowest tariff.

Volume tailwind ahead; reiterate ADD rating with a TP of Rs519

The expected 10.7% yoy regas volume growth over FY24-30F, led by low global LNG prices and favourable natural gas policies of the government, is expected to boost the company's EPS by ~19% CAGR over FY24-27F. We reiterate our ADD rating on the stock with a target price of Rs519. However, any delay in new liquefaction capacity addition and non-utilization of the Kochi terminal pose downside risks to our earnings estimates.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	598,994	527,293	536,043	668,496	678,272
Operating EBITDA (Rsm)	48,540	52,055	65,040	88,612	97,622
Net Profit (Rsm)	30,032	32,605	43,189	60,805	67,561
Core EPS (Rs)	20.0	21.7	28.8	40.5	45.0
Core EPS Growth	(11.7%)	8.6%	32.5%	40.8%	11.1%
FD Core P/E (x)	16.37	15.08	11.38	8.09	7.28
DPS (Rs)	11.0	11.0	11.0	11.0	11.0
Dividend Yield	3.39%	3.36%	3.36%	3.36%	3.36%
EV/EBITDA (x)	10.80	9.69	8.41	6.45	6.12
P/FCFE (x)	33.63	49.04	22.53	31.59	27.61
Net Gearing	21.5%	7.4%	30.1%	35.1%	37.9%
P/BV (x)	3.22	2.82	2.66	2.15	1.76
ROE	20.8%	20.0%	24.1%	29.4%	26.6%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Market panics over PNGRB case study

PNGRB's potential move to regulate regasification tariffs sends shockwaves through Petronet LNG stock

Recent market movements have been driven by media reports suggesting that the Petroleum and Natural Gas Regulatory Board (PNGRB) might be considering regulating LNG regasification tariffs in India. This caused a significant reaction in the market, particularly concerning Petronet LNG, which saw a drop in its stock price by ~5%. This market panic is based on potential implications of the PNGRB's move to regulate regasification tariffs, which could impact Petronet LNG's profit margin and future pricing flexibility.

- **Market reaction**: The fear is that if PNGRB takes control of setting regasification tariffs, it could limit Petronet LNG's ability to increase its tariffs in line with rising operational costs, thus compressing the company's margin. The growing global LNG market competition and the desire to make India's LNG terminals more attractive to customers are contributing to rising concerns over regulatory changes.
- **Tariff-capping fears**: There is also anxiety that PNGRB might impose caps on regasification charges, which could make high-utilization terminals like Dahej less profitable in comparison to competitors operating at lower tariffs. This scenario caused undue concern among investors, reflecting in the stock price movement.

Clearing the air - PNGRB's case study was not a regulatory directive but an analytical review

It is crucial to clarify that the PNGRB case study which caused the panic is not an official directive or a policy proposal. The case study published by PNGRB was an analytical report that aimed to review and assess the existing regasification tariff structure in India and compare them with global standards. It was an information piece that provided insights into the disparities in regasification charges across different terminals globally, particularly focusing on India's higher tariffs compared to European and Middle Eastern terminals.

- **Nature of the case study**: The case study was not a comment or directive letter from PNGRB to the industry or a regulatory move. Rather, it was an internal study meant to highlight the tariff differences and encourage further dialogue on optimizing tariff structure in India.
- **No official policy change**: The study did not propose any regulatory changes or immediate enforcement measures. Thus, the panic created in the market was based on a misunderstanding of the case study's true purpose.

PNGRB Act limits regulation to transportation tariffs and excludes regasification charges

The PNGRB Act of 2006 provides PNGRB with the authority to regulate tariffs, but this regulation is strictly limited to transportation tariffs for natural gas pipelines and related infrastructure, not for regasification tariffs.

- **Section 22**: This section empowers PNGRB to regulate transportation tariffs for pipelines used for transmission and distribution of natural gas. It clearly states that PNGRB's jurisdiction is over transportation and does not extend to regasification tariffs.
- **Section 12, 15 &16**: Under these sections, the PNGRB has the right to review and approve new capacities for gas transmission infrastructure, including pipelines and LNG terminals. This includes reviewing the feasibility and efficiency of new projects but does not cover the regulation of regasification charges.
- **Need for amendment**: For PNGRB to regulate regasification tariffs, there is a need for a specific amendment to the PNGRB Act. As of now, regasification tariffs are outside PNGRB's jurisdiction, and any changes to this framework

would require a formal amendment to the legislation. This means that no immediate regulatory action can be taken by PNGRB to control regasification tariffs without a legal change.

Why PNGRB felt the need to address regasification tariff disparities in its case study?

- **Comparison with global peers:** Indian terminals like Dahej and Hazira are charging nearly six times the regasification fees compared to European terminals like Zeebrugge and Gate. This stark contrast could result in a competitive disadvantage if global LNG prices drop further, making it difficult for Indian terminals to attract additional volumes.
- **5% yoy increase in regas charge by Petronet LNG despite highest utilization among its peers:-** Petronet LNG's Dahej terminal, the largest in India, currently charges approximately US$0.75/mmBtu for regasification, with an expected increase to US$1/mmBtu by 2030F.
- **Purpose of the case study**: The study's purpose was to highlight this price disparity and encourage discussion about how India's LNG sector could become more competitive in the global market. However, the case study was not intended to impose any immediate regulatory actions, but rather to raise awareness of the pricing challenges faced by Indian terminals in comparison to global players.

Figure 1: Comparison of Indian terminal's regas charges vs. global peers

LNG Terminal	Regasification Tariff (US$/mmBtu)	Capacity (bcm)	Utilization Rate
Zeebrugge LNG Terminal (Belgium)	0.2	9	85%
Gate LNG Terminal (Netherlands)	0.12	12	90%
Isle of Grain LNG Terminal (UK)	0.13	15	75%
Montoir-de-Bretagne LNG Terminal (France)	0.17	10	80%
Revithoussa LNG Terminal (Greece)	0.12	7	70%
Dahej LNG Terminal (India)	0.75	22.5	95%
Hazira LNG Terminal (India)	0.75	6.63	85%
Sakai LNG Terminal (Japan)	0.39	0.66	65%
Sengkang LNG Terminal (Indonesia)	0.6	2.65	55%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Why uniform regasification tariffs don't make sense given underutilization and marginal impact on consumer costs

- **Underutilization of terminals**: Many Indian terminals, especially Kochi, are underutilized (operating at just 20.8% of the capacity). Lower tariffs at these terminals would exacerbate the challenge of covering fixed costs, as their per-unit cost remains high due to low utilization.
- **Dahej's competitive position**: On the other hand, Dahej terminal, which is operating at a 95% utilization rate, already charges Rs63/mmBtu, which is among the lowest tariffs in India. This high utilization enables economies of scale and lower operational costs, making Dahej more competitive compared to underutilized terminals.
- **Contribution of regas tariff is hardly ~4-5% in the final price:** Moreover, regulating regasification tariffs is ineffective as it constitutes only about 4-5% of the total cost borne by consumers. The main cost drivers are global LNG prices and transportation charges, which means lowering regasification tariffs would have a minimal impact on reducing the final consumer cost or increasing consumption.

InCred Equities

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**598,994**	**527,293**	**536,043**	**668,496**	**678,272**
Gross Profit	**59,470**	**62,652**	**77,467**	**103,220**	**114,831**
Operating EBITDA	**48,540**	**52,055**	**65,040**	**88,612**	**97,622**
Depreciation And Amortisation	(7,643)	(7,766)	(7,842)	(7,842)	(7,842)
Operating EBIT	**40,896**	**44,289**	**57,198**	**80,770**	**89,780**
Financial Income/(Expense)	(3,305)	(2,897)	(2,897)	(2,897)	(2,897)
Pretax Income/(Loss) from Assoc.	400	400	400	400	400
Non-Operating Income/(Expense)	2,984	3,019	3,057	3,099	3,145
Profit Before Tax (pre-EI)	**40,976**	**44,811**	**57,758**	**81,372**	**90,428**
Exceptional Items					
Pre-tax Profit	**40,976**	**44,811**	**57,758**	**81,372**	**90,428**
Taxation	(10,944)	(12,207)	(14,569)	(20,567)	(22,867)
Exceptional Income - post-tax					
Profit After Tax	**30,032**	**32,605**	**43,189**	**60,805**	**67,561**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**30,032**	**32,605**	**43,189**	**60,805**	**67,561**
Recurring Net Profit	30,032	32,605	43,189	60,805	67,561
Fully Diluted Recurring Net Profit	**30,032**	**32,605**	**43,189**	**60,805**	**67,561**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	48,540	52,055	65,040	88,612	97,622
Cash Flow from Invt. & Assoc.	3,384	3,419	3,457	3,499	3,545
Change In Working Capital	(422)	287	(2,323)	(6,247)	(1,476)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	(3,305)	(2,897)	(2,897)	(2,897)	(2,897)
Tax Paid	(12,220)	(13,040)	(14,454)	(20,405)	(22,687)
Cashflow From Operations	**35,977**	**39,824**	**48,823**	**62,562**	**74,107**
Capex	(14,740)	(23,400)	(40,600)	(60,600)	(69,900)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(400)	(400)	(400)	(400)	(400)
Other Investing Cashflow					
Cash Flow From Investing	**(15,140)**	**(23,800)**	**(41,000)**	**(61,000)**	**(70,300)**
Debt Raised/(repaid)	(6,217)	(5,998)	14,000	14,000	14,000
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(16,650)	(16,500)	(16,500)	(16,500)	(16,500)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	**(22,867)**	**(22,498)**	**(2,500)**	**(2,500)**	**(2,500)**
Total Cash Generated	(2,030)	(6,474)	5,323	(938)	1,307
Free Cashflow To Equity	**14,620**	**10,026**	**21,823**	**15,562**	**17,807**
Free Cashflow To Firm	**24,142**	**18,921**	**10,719**	**4,459**	**6,704**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	627	17,234	4,966	8,872	12,097
Total Debtors	38,436	36,261	35,697	43,917	50,701
Inventories	11,531	14,654	14,426	17,749	20,490
Total Other Current Assets	68,335	60,792	59,846	73,628	85,001
Total Current Assets	**118,928**	**128,941**	**114,935**	**144,166**	**168,289**
Fixed Assets	99,133	96,970	115,519	155,214	221,999
Total Investments	4,986	6,167	6,946	8,827	9,197
Intangible Assets	29	24	27	34	36
Total Other Non-Current Assets	4,907	23,129	26,051	33,108	34,492
Total Non-current Assets	**109,055**	**126,289**	**148,543**	**197,184**	**265,723**
Short-term Debt	2,745	4,117	6,590	7,249	7,974
Current Portion of Long-Term Debt					
Total Creditors	16,902	28,650	18,066	22,242	22,272
Other Current Liabilities	9,815	8,816	9,697	10,667	11,734
Total Current Liabilities	**29,462**	**41,582**	**34,354**	**40,159**	**41,980**
Total Long-term Debt	30,705	25,964	53,964	81,964	109,964
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**30,705**	**25,964**	**53,964**	**81,964**	**109,964**
Total Provisions	15,171	13,583	14,476	14,638	14,818
Total Liabilities	**75,337**	**81,129**	**102,793**	**136,760**	**166,761**
Shareholders Equity	152,646	174,101	184,684	228,589	279,250
Minority Interests					
Total Equity	**152,646**	**174,101**	**184,684**	**228,589**	**279,250**

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	38.8%	(12.0%)	1.7%	24.7%	1.5%
Operating EBITDA Growth	(7.5%)	7.2%	24.9%	36.2%	10.2%
Operating EBITDA Margin	8.1%	9.9%	12.1%	13.3%	14.4%
Net Cash Per Share (Rs)	(21.88)	(8.56)	(37.06)	(53.56)	(70.56)
BVPS (Rs)	101.76	116.07	123.12	152.39	186.17
Gross Interest Cover	12.37	15.29	19.75	27.88	30.99
Effective Tax Rate	26.7%	27.2%	25.2%	25.3%	25.3%
Net Dividend Payout Ratio	55.4%	50.6%	38.2%	27.1%	24.4%
Accounts Receivables Days	19.89	25.85	24.50	21.73	25.46
Inventory Days	5.85	10.28	11.57	10.39	12.39
Accounts Payables Days	10.88	17.89	18.59	13.01	14.42
ROIC (%)	15.6%	17.0%	19.1%	20.8%	17.7%
ROCE (%)	23.6%	23.5%	26.1%	29.1%	25.5%
Return On Average Assets	14.7%	14.4%	17.5%	20.8%	18.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

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