ADD (Upgrade from SELL)

CMP: **INR 300** Target Price: **INR 330 (INR 250)** ▲ 10%

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27 June 2025

India | Equity Research | Company Update

Petronet LNG

Oil & Gas

Operational macros improving; petchem cycle recovery could support prospects in long term

We recently met with the management of Petronet LNG (PLNG) and we believe that the prospects for the company should steadily improve over FY26–28E. Moderate LNG prices, expansion at Dahej by 5mt by H1FY26 and the completion of the Kochi-Bengaluru pipeline by CY25 should bode well for PLNG, with cash flow hits from the Gopalpur terminal and the petrochemical project to be relatively back ended. Our concerns around return ratios from the Petchem project and visibility on Gopalpur terminal remain, but we are encouraged with domestic gas demand prospects and the potential recovery of Petchem margins by FY28-29E, when both these projects come on line. We tweak our estimates marginally for FY26–28E and raise our TP to INR 330, underpinning an upgrade to **ADD** (from *Sell*).

A steady improvement in volumes in store

Dahej's long-term volume is slated to improve steadily over the next 2–3 years, helped by expansion of capacity by ~5mtpa, moderation in spot LNG prices and the relatively lower growth in domestic gas production. While Kochi's volume of 16tbtu remains modest, the imminent completion of the second leg of the Kochi-Mangalore-Bengaluru pipeline should help improve volumes over the next 12–18 months at this terminal as well. Management envisages domestic LNG demand improving 6–7% annually aided by moderate prices, higher global liquefaction supply and higher LNG import capacity in India, which should support steady improvement in PLNG's volumes as well.

Gopalpur terminal conversion necessitated by FSRU spike; global supplies remain supportive

~170–190mt of global liquefaction capacity addition over the next 4–5 years creates a comfortable supply surplus and shall support utilisation at Dahej, post capacity expansion to ~22.5mt by end-FY25. Capacity expansion globally also coincides with the imminent completion of the Kochi-Bengaluru leg of the Kochi offtake pipelines. Additionally, the decision to go ahead with a fully land-based terminal at Gopalpur, instead of starting with a FSRU and then progressing to a land-based terminal, has been driven by a >50% spike in FSRU rates and higher opex; the higher capex shall be compensated by a sharply lower opex rate over the life of the project.

Financial Summary

Y/E March (INR mn)	FY25A	FY26E	FY27E	FY28E
Net Revenue	5,09,820	6,03,760	7,27,737	8,58,304
EBITDA	55,242	60,895	67,496	73,072
EBITDA %	10.8	10.1	9.3	8.5
Net Profit	39,727	43,379	46,836	49,539
EPS (INR)	26.5	28.9	31.2	33.0
EPS % Chg YoY	8.8	9.2	8.0	5.8
P/E (x)	11.3	10.4	9.6	9.1
EV/EBITDA (x)	6.8	6.4	6.0	5.6
RoCE (Pre-tax) (%)	22.0	21.3	20.5	19.5
RoE (%)	21.3	20.7	20.2	19.3

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Market Data

Market Cap (INR)	450bn
Market Cap (USD)	5,247mn
Bloomberg Code	PLNG IN
Reuters Code	PLNG.BO
52-week Range (INR)	385 /270
Free Float (%)	50.0
ADTV-3M (mn) (USD)	7.7

Price Performance (%)	3m	6m	12m
Absolute	1.3	(13.0)	(4.7)
Relative to Sensex	(7.1)	(19.8)	(11.2)

ESG Score	2023	2024	Change
ESG score	**66.9**	**70.4**	**3.5**
Environment	50.2	59.5	9.3
Social	75.0	74.7	(0.3)
Governance	74.6	74.9	0.3

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E	FY28E
Revenue	0.2	4.0	5.6
EBITDA	1.5	7.1	8.9
EPS	0.7	4.5	4.6

Previous Reports

21-05-2025: Q4FY25 results review

29-01-2025: Q3FY25 results review

Capex to rise notably in next 2–3 years; adequate cash flows to limit the impact

PLNG mentioned that annual capex will likely ramp up to INR 45–50bn for FY26E (INR 25bn for petchem). Our sense is it will likely accelerate to meet commissioning timelines for the petchem project. Additionally, with the decision to now progress the Gopalpur LNG terminal to a land-based terminal, the implied capex would increase to INR 50bn, from INR 18–20bn for an FSRU – capex shall go up and returns would be back ended. Thanks to this, RoCE is estimated to decline 340bps and RoE by 200bps by FY28E (vs. FY25 levels). Having said that, we note that operating cash flows (OpCF) will likely average INR 51bn over FY26–28E; so, the impact on leverage should be minimal. Also, annual dividend payout averages INR 23bn; hence, there should not be any material reduction in the same, even with the higher capex.

Petrochemical project: A recovery in the cycle could boost prospects

We have been sceptical about the potential returns of the petrochemical project, owing to its high capex and a prolonged downturn being seen in the petrochemical margin cycle. However, management has pointed to some aspects of the project that should support profitability vs. peers, broadly the –

- usage of cold energy generated from the existing re-gasification terminal saves INR 1bn in energy costs annually;
- availability of storage for ethane, which can double up for LNG storage with minor modifications;
- tie up of 1/3rd of capacity before the project even starts, to secure a minimum revenue for the plant; and
- option of selling propylene or polypropylene, depending on the margin profile for each.

Also, with the downcycle in the global petrochemical market persisting over the last 2–3 years, there is a reasonable probability of a recovery in margins by CY27. This puts the timing of PLNG's plant in a potential sweet spot.

Valuations are unchallenging, risk-reward is balanced

With the sharply improved LNG pricing environment, 5mt capacity expansion at Dahej by H1FY26 and the visibility of completion of Kochi–Bengaluru pipeline by CY25, available capacity may improve materially for PLNG by FY26E.

Our revised estimates, therefore, factor in a reasonable 7% EPS CAGR over FY26–28E. On the other hand, a high run-rate required for the petchem project to achieve reasonable returns does create headwind for PLNG's return ratios in the near to medium term.

On balance, PLNG is looking at EPS growth of ~7% (EPS CAGR FY26–28E), steady cashflow (aggregate OpCF of INR 151.7bn over FY26–28E) and attractive dividend yield (~5.2% average over FY26–28E). Valuations of 9.1x FY28E EPS and 1.7x P/BV, in our view, are fair – with our revised estimates and TP offering a 11% upside from CMP, particularly in light of the ~13% dip seen in the stock in the last six months. Upgrade to **ADD** (from *Sell*)

Key risks

Upside risks: Stronger utilisation; sharp reduction in LNG prices; and favourable extension of the RasGas contract.

Downside risks: Higher disruption in Russian supplies; and slower execution of expansion plans.

Management meeting – takeaways

Dahej expansion

- Dahej terminal is working at 90% utilisation levels and, in the past, it has crossed >100% utilisation levels. The Dahej expansion, by 5mt capacity, should help take care of the company's growth and energy security of the country.
- As per management, the terminal provides a strategic location and its unique proposition for offtakers along with the jetty possessing gas storage capacity.
- The Dahej 5mt expansion to 22.5mt should be completed in 3-4 months. The company is in discussion with various parties for offtake agreement; existing customers shall also bring in additional volume. The volume on expanded capacity should be a mix of third -party volumes and long-term back-to-back agreements.

Gopalpur expansion

- When the Gopalpur FSRU-based project was evaluated (4mt), costs of FSRU vessels and associated costs were averaging USD 70k/day. However, costs have since spiked to >USD 120k/day, which has meant that going forward with to a fully land-based terminal has been brought forward. Management's assertion is that the long-term reduction in opex will more than offset the consequences of higher capex.
- The company has already purchased 80 acres of land and has taken board approval for setting up 5mt capacity. The company is on the verge of getting statutory clearances, which are expected to be received in next 15–30 days.
- The project cost for setting up a FSRU-based terminal of 4mt capacity is INR 18bn vs. cost for a land-based terminal of INR 55bn. However, a land-based terminal helps in saving higher operational cost of the FSRU vessel at earlier stages of commissioning when utilisation levels are lower.
- It should take three years to commission and shall come up by end of FY29.

Gas demand

- With a decline in domestic production and increase in India gas consumption, LNG import should increase driving higher demand/utilisation of terminals. Overall, India's gas consumption growth should flow majorly from the CGD space with growing demand from new geographical areas to drive overall consumption growth.
- The company is expanding from west coast to east coast to cater to expected growth in gas demand.
- Major LNG liquefaction projects in US and Qatar should come online in the next 3-4 years, supporting their contention that LNG supplies; hence, prices should remain comfortable.

Petchem

- PLNG's petrochemical project would have a configuration of 750KTPA of PDH, 500KTPA of PP plant, 33KTPA of hydrogen with propane and ethane handing facility. The total project cost is estimated at INR 210bn.
- The company has already signed a term sheet with Deepak Phenolics Limited for offtake of 250KTPA of propane and 11KTPA of hydrogen on cost + margin basis. The balance 500KTPA will be converted to polypropylene to be sold in open market.
- This Petrochemical project would have advantages of: 1) common jetty; 2) cold energy wasted at LNG plant can be used by the petchem plant and could save ~INR 1.2bn annually on power cost.
- As per management, there is huge demand for propane and propylene which can be easily sold in market based on Pricing formula on basis of import parity price.

- The plant would have Ethane handling facility of 1mt which the company would be selling similar to LNG tolling model. As far as demand for Ethane is concerned, there is an OPaL plant in vicinity to the project with total capacity of 1.9mt having HDPE/LDPE capacity of 1mt.
- Also, ethane capacity can be converted to LNG storage capacity, in case of no demand, with minimal capex. Ethane is stored at minus 190 degree Celsius, while LNG is stored at minus 160 degrees Celsius.
- The 750KTPA PDH plant would need 800-900KTPA of Propane and the facilities at the plant can handle 1250KTPA of propane
- Management has guided for capex of INR 45-50bn in FY26, out of which INR 30-35bn shall be towards petchem, INR 5bn towards jetty construction and the balance for miscellaneous capex. Till date, capex incurred towards the petchem project was INR 4bn; major capex shall follow in FY27/28. Expected timeline of completion is CY28, as of now.
- Prospects for growth in Indian market for petrochemical remain strong with the petrochemical industry being a good barometer of economic performance. Per capita petchem consumption in India is a-fifth of the global average and 1/12th of US; so there is a lot of scope for sustained growth in this segment.

Strait of Hormuz

- As of now, there has been little disruption in LNG supplies to PLNG, with close monitoring of flows and shipping times by the company, Shipping Corporation of India and the petroleum/defence ministries.
- With the relative cessation of hostilities between Israel and Iran, management does not expect any material disruption in flows due to the conflict.

Long-term agreement/others

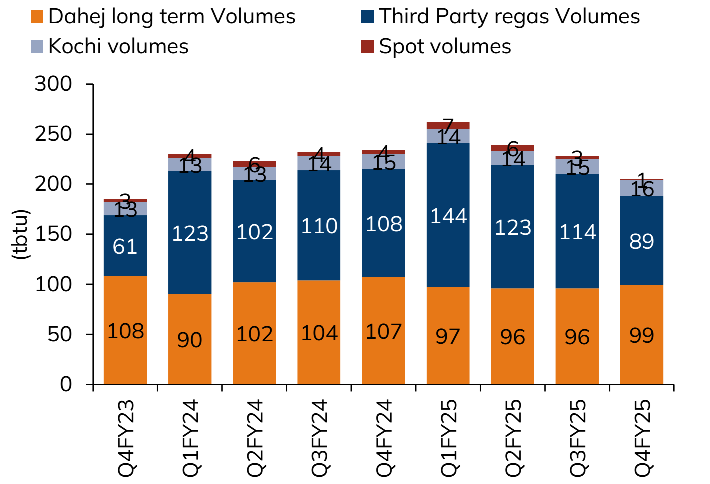
- Long-term agreement definition, from the earlier >20 years, has changed to 7-15 years, creating challenges for securing volumes over the next decade. The company has a 7.5mt long-term Qatar back-to-back contract and 8.25mt of regassification contracts. Overall, PLNG aims to maintain a mix of 70% long-term contracts and 30% short-term contracts in its portfolio, to hedge against price volatility.
- The company makes marketing margin only on short-term volume of 0.3-0.4mtpa.

Exhibit 1: Q4FY25 result snapshot (standalone)

INR mn	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY25	FY24	% Chg
Net Sales	**1,23,158**	**1,37,932**	**(10.7)**	**1,21,099**	**1.7**	**5,08,626**	**5,22,709**	**(2.7)**
EBITDA	12,793	11,040	15.9	11,307	13.1	52,451	47,490	10.4
EBITDA (INR/mmbtu)	62.4	47.2	32.3	49.6	25.8	56.2	51.7	8.7
Reported PAT	10,702	7,376	45.1	8,670	23.4	39,264	35,362	11.0
Adjusted PAT	**8,953**	**7,376**	**21.4**	**7,500**	**19.4**	**37,061**	**30,787**	**20.4**
EPS (INR)	6.0	4.9	21.4	5.0	19.4	24.71	20.52	20.4
Dahej Sales (tbtus)	189	219	(13.7)	213	(11.3)	875	864	1.3
Other income	1,995	1,568	27.3	1,961	1.8	8,153	6,167	32.2
Depreciation	2,058	1,944	5.8	2,096	(1.8)	8,062	7,766	3.8
Interest paid	609	708	(14.0)	651	(6.5)	2,580	2,897	(10.9)
Gross margins (INR/mmbtu)	79.3	54.3	45.9	72.3	9.7	79.6	67.2	18.5
Kochi (tbtu)	16.0	15.0	6.7	15.0	6.7	59.0	55.0	7.3
Total volume (tbtu)	**205.0**	**234.0**	**(12.4)**	**228.0**	**(10.1)**	**934.0**	**919.0**	**1.6**
Gross margins mns	9,197	6,847	34.3	8,243	11.6	36,952	31,988	15.5

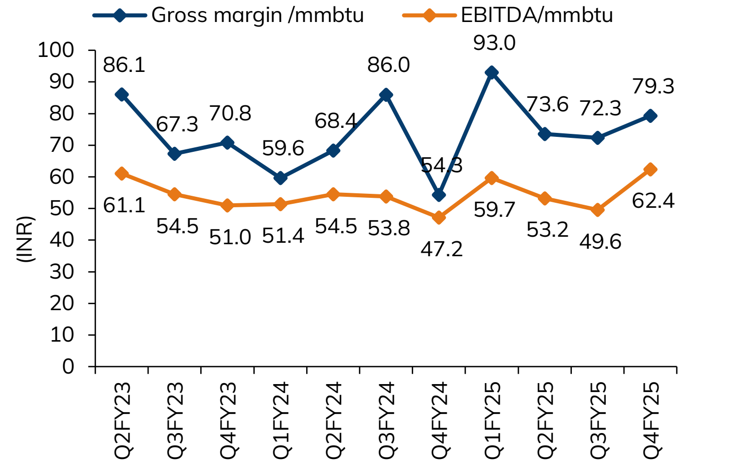
Source: Company data, I-Sec research

Exhibit 2: Decline in volume QoQ in Q4FY25



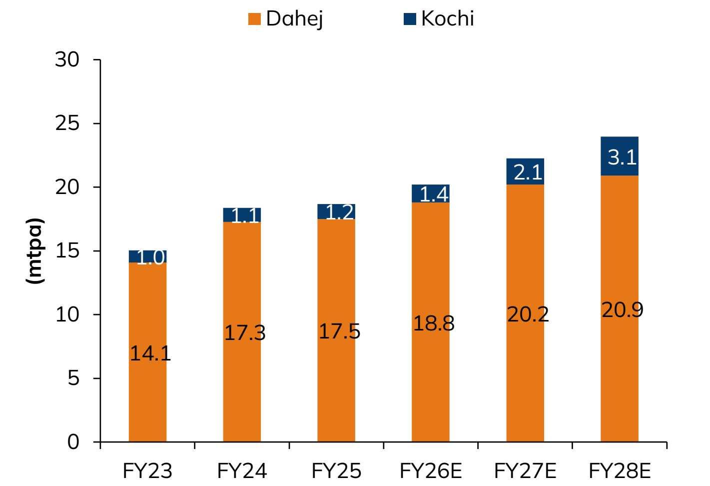
Source: Company data, I-Sec research

Exhibit 3: Tariffs – gross margin improved QoQ in Q4FY25



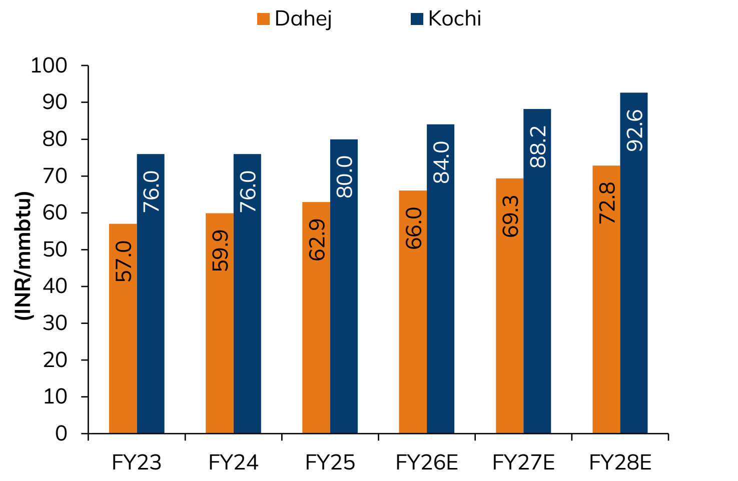
Source: Company data, I-Sec research

Exhibit 4: Volumes likely to improve over FY26–28E



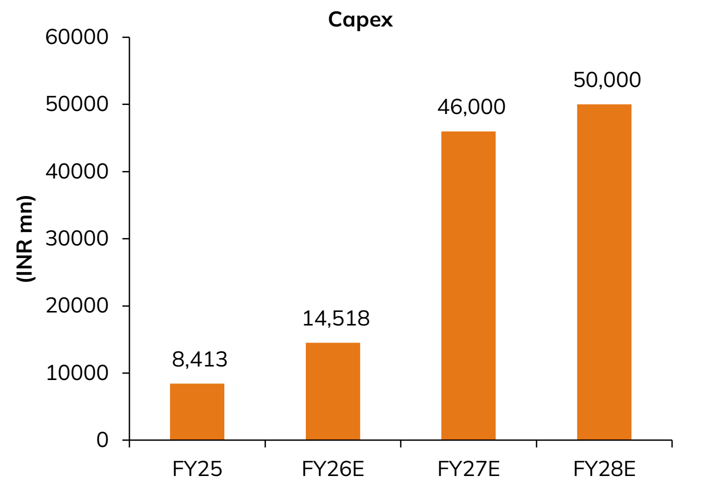
Source: Company data, I-Sec research

Exhibit 5: Blended tariffs may improve



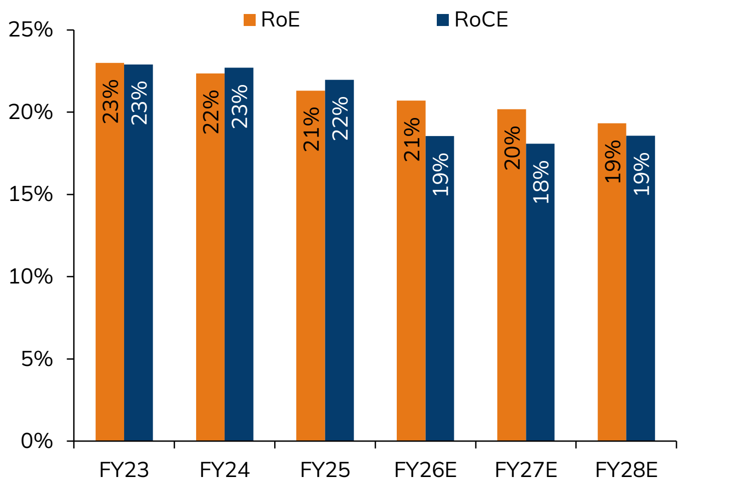
Source: Company data, I-Sec research

Exhibit 6: FY26–28E capex likely to grow materially



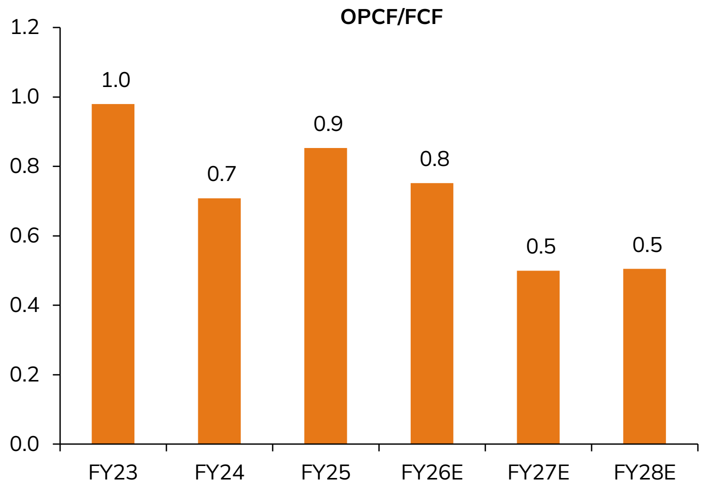
Source: Company data, I-Sec research

Exhibit 7: Return ratios to moderate



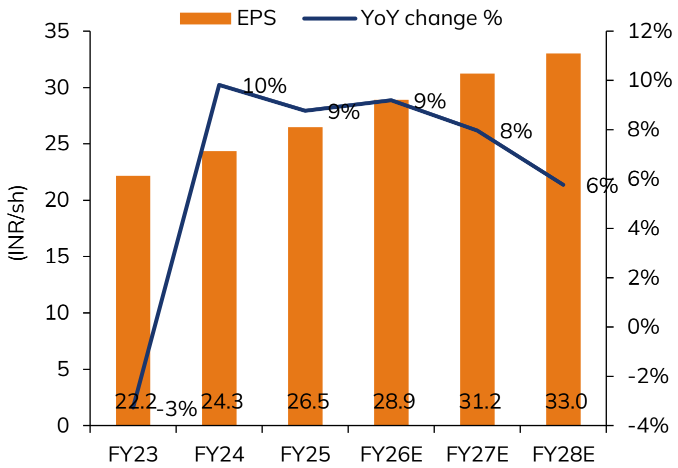
Source: Company data, I-Sec research

Exhibit 8: OpCF/FCF to remain at comfortable levels



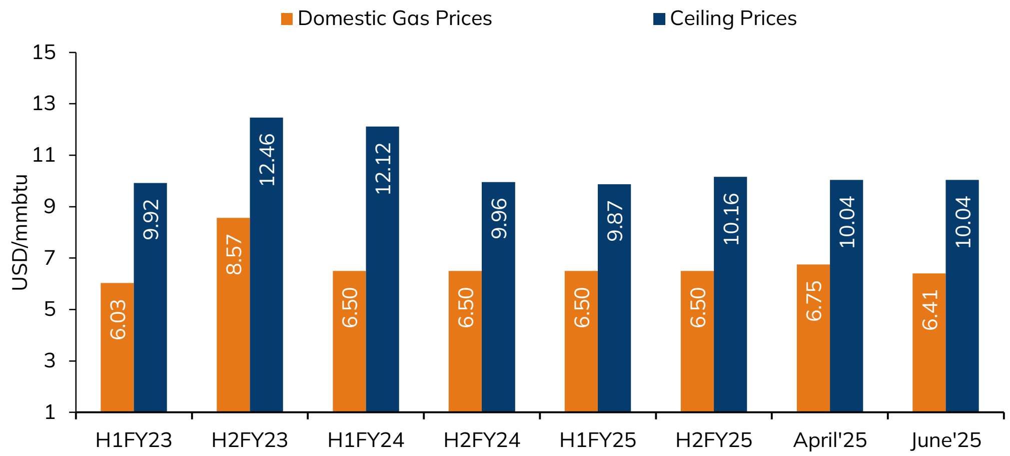
Source: Company data, I-Sec research

Exhibit 9: Earnings CAGR likely at 7% over FY26–28E



Source: Company data, I-Sec research

Exhibit 10: APM and HPHT gas price trends (on GCV basis)



Source: PPAC, I-Sec research

Exhibit 11: India's LNG capacity addition to gain momentum over the next couple of years

Location	Promoters	Name plate capacity (mt)	Expansion (mt)	Total (mt)	FY24 capacity utilisation	Comment
Dahej	Petronet LNG	17.5	5	22.5	95%	To be completed by HIFY26.
Hazira	Shell Energy	5.2		5.2	30%	
Dabhol	Konkan LNG	5		5	43%	
Kochi	Petronet LNG	5		5	21%	Completion of Kochi–Bengaluru pipeline by end-CY25 should boost utilisation.
Ennore	Indian Oil LNG Pvt ltd	5		5	19%	
Mundra	GSPC LNG	5		5	27%	
Dhamra	Adani total	5		5		
Chhara	HPCL	5		5		Commissioned in Jan'25.
Jaigarh	Jaigarh -FSRU		6	6		
Jafrabad	Swan LNG -FSRU		5	5		
Total		**52.7**	**16**	**68.7**		

Source: Company data, PPAC, I-Sec research

Valuation: Upgrade to ***ADD from SELL***; target price revised to INR 330

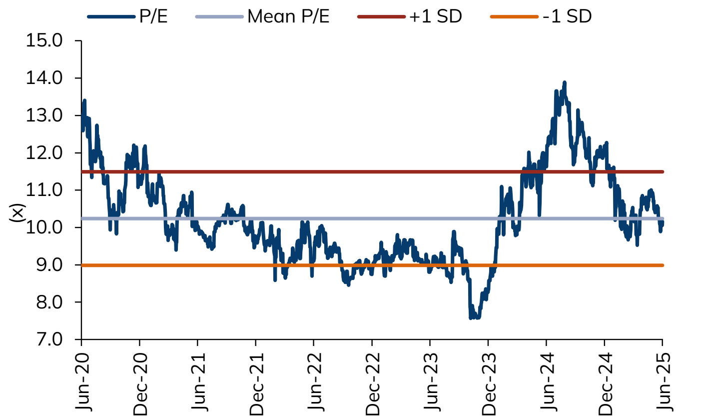
We value PLNG as per the DCF methodology, using a WACC of 11.5%, DER of 25%, long-term Dahej utilisation assumption of 100% and terminal growth rate of 2.5%. This leads to our target price of INR 330, ~10% upside from CMP.

Exhibit 12: Valuation summary

	Assumption
Cost of equity	13.0%
Cost of Debt	9.1%
WACC	11.5%
Terminal Growth Rate	2.5%
Average NPV potential (INR mn)	4,94,318
Target Price (INR)	**330**
CMP	300
Upside/(Downside)	10%

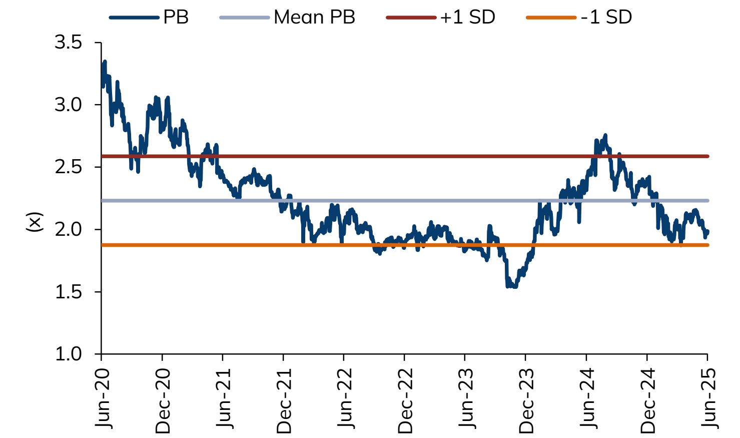
Source: Bloomberg, Company data

Exhibit 13: PLNG's P/E below 5-year average band charts



Source: Company data, I-Sec research

Exhibit 14: PLNG's P/B trading below 5-year average band



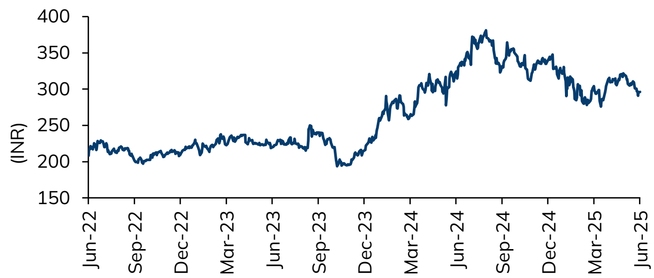
Source: Company data, I-Sec research

Exhibit 15: Shareholding pattern

%	Sep'24	Dec'24	Mar'25
Promoters	50.0	50.0	50.0
Institutional investors	38.3	39.7	39.9
MFs and others	11.0	10.5	10.5
FIs/Banks	0.0	0.5	0.5
Insurance	0.0	0.0	0.0
FIIs	27.3	28.7	28.9
Others	11.7	10.3	10.1

Source: Bloomberg, I-Sec research

Exhibit 16: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Net Sales	**5,09,820**	**6,03,760**	**7,27,737**	**8,58,304**
EBITDA	**55,242**	**60,895**	**67,496**	**73,072**
EBITDA Margin (%)	10.8	10.1	9.3	8.5
Depreciation & Amortization	8,062	9,595	10,755	11,915
EBIT	47,179	51,300	56,741	61,157
Interest expenditure	-	-	-	-
Other Non-operating Income	7,730	7,943	8,306	8,686
PBT	**52,329**	**56,367**	**60,986**	**64,599**
Profit / (Loss) from Associates	**888**	**1,200**	**1,200**	**1,200**
Less: Taxes	13,490	14,188	15,350	16,260
PAT	38,839	42,179	45,636	48,339
Less: Minority Interest	-	-	-	-
Net Income (Reported)	**39,727**	**43,379**	**46,836**	**49,539**
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	**39,727**	**43,379**	**46,836**	**49,539**

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Total Current Assets	1,41,607	1,39,367	1,42,835	1,52,432
of which cash & bank	91,044	85,407	84,289	88,702
Total Current Liabilities & Provisions	35,799	38,430	41,881	44,952
Net Current Assets	**1,05,808**	**1,00,938**	**1,00,954**	**1,07,481**
Other Non Current Assets	9,464	9,507	9,550	9,593
Net Fixed Assets	88,360	94,765	1,04,010	1,12,095
Other Fixed Assets	-	-	-	-
Capital Work in Progress	16,418	46,418	76,418	96,418
Non Investment	6,700	6,767	6,834	6,903
Current Investment	10,419	10,523	10,628	10,735
Deferred Tax Assets	-	-	-	-
Total Assets	**2,37,169**	**2,68,917**	**3,08,395**	**3,43,224**
Liabilities				
Borrowings	**26,566**	**36,566**	**52,566**	**62,566**
Deferred Tax Liability	**5,938**	**5,938**	**5,938**	**5,938**
Lease Liability	26,566	36,566	52,566	62,566
Other Liabilities	5,890	5,948	6,008	6,068
Equity Share Capital	15,000	15,000	15,000	15,000
Reserves & Surplus*	1,83,775	2,05,465	2,28,883	2,53,653
Total Net Worth	**1,98,775**	**2,20,465**	**2,43,883**	**2,68,653**
Minority Interest	-	-	-	-
Total Liabilities	**2,37,169**	**2,68,917**	**3,08,395**	**3,43,224**

Source Company data, I-Sec research

Exhibit 19: Quarterly trend

(INR mn, year ending March)

	Jun-24	Sep-24	Dec-24	Mar-25
Net Sales	1,34,151	1,30,218	1,21,099	1,23,158
% growth (YOY)	-2.7%	-2.9%	-7.0%	1.7%
EBITDA	15,630	12,721	11,307	12,793
Margin %	11.7%	9.8%	9.3%	10.4%
Other Income	2,181	2,016	1,961	1,995
Extraordinaries	-	-716	1,170	2,337
Adjusted Net Profit	11,416	9,193	7,500	8,953

Source Company data, I-Sec research

Exhibit 20: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26E	FY27E	FY28E
Cash Flow from operation before working Capital	**59,091**	**60,895**	**67,496**	**73,072**
Working Capital Changes	(1,734)	(751)	(1,118)	(2,097)
Tax	(13,378)	(14,188)	(15,350)	(16,260)
Operating Cashflow	**43,979**	**45,957**	**51,028**	**54,715**
Capital Commitments	(14,518)	(46,000)	(50,000)	(40,000)
Free Cashflow	**29,461**	**(43)**	**1,028**	**14,715**
Others CFI	8,957	8,972	9,333	9,712
Cashflow from Investing Activities	**(5,561)**	**(37,028)**	**(40,667)**	**(30,288)**
Inc (Dec) in Borrowings	(6,421)	10,000	16,000	10,000
Interest Cost	(96)	(2,876)	(4,060)	(5,245)
Others	(15,000)	(21,690)	(23,418)	(24,770)
Cash flow from Financing Activities	**(21,516)**	**(14,566)**	**(11,478)**	**(20,014)**
Chg. in Cash & Bank balance	**16,902**	**(5,637)**	**(1,118)**	**4,412**
Closing cash & balance	91,044	85,407	84,289	88,702

Source Company data, I-Sec research

Exhibit 21: Key ratios

(Year ending March)

	FY25A	FY26E	FY27E	FY28E
Per Share Data (INR)				
Recurring EPS	26.5	28.9	31.2	33.0
Diluted EPS	26.5	28.9	31.2	33.0
Recurring Cash EPS	31.9	35.3	38.4	41.0
Dividend per share (DPS)	10.0	14.5	15.6	16.5
Book Value per share (BV)	132.5	147.0	162.6	179.1
Dividend Payout (%)	37.8	50.0	50.0	50.0
Growth (%)				
Net Sales	(3.3)	18.4	20.5	17.9
EBITDA	6.1	10.2	10.8	8.3
EPS	8.8	9.2	8.0	5.8
Valuation Ratios (x)				
P/E	11.3	10.4	9.6	9.1
P/CEPS	9.4	8.5	7.8	7.3
P/BV	2.3	2.0	1.8	1.7
EV / EBITDA	6.8	6.4	6.0	5.6
EV / Operating Income	6.8	6.6	6.3	5.9
Dividend Yield (%)	3.3	4.8	5.2	5.5
Operating Ratios				
EBITDA Margins (%)	10.8	10.1	9.3	8.5
Effective Tax Rate (%)	25.8	25.2	25.2	25.2
Net Profit Margins (%)	7.8	7.2	6.4	5.8
NWC / Total Assets (%)	44.6	37.5	32.7	31.3
Fixed Asset Turnover (x)	3.6	3.8	4.1	4.4
Working Capital Days	12.3	11.9	10.6	9.9
Net Debt / Equity %	(37.7)	(26.9)	(17.4)	(13.7)
Profitability Ratios				
RoCE (%)	16.3	15.9	15.3	14.6
RoCE (Pre-tax) (%)	22.0	21.3	20.5	19.5
RoE (%)	21.3	20.7	20.2	19.3

Source Company data, I-Sec research

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