

EDUCATIONAL EQUITY STUDY NOTE

# Petronet LNG Limited

LNG Infrastructure & Natural Gas

NSE: PETRONET

BSE: 532522

ISIN: INE347G01014

MARKET CAP

**₹43,238 Cr**

CMP

**₹288**

P/E RATIO

**11.9x**

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## Company Overview

Petronet LNG Limited is India's largest liquefied natural gas (LNG) importer and operator of LNG regasification terminals. The company was incorporated in 1998 as a joint venture promoted by India's leading oil and gas public sector undertakings — GAIL, ONGC, Indian Oil Corporation (IOCL), and Bharat Petroleum (BPCL).

Petronet LNG plays a critical role in India's energy infrastructure by:

- ▶ Importing LNG from global suppliers under long-term and spot contracts
- ▶ Operating and maintaining large-scale LNG regasification terminals
- ▶ Converting imported LNG back into natural gas for domestic distribution
- ▶ Supplying regasified LNG (RLNG) to power, fertiliser, industrial, and city gas sectors
- ▶ Contributing to India's energy security and natural gas availability

### Key Distinction

Petronet LNG operates India's largest LNG terminal at Dahej, Gujarat (17.5 MMTA capacity) and a second terminal at Kochi, Kerala (5 MMTA). It handles approximately 30–35% of India's total LNG imports, making it a strategically essential infrastructure company in the country's energy landscape.

## Market Data Snapshot

PARTICULARS	VALUE
Current Market Price	₹288
Recent Day High / Low	₹326 / ₹264
52-Week High	₹326.50
52-Week Low	₹263.50
All-Time High	₹384.20
Market Capitalisation	₹43,238 Cr
P/E Ratio	11.9x
P/B Ratio	2.0x
EV/EBITDA	8.5x

### Price Context

The stock is trading in the mid-range of its 52-week band and well below its all-time high of ₹384.20. At a P/E of 11.9x and EV/EBITDA of 8.5x, the valuation is modest relative to its earnings power and infrastructure nature, suggesting the market is pricing it as a mature, stable utility rather than a high-growth story.

## Financial Performance

FISCAL YEAR	REVENUE (₹ CR)	EBITDA (₹ CR)	PAT (₹ CR)
FY22	43,169	5,250	3,438
FY23	59,899	4,854	3,326
FY24	52,729	5,209	3,652
FY25	50,982	5,525	3,973
<b>TTM</b>	<b>46,369</b>	<b>4,987</b>	<b>3,637</b>

FY25 EBITDA

**₹5,525 Cr**

Highest in 4-year period

FY25 PAT

**₹3,973 Cr**

Steady profit generation

TTM PAT

**₹3,637 Cr**

Consistent earnings base

## Growth Analysis

### Revenue Trend

PERIOD	REVENUE (₹ CR)	YOY CHANGE
FY22	43,169	—
FY23	59,899	+38.8%
FY24	52,729	-12.0%
FY25	50,982	-3.3%

### PAT Trend

PERIOD	PAT (₹ CR)	YOY CHANGE
FY22	3,438	—
FY23	3,326	-3.3%
FY24	3,652	+9.8%
FY25	3,973	+8.8%

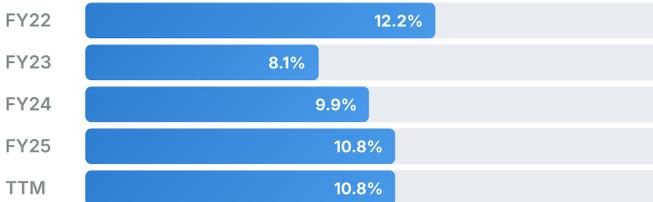
### Key Observation

Revenue fluctuates with global LNG prices — the FY23 spike was driven by elevated LNG prices post the Russia-Ukraine conflict, followed by normalisation. However, PAT has been steadily improving since FY23, indicating that the company's underlying operational profitability is improving even as commodity-linked revenue moderates. This divergence is a positive signal for earnings quality.

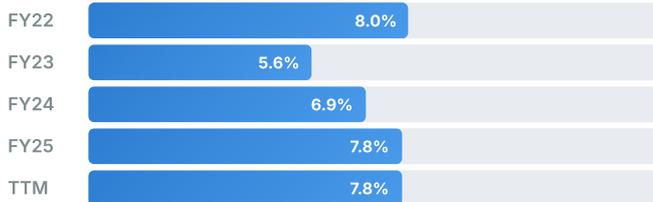
## Margin Analysis

YEAR	EBITDA MARGIN	PAT MARGIN
FY22	12.2%	8.0%
FY23	8.1%	5.6%
FY24	9.9%	6.9%
FY25	10.8%	7.8%
TTM	10.8%	7.8%

### EBITDA Margin Trend



### PAT Margin Trend



#### Margin Interpretation

Margins dipped in FY23 when revenue was inflated by high LNG prices (higher pass-through costs compress percentage margins even if absolute EBITDA holds). As LNG prices normalised, margins have recovered. The FY25 EBITDA margin of 10.8% and PAT margin of 7.8% represent healthy levels for an infrastructure-utility business. Margins are more stable in absolute terms (₹ Cr) than in percentage terms, which is typical for commodity-linked businesses.

## Balance Sheet Position

PARTICULARS	VALUE
Net Worth (Shareholder Equity)	₹19,878 Cr
Total Debt (Long-Term Borrowings)	₹2,657 Cr
Cash & Bank Balances	₹8,836 Cr
Net Cash Position (Cash minus Debt)	₹6,179 Cr

NET WORTH

### ₹19,878 Cr

Large equity base

NET CASH

### ₹6,179 Cr

Cash exceeds total debt

DEBT/EQUITY

### 0.13x

Very low leverage

#### Balance Sheet Quality

The balance sheet is exceptionally strong. Cash and bank balances of ₹8,836 Cr significantly exceed total debt of ₹2,657 Cr, making the company net cash positive by over ₹6,000 Cr. A debt-to-equity ratio of just 0.13x indicates minimal financial leverage and very low solvency risk. This provides substantial headroom for capacity expansion, dividend payments, and absorbing commodity cycles.

## Cash Flow Analysis

PARTICULARS	FY25
Cash Flow from Operations (CFO)	₹4,398 Cr
Net Cash Flow	-₹942 Cr

### Strong Operating Cash Generation

Operating cash flow of ₹4,398 Cr is robust and exceeds reported PAT of ₹3,973 Cr, indicating healthy cash conversion. The negative net cash flow of -₹942 Cr is likely driven by capital expenditure (capacity expansion), dividend payments, and debt servicing — all normal uses of cash for an infrastructure company investing in growth.

Key observations from a cash flow perspective:

- ▶ CFO comfortably exceeds PAT — strong earnings quality signal
- ▶ Cash is being deployed into capex and shareholder returns
- ▶ Large cash balance of ₹8,836 Cr provides significant buffer
- ▶ No concerns about cash generation ability of the core business

### Educational Takeaway

Unlike growth companies where negative cash flow can signal working capital strain, for infrastructure companies like Petronet LNG, strong CFO combined with negative net cash flow typically reflects productive capital deployment rather than financial stress.

## SECTION 08

## Return Ratios

RETURN ON EQUITY (ROE)

**21.2%**

Strong shareholder returns

RETURN ON CAPITAL EMPLOYED

**25.4%**

Excellent capital efficiency

ROCE at 25.4% is exceptional for an infrastructure and utility business, reflecting strong capital efficiency from high-utilisation assets. ROE at 21.2% is equally impressive, especially given the low leverage on the balance sheet — returns are being generated primarily from operational strength rather than debt-driven amplification.

These return ratios are among the best in the Indian gas utility space and significantly above cost of capital, indicating genuine value creation for shareholders.

## SECTION 09

## EPS & Valuation

METRIC	VALUE	OBSERVATION
FY25 EPS	₹26.48	Stable
P/E Ratio	11.9x	Attractive
P/B Ratio	2.0x	Reasonable
EV/EBITDA	8.5x	Attractive

The stock trades at modest valuation multiples across all metrics. A P/E of 11.9x for a company with 21% ROE, 25% ROCE, net cash balance sheet, and strong cash flows suggests the market is either pricing in limited growth expectations or underappreciating the quality of the franchise.

### Valuation Context

Unlike high-growth companies that trade at 50–80x P/E, infrastructure and utility businesses typically trade at lower multiples. However, Petronet LNG's combination of strong return ratios, net cash position, high cash generation, and capacity expansion plans makes the current valuation appear reasonable to attractive from a risk-reward perspective.

## SECTION 10

## Terminal Capacity & Infrastructure

PARTICULARS	VALUE
Dahej Terminal (Gujarat) — Current Capacity	17.5 MMTPA
Kochi Terminal (Kerala) — Current Capacity	5.0 MMTPA
Total Installed Capacity	22.5 MMTPA
Combined Capacity Utilisation	~90%

### Current Strengths

- ▶ India's largest LNG regasification infrastructure
- ▶ ~90% capacity utilisation indicates strong demand
- ▶ Dahej is strategically located near Gujarat's industrial belt
- ▶ Long-term supply contracts provide volume visibility

### Expansion Plans

- ▶ Dahej expansion from 17.5 to 22.5 MMTPA by FY27
- ▶ Thalassery FSRU (Floating Storage Regasification Unit) planned
- ▶ Expansion adds significant future volume headroom
- ▶ Capital already being deployed from internal cash generation

## SECTION 11

## Shareholding Pattern

CATEGORY	HOLDING (%)	OBSERVATION
Promoters (GAIL, ONGC, IOCL, BPCL)	50.00%	Stable
FII / FPI	26.30%	Strong
DII (Mutual Funds, Insurance)	13.45%	Present
Public / Others	10.25%	—

Promoter holding at 50% by four major oil and gas PSUs provides strong institutional backing and strategic alignment. FII holding of 26.30% is notably high, indicating significant global institutional confidence. Combined institutional holding (FII + DII) of nearly 40% underscores the quality perception of this business among professional investors.

## Competitive Landscape

COMPANY	PRIMARY FOCUS	TYPE
GAIL (India)	Natural gas transmission, marketing, LPG	PSU / Large
Gujarat Gas	City gas distribution (CGD)	Private / Mid
Indraprastha Gas (IGL)	CNG and piped gas distribution	JV / Mid
Mahanagar Gas (MGL)	CNG and piped gas in Mumbai	JV / Mid
GSPL	Gas pipeline transmission in Gujarat	State PSU / Mid

### Petronet LNG's Advantages

- ▶ Only large-scale pure-play LNG regasification company in India
- ▶ Dominant market share in LNG import infrastructure
- ▶ High-utilisation, long-life physical assets
- ▶ Strong PSU-backed promoter group

### Competitive Risks

- ▶ New LNG terminals being built by competitors (HPCL, Adani, Swan)
- ▶ GAIL has significant bargaining power as both promoter and customer
- ▶ Renewable energy growth may moderate long-term gas demand outlook

## Business Strengths

### Market Dominance

Operates India's largest LNG terminal and handles approximately 30–35% of the country's total LNG imports, giving it unmatched scale and operational experience in the segment.

### Superior Return Ratios

ROE of 21.2% and ROCE of 25.4% are exceptional for an infrastructure company, reflecting strong asset sweating and capital discipline on a low-leverage balance sheet.

### Net Cash Balance Sheet

Cash of ₹8,836 Cr exceeds debt of ₹2,657 Cr, resulting in a net cash positive position of ₹6,179 Cr. Debt-to-equity of just 0.13x provides substantial financial flexibility.

### Strong Cash Generation

FY25 CFO of ₹4,398 Cr exceeds PAT, indicating excellent cash conversion. The company generates enough internal cash to fund expansions, repay debt, and pay dividends.

### Energy Transition Role

Natural gas is positioned as a transition fuel in India's energy mix. As India moves from coal toward cleaner sources, gas demand has structural growth support over the medium term.

### Capacity Expansion

Dahej expansion to 22.5 MMTPA by FY27 and Thalassery FSRU plans provide visible growth avenues to increase volume throughput and revenue over the next 3–5 years.

## SWOT Analysis

### STRENGTHS

- India's largest LNG regasification infrastructure
- Exceptional return ratios (ROE 21%, ROCE 25%)
- Net cash positive balance sheet
- Strong operating cash flow generation
- High capacity utilisation (~90%)
- Blue-chip PSU promoter group

### WEAKNESSES

- Revenue volatility linked to global LNG prices
- Limited pricing power (tolling/regulated)
- Kochi terminal historically underutilised
- Concentrated customer base (GAIL is promoter and buyer)
- Single-product business model (LNG only)

### OPPORTUNITIES

- Dahej capacity expansion to 22.5 MMTPA
- Thalassery FSRU project
- India's natural gas consumption target (15% of energy mix)
- Rising city gas distribution network driving RLNG demand
- Potential for LNG-as-fuel in trucking and shipping
- Petrochemical integration opportunities

### THREATS

- New competing LNG terminals reducing market share
- Global LNG price volatility affecting demand
- Renewable energy growth reducing long-term gas relevance
- Regulatory or policy changes in gas pricing
- Geopolitical risks affecting LNG supply chains
- Contract renegotiation risk with suppliers

## Key Risk Factors

RISK FACTOR	SEVERITY	WHY IT MATTERS
Commodity Price Risk	High	Revenue linked to volatile global LNG prices
Competition Risk	Medium	New LNG terminals may reduce market share
Demand Risk	Medium	Gas demand depends on pricing vs. alternatives
Customer Concentration	Medium	GAIL is both promoter and major customer
Energy Transition Risk	Long-term	Renewables may reduce gas role over decades
Regulatory Risk	Low-Med	Gas pricing and import policies can change
Geopolitical Risk	Medium	LNG supply routes exposed to global tensions

### Risk Assessment

The most significant near-term risk is **commodity price volatility**, which directly impacts reported revenue and can temporarily compress margins. However, the company's toll-based income structure partially insulates EBITDA from extreme swings. The long-term energy transition risk is real but gas is expected to remain relevant for at least 15–20 years as a transition fuel.

## Financial Scorecard

Revenue Stability		Moderate
Profit Stability		Good
EBITDA Margin		Moderate-Good
PAT Margin		Moderate
Balance Sheet		Excellent
Debt Profile		Excellent
ROCE		Excellent
ROE		Strong
Cash Flow Quality		Strong
Valuation Comfort		Attractive
Growth Visibility		Good
Overall Business Quality		High

## Key Monitorables

#	MONITORABLE	WHY IT MATTERS
1	Dahej terminal expansion progress	Volume growth driver
2	Kochi terminal utilisation improvement	Underutilised asset recovery
3	Global LNG spot and contract prices	Revenue and margin impact
4	India's overall natural gas demand growth	Structural demand indicator
5	New LNG terminal commissioning by competitors	Market share risk
6	Thalassery FSRU project progress	Future capacity addition
7	Dividend policy and payout trends	Shareholder return signal
8	Long-term contract renewals and pricing	Earnings sustainability
9	City gas distribution network expansion	Downstream demand for RLNG
10	Government policy on gas pricing and imports	Regulatory environment

# Educational Summary

## What Is Attractive

- ▶ India's largest LNG import infrastructure — dominant position
- ▶ Exceptional return ratios (ROE 21%, ROCE 25%)
- ▶ Net cash positive balance sheet (₹6,179 Cr net cash)
- ▶ Strong operating cash flow (₹4,398 Cr CFO)
- ▶ Attractive valuation (11.9x P/E, 8.5x EV/EBITDA)
- ▶ Clear capacity expansion path (Dahej + Thalassery)

## What Requires Caution

- ▶ Revenue volatility driven by global LNG commodity prices
- ▶ Limited pricing power in a toll/regulated framework
- ▶ New competing terminals may erode market share
- ▶ Long-term energy transition risk from renewables
- ▶ Customer concentration (GAIL as promoter and buyer)
- ▶ Moderate top-line growth potential as a mature infrastructure asset

### EDUCATIONAL ASSESSMENT

## High-Quality Infrastructure at Reasonable Valuation

Petronet LNG represents a strong, cash-generative infrastructure business with dominant market positioning, excellent return ratios, and a fortress balance sheet. The valuation at ~12x earnings is modest relative to the quality of the franchise. Revenue is commodity-linked and therefore variable, but underlying profitability and cash generation are robust. Capacity expansion provides a credible growth path. The key long-term question is how India's energy transition will evolve and what role natural gas will play over the next two decades.

PARAMETER	ASSESSMENT
Business Quality	High
Market Positioning	Dominant
Profit Stability	Strong
Balance Sheet	Excellent
Cash Flow	Strong
ROCE	Excellent
ROE	Strong
Valuation	Attractive
Revenue Stability	Moderate
Growth Visibility	Good
Competition Risk	Medium
Sector Tailwind	Moderate

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