

Petronet LNG

High capex cycle to keep return ratios subdued

Our REDUCE recommendation on Petronet LNG (PLNG) with a revised TP of INR 280 is based on (i) a shift in business model from secured long-term contract business to volatile tolling business, (ii) subdued return ratios owing to high capex, and (iii) near-term challenges in volume growth. The company has undertaken aggressive capex plans, which could strain its balance sheet. PLNG is investing ~INR 300 bn in multiple projects, including a petrochemical complex, LNG capacity, CBG, and other infrastructure projects. Its balance sheet shall convert into net debt of INR 41.6 bn in FY30E from net cash of INR 72.9 bn in FY26. RoIC is expected to reduce to ~13.4% in FY30E, from ~24.7% in FY26.

The company's earning model is skewed toward a volatile and uncertain tolling business from a secured long-term contracted business model, owing to the US-Israel-Iran war. It is expected to remain the same in near term. Tolling business is volatile in nature and in the current situation where LNG prices have surged, it is uncertain too. Dahej terminal will face challenges in volume growth due to the sharp increase in global LNG prices and force majeure announced by QatarEnergy. Any further rise in the Kochi terminal capacity utilization is restricted owing to lack of pipeline connectivity.

Petrochemical complex to be commissioned by mid-FY29E

PLNG's petrochemical project (750-KTPA propylene/polypropylene unit) at Dahej is on track to be commissioned by mid-FY29E. It has already achieved ~42% overall completion. The company is investing around INR 206.85 bn in this project and has already spent worth INR 27-28 bn till Q1FY27. In FY27E, it will incur INR 75bn of investment and the remaining will be spent in FY28E and FY29E.

The proposed petrochemical complex will run on 884 KTPA of propane as the primary feedstock to yield 750 KTPA of propylene and 34 KTPA of hydrogen as byproducts. To convert propane feedstock into propylene, the petrochemical complex will use "on-purpose" propane dehydrogenation technology operating at a high temperature of 525°C-625°C to remove two hydrogen atoms from propane molecules. The reaction yield is ~85% in a single cycle (vs traditional refinery steam crackers of ~15-20%), which is then processed into polypropylene.

The feedstock for propane will be sourced from competitive global suppliers in the US and Gulf. The upcoming multi-molecule facility at Dahej Third Jetty is capable of handling and storing LNG (-162°C), ethane (-90°C), and propane (-45°C).

As these PDH reactors require rapid cooling to quench the reversible reactions, PLNG will leverage operational synergies with its adjacent Dahej LNG facility by channeling cold thermal energy (-162°C) into the petrochemical complex. Conversely, the LNG regasification process requires heat for cold LNG, which will be met by the petrochemical complex's heat transmission. By exchanging thermal energy between these two processes via heat exchangers, the company will achieve cumulative power savings of 19 MW (14 MW in the PDH unit plus 5 MW in LNG regasification), thereby saving operating expenses of INR 1.2 bn (calculated at INR 7.65/kWh) and avoiding an additional capex burden worth INR 4-5 bn.

Petronet LNG is expanding its propane and ethane handling capacity from 1.2 to 3.0 MMTPA. Propane will primarily feed the PDH unit, while ethane handling is expected to generate third-party tolling and handling revenue. Also, the company is evaluating rail evacuation for ethane using ISO tanker containers or open-top wagons directly from Dahej railway sidings, leveraging pre-established railway board freight tariffs.

REDUCE

CMP (as on 25 Sep 2026)	INR 286
Target Price	INR 280
NIFTY	23,141

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 273	INR 280
EPS change	FY27E +7.3%	FY28E +1.1%

KEY STOCK DATA

Bloomberg code	PLNG IN
No. of Shares (mn)	1,500
MCap (INR bn) / (\$ mn)	430/4,485
6m avg traded value (INR mn)	820
52 Week high / low	INR 326/235

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.5	14.7	6.0
Relative (%)	5.7	16.5	15.0

SHAREHOLDING PATTERN (%)

	Mar-26	Jun-26
Promoters	50.0	50.0
FIs & Local MFs	12.9	13.7
FPIs	27.1	26.3
Public & Others	10.0	10.1
Pledged Shares	0.0	0.0

Source: BSE

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India's polypropylene demand is expected to reach 15 MMTPA by 2030 against domestic production of 10–11 MMTPA (creating 4–5 MMTPA demand deficit). PLNG's management remains confident that it will sell volumes in the market, as its 0.75 MMTPA polypropylene capacity addresses only ~10% of this supply gap, thereby mitigating marketing risks. The company has already secured 11 KTPA of hydrogen sale under the long-term sales agreement with balanced would be either commercialized or consumed internally.

Financial summary (standalone)

Year Ending March (INR bn)	Q1 FY27	Q4 FY26	QoQ (%)	Q1 FY26	YoY (%)	FY25	FY26	FY27E	FY28E	FY29E
Revenues	55.5	94.4	(41.2)	118.8	(53.2)	509.8	434.9	339.6	442.1	755.4
EBITDA	15.3	18.6	(17.7)	11.6	32.1	55.2	53.4	58.7	59.1	69.6
APAT	11.3	13.4	(15.3)	8.5	33.2	39.3	38.4	41.4	37.7	39.0
AEPS (INR)	7.6	8.9	(15.3)	5.7	33.2	26.2	25.6	27.6	25.1	26.0
P/E (x)						10.9	11.2	10.4	11.4	11.0
EV/EBITDA (x)						6.5	6.7	6.9	7.9	7.0
RoE (%)						21.6	18.7	17.9	14.7	13.9

Source: Company, HSIE Research

Change in estimates

Y/E Mar	FY27E Old	FY27E New	% Ch	FY28E Old	FY28E New	% Ch
EBITDA (INR bn)	53.8	58.7	9.3%	57.2	59.1	3.3%
Adj. EPS (INR/sh)	25.7	27.6	7.3%	24.8	25.1	1.1%

Source: Company, HSIE Research

HSIE vs consensus estimates

Y/E Mar	FY27E HSIE	FY27E Consensus	% Deviation	FY28E HSIE	FY28E Consensus	% Deviation
EBITDA (INR bn)	58.7	54.5	7.9	59.1	64.0	(7.7)
Adj. EPS (INR/sh)	27.6	25.0	10.3	25.1	28.1	(10.6)

Source: Company, HSIE Research, Bloomberg.

Third Dahej jetty to handle ethane, propane; increase capacity for LNG cargoes

Petronet LNG currently operates 2 high-throughput jetties at Dahej (handling 260–276 vessel calls annually) and is now constructing a third jetty, which is anticipated to be commissioned by FY27E-end (~70% already completed).

The third jetty's scope was expanded to aid PLNG's petrochemical complex by integrating liquid raw materials. The facility uniquely unloads three cryogenic liquids at distinct temperatures and ship classes—LNG at -162°C (140,000–266,000 m³ Q-Max), ethane at -90°C (90,000–125,000 m³; potential up to 150,000 m³), and propane at -45°C (30,000–65,000 m³) via custom 30-meter loading arms.

By integrating propane/ethane capabilities into LNG jetty, PLNG eliminates typical standalone feedstock handling tariffs of USD1.00 to USD1.25 per MMBtu, drastically reducing operating expenses for the petrochemical complex.

Long-term LNG supply portfolios, commercial framework, and pricing power

PLNG has extended its long-term QatarEnergy contract SPA (of 7.5 MMTPA) up to CY2048. This contract has been transitioned from FOB (Free on Board) to DES (Delivered Ex-Ship) basis, placing full delivery responsibility on QatarEnergy (from PLNG previously lifting LNG at Ras Laffan and arranging ocean transit). Since QatarEnergy handles ocean transit under DES, shipping cost adjustments will be passed on to off-takers in a transparent way. The management is confident that regasification tariff under the renewed contract will remain at current level.

Green energy diversification – compressed biogas initiative (CBG)

PLNG is diversifying into the green energy sector via a 50:50 joint venture with Gruner Renewable Energy Private Ltd, backed by proven German technology. The project involves a capex outlay of INR 12.0 bn (via 70:30 debt-to-equity); Petronet's equity contribution stood at INR 1.8 bn (~50% of INR 3.6 bn). The JV is building 10 CBG plants with combined capacities of 180 TPD (18 TPD each), which would yield ~63,000 metric tonnes annually, aided by the government's Govardhan scheme.

The government has announced the Govardhan scheme with a planned outlay of INR 237.31 bn to aid CBG in India. The CBG project shall receive INR 20 mn subsidy per tonne of CBG produced (including INR 12.5 mn as a capital subsidy, alongside INR 7.5 mn as a supply chain subsidy for raw material and FOM–fermented organic material management). Further, there is assured offtake price of INR 2,110 per MMBtu (~INR 98-100 per kg) for 10 years.

PLNG's management anticipates the cluster to generate top-line revenue of ~INR 6.8bn (Petronet's share being INR 3.40 bn). The company maintains a baseline requirement of at least ~16% equity IRR (~20%-50% potential), led by government capital grants and guaranteed pricing mechanics.

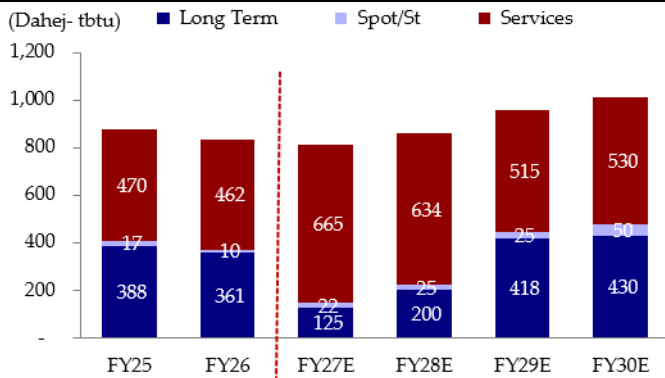
Petronet LNG's aggressive capex to strain leverage and free cash flows

Historically, Petronet LNG has maintained a remarkably robust balance sheet, reflecting strong free cash flows (five-year cumulative of INR 139bn) and low leverages with cash & bank balance of 101 bn in FY26. The company has undertaken multi-year capex investment totalling of INR 300 bn. It includes INR 206 bn for petrochemicals, INR 64 bn for LNG terminal, INR 6bn for Dahej jetty, INR 1bn for CBG plants, INR 1bn for the corporate building, and INR 0.7 bn for Kochi small-scale LNG plants.

These strategic investments will strain the company's near-term leverage. Balance sheet will change from net cash to net debt by FY30E. The company will generate negative free cash flow of INR -56.3 bn over FY27-30E.

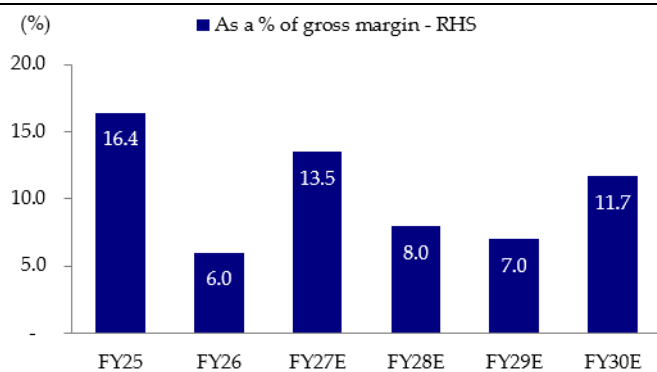
Petronet LNG: Company Update

Exhibit 1: Dahej's volume growth trend



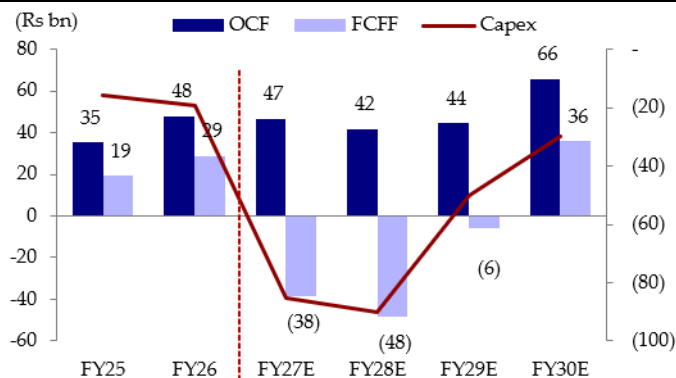
Source: Company, HSIE Research

Exhibit 3: Marketing margin volatility (from FY28-FY29E)



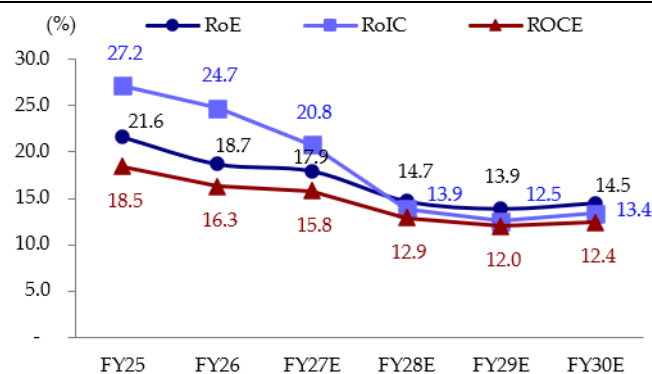
Source: Company, HSIE Research

Exhibit 5: Aggressive capex to led negative FCFF (INR - 56.3 bn for FY27-FY30E)



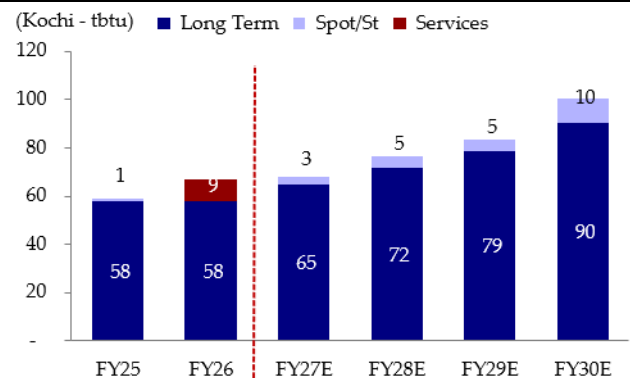
Source: Company, HSIE Research

Exhibit 7: ROIC to decline to ~13.4% by FY30E



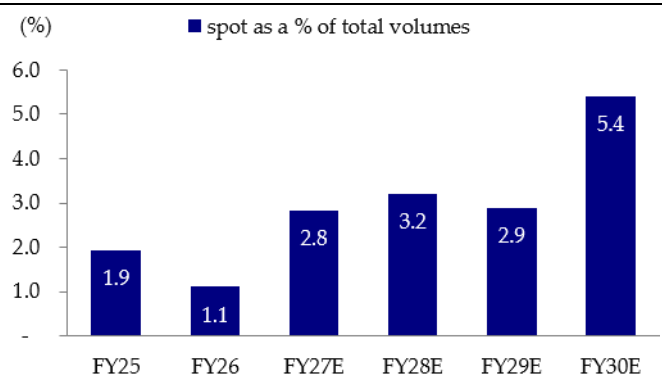
Source: Company, HSIE Research

Exhibit 2: Kochi's volume growth trend



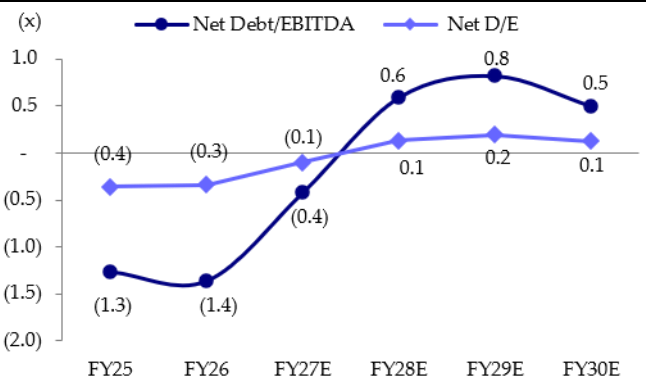
Source: Company, HSIE Research

Exhibit 4: PLNG's spot volume to grow ahead



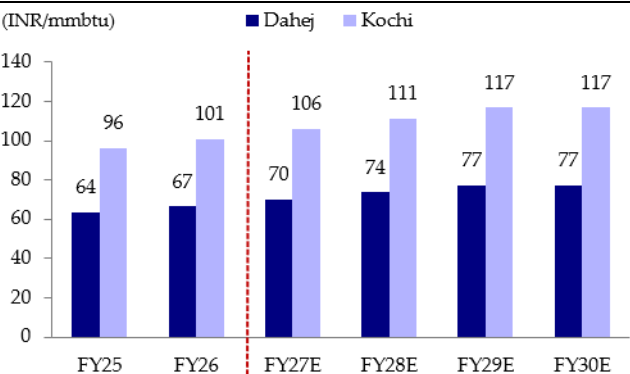
Source: Company, HSIE Research

Exhibit 6: Net Debt/EBITDA to peak at 0.8x by FY29/FY30E



Source: Company, HSIE Research

Exhibit 8: Tariff assumption in INR/mmbtu



Source: Company, HSIE Research

Financials (Standalone)

INCOME STATEMENT

INR bn	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Revenues	431.69	598.99	527.28	509.80	434.95	339.62	442.09	755.35
<i>Growth %</i>	<i>65.9</i>	<i>38.8</i>	<i>(12.0)</i>	<i>(3.3)</i>	<i>(14.7)</i>	<i>(21.9)</i>	<i>30.2</i>	<i>70.9</i>
Raw Material	370.77	539.52	464.64	442.98	371.20	269.91	369.04	669.72
Employee Cost	1.77	1.68	1.92	2.19	2.73	3.02	3.31	3.63
Other Expenses	6.62	9.24	8.66	9.38	7.64	7.95	10.62	12.39
EBITDA	52.52	48.56	52.07	55.24	53.38	58.74	59.11	69.61
<i>EBITDA Margin (%)</i>	<i>12.2</i>	<i>8.1</i>	<i>9.9</i>	<i>10.8</i>	<i>12.3</i>	<i>17.3</i>	<i>13.4</i>	<i>9.2</i>
<i>EBITDA Growth %</i>	<i>11.8</i>	<i>(7.6)</i>	<i>7.2</i>	<i>6.1</i>	<i>(3.4)</i>	<i>10.0</i>	<i>0.6</i>	<i>17.8</i>
Depreciation	7.68	7.64	7.77	8.06	8.38	9.01	11.19	15.40
EBIT	44.84	40.91	44.30	47.18	45.00	49.73	47.92	54.21
Other Income (Including EO Items)	3.07	5.74	6.17	8.15	8.95	7.43	5.11	2.47
Interest	3.17	3.31	2.90	2.58	2.38	1.88	2.70	4.54
PBT	44.74	43.35	47.57	52.75	51.58	55.28	50.33	52.14
Tax	11.21	10.95	12.21	13.49	13.15	13.91	12.67	13.12
RPAT	33.52	32.40	35.36	39.26	38.43	41.37	37.66	39.02
EO (Loss) / Profit (Net Of Tax)								
APAT	33.52	32.40	35.36	39.26	38.43	41.37	37.66	39.02
<i>APAT Growth (%)</i>	<i>13.7</i>	<i>(3.4)</i>	<i>9.1</i>	<i>11.0</i>	<i>(2.1)</i>	<i>7.6</i>	<i>(8.9)</i>	<i>3.6</i>
AEPS	22.3	21.6	23.6	26.2	25.6	27.6	25.1	26.0
<i>AEPS Growth %</i>	<i>13.7</i>	<i>(3.4)</i>	<i>9.1</i>	<i>11.0</i>	<i>(2.1)</i>	<i>7.6</i>	<i>(8.9)</i>	<i>3.6</i>

Source: Company, HSIE Research

BALANCE SHEET

INR bn	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
SOURCES OF FUNDS								
Share Capital	15.00	15.00	15.00	15.00	15.00	15.00	15.00	15.00
Reserves And Surplus	119.25	134.35	154.63	178.82	202.20	229.08	253.57	278.93
Total Equity	134.25	149.35	169.63	193.82	217.20	244.08	268.57	293.93
Long-term Debt	31.56	30.70	25.96	26.57	23.41	26.14	43.88	69.62
Short-term Debt	0.23	-	-	4.80	4.79	4.93	5.08	5.23
Total Debt	31.79	30.70	25.96	31.37	28.20	31.08	48.96	74.85
Deferred Tax Liability	8.32	7.03	6.17	5.94	6.22	6.58	5.99	6.21
Long-term Provision	9.92	8.14	7.42	5.89	4.51	4.34	4.18	4.03
TOTAL SOURCES OF FUNDS	184.29	195.23	209.18	237.02	256.13	286.08	327.70	379.01
APPLICATION OF FUNDS								
Net Block	95.57	87.90	81.47	88.36	90.48	95.12	150.82	224.13
Capital WIP	1.93	11.26	15.52	16.42	24.97	96.48	119.59	80.88
LT Loans And Advances	22.44	3.30	18.65	5.44	13.76	14.44	15.15	15.89
Total Non-current Investments	4.17	3.36	6.22	5.83	13.67	13.67	13.67	13.67
Inventories	5.77	11.53	14.65	12.04	9.07	8.02	10.44	17.85
Debtors	26.84	38.40	36.26	32.67	10.39	19.26	25.99	46.38
Cash and Cash Equivalent	51.95	65.50	74.10	101.41	101.11	55.87	13.90	17.57
Other Current Assets	2.52	2.99	3.88	5.84	5.29	5.36	5.44	5.52
Total Current Assets	87.08	118.41	128.89	151.96	125.87	88.52	55.78	87.32
Creditors	15.26	16.44	28.65	25.62	7.34	16.75	21.80	37.25
Other Current Liabilities & Provisions	11.64	12.56	12.93	5.37	5.28	5.39	5.51	5.63
Total Current Liabilities	26.90	29.00	41.58	30.99	12.62	22.14	27.31	42.88
Net Current Assets	60.18	89.41	87.32	120.97	113.24	66.38	28.47	44.44
TOTAL APPLICATION OF FUNDS	184.29	195.23	209.18	237.02	256.13	286.08	327.70	379.01

Source: Company, HSIE Research

CASH FLOW STATEMENT

INR bn	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
Reported PBT	44.74	43.35	47.57	52.75	51.58	55.28	50.33	52.14
Non-operating & EO Items	(3.07)	(5.74)	(6.17)	(8.15)	(8.95)	(7.43)	(5.11)	(2.47)
Interest Expenses	3.17	3.31	2.90	2.58	2.38	1.88	2.70	4.54
Depreciation	7.68	7.64	7.77	8.06	8.38	9.01	11.19	15.40
Working Capital Change	(3.80)	(15.69)	10.69	(6.34)	7.43	1.63	(4.06)	(12.30)
Tax Paid	(11.70)	(12.24)	(13.07)	(13.72)	(12.87)	(13.55)	(13.26)	(12.91)
OPERATING CASH FLOW (a)	37.03	20.63	49.69	35.18	47.94	46.82	41.79	44.40
Capex	(1.80)	(9.31)	(5.60)	(15.85)	(19.06)	(85.16)	(90.00)	(50.00)
Free Cash Flow (FCF)	35.23	11.32	44.10	19.33	28.88	(38.34)	(48.21)	(5.60)
Investments	(1.11)	0.81	(2.86)	0.39	(7.84)	-	-	-
Non-operating Income	3.07	5.74	6.17	8.15	8.95	7.43	5.11	2.47
Others	(21.18)	19.14	(15.35)	13.21	(8.32)	(0.68)	(0.71)	(0.74)
INVESTING CASH FLOW (b)	(21.01)	16.38	(17.65)	5.91	(26.27)	(78.40)	(85.60)	(48.27)
Debt Issuance/(Repaid)	(2.48)	(1.09)	(4.74)	5.40	(3.16)	2.87	17.88	25.89
Interest Expenses	(3.17)	(3.31)	(2.90)	(2.58)	(2.38)	(1.88)	(2.70)	(4.54)
FCFE	29.58	6.93	36.46	22.15	23.34	(37.35)	(33.02)	15.75
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(17.25)	(15.00)	(15.00)	(15.00)	(15.00)	(14.48)	(13.18)	(13.66)
Others	1.57	(4.08)	(0.81)	(1.60)	(1.43)	(0.17)	(0.16)	(0.15)
FINANCING CASH FLOW (c)	(21.34)	(23.47)	(23.45)	(13.77)	(21.97)	(13.65)	1.84	7.54
NET CASH FLOW (a+b+c)	(5.32)	13.54	8.60	27.31	(0.30)	(45.24)	(41.97)	3.67

Source: Company, HSIE Research

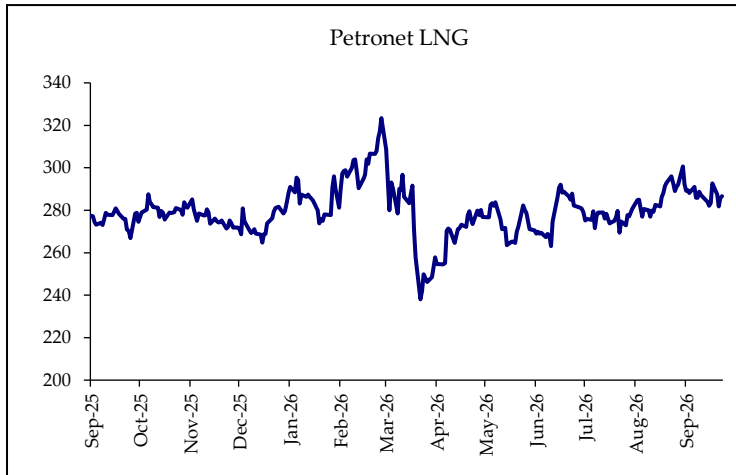
KEY RATIOS

	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E	FY29E
PROFITABILITY %								
EBITDA Margin	12.2	8.1	9.9	10.8	12.3	17.3	13.4	9.2
EBIT Margin	10.4	6.8	8.4	9.3	10.3	14.6	10.8	7.2
APAT Margin	7.8	5.4	6.7	7.7	8.8	12.2	8.5	5.2
RoE	26.7	22.8	22.2	21.6	18.7	17.9	14.7	13.9
RoIC	28.3	24.0	25.8	27.2	24.7	20.8	13.9	12.5
RoCE	20.3	18.4	18.6	18.5	16.3	15.8	12.9	12.0
EFFICIENCY								
Tax Rate %	25.1	25.3	25.7	25.6	25.5	25.2	25.2	25.2
Fixed Asset Turnover (x)	3.2	4.5	4.6	4.4	3.1	2.2	2.7	3.7
Inventory (days)	4.9	7.0	10.1	8.6	7.6	8.6	8.6	8.6
Debtor (days)	22.7	23.4	25.1	23.4	8.7	20.7	21.5	22.4
Other Current Assets (days)	2.1	1.8	2.7	4.2	4.4	5.8	4.5	2.7
Payables (days)	12.9	10.0	19.8	18.3	6.2	18.0	18.0	18.0
Other Current Liab & Provns (days)	9.8	7.7	9.0	3.8	4.4	5.8	4.5	2.7
Cash Conversion Cycle (days)	7.0	14.6	9.2	14.0	10.2	11.3	12.0	13.0
Net Debt/EBITDA (x)	(0.4)	(0.7)	(0.9)	(1.3)	(1.4)	(0.4)	0.6	0.8
Net D/E	(0.2)	(0.2)	(0.3)	(0.4)	(0.3)	(0.1)	0.1	0.2
Interest Coverage	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1
PER SHARE DATA (Rs)								
EPS	22.3	21.6	23.6	26.2	25.6	27.6	25.1	26.0
CEPS	27.5	26.7	28.8	31.6	31.2	33.6	32.6	36.3
Dividend	11.5	10.0	10.0	10.0	10.0	9.7	8.8	9.1
Book Value	89.5	99.6	113.1	129.2	144.8	162.7	179.0	196.0
VALUATION								
P/E (x)	12.8	13.2	12.1	10.9	11.2	10.4	11.4	11.0
P/Cash EPS (x)	10.4	10.7	9.9	9.1	9.2	8.5	8.8	7.9
P/BV (x)	3.2	2.9	2.5	2.2	2.0	1.8	1.6	1.5
EV/EBITDA (x)	7.8	8.1	7.3	6.5	6.7	6.9	7.9	7.0
EV/Revenue (x)	0.9	0.7	0.7	0.7	0.8	1.2	1.0	0.6
Dividend Yield (%)	4.0	3.5	3.5	3.5	3.5	3.4	3.1	3.2
OCF/EV (%)	9.1	5.2	13.0	9.8	13.5	11.6	9.0	9.1
FCF/EV (%)	8.6	2.9	11.6	5.4	8.1	(9.5)	(10.4)	(1.2)
FCFE/M Cap (%)	6.9	1.6	8.5	5.2	5.4	(8.7)	(7.7)	3.7

Source: Company, HSIE Research

Petronet LNG: Company Update

Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Petronet LNG: Company Update

Disclosure:

We, **Nilesh Ghuge, MMS, Priya Gupta, M.Sc. Finance & Aditya Iyer, PGDM** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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