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Petronet LNG—BUY—30—INR

Sector—Oil&Gas
Regd.off.— World Trade Centre 1st Floor Babar Road New Delhi Delhi 110001
Listed— BSE, NSE.

Company Overview—

Petronet LNG formed by the Government of India to import LNG and set up LNG Terminals in the country. Petronet is a Joint Venture Company promoted by the GAIL (India) Limited (GAIL), Oil and Natural Gas Corporation Limited (ONGC), Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) with an authorized capital of Rs. 1200 crores (US\$ 240 million). Petronet LNG Ltd. has setup its first LNG Terminal at Dahej in Gujarat with the capacity of 5 MMTPA and is in the process of setting up another terminal at Kochi in Kerala with the capacity of 2.5 MMTPA. Petronet LNG Ltd. has selected GAZ de France (GdF), a French national company as its strategic partner who is holding 10% of the equity in the company. GdF is the largest importer of LNG in Europe over the last 30 years. Its business covers every aspect of the gas supply chain and the company is taking a lead role in the field of energy sector. It has been developing the expertise in natural gas production, supply, transmission, liquefied natural gas (LNG), storage and distribution and in other applications. In LNG Technology, GdF is recognized as a world leader and, therefore, as a strategic partner. Company will have the benefit of their considerable experience in setting up the LNG Terminals.

Products & Services—

Storage & regassification are main business segments of the company. Company want to play a major role in this key segment area of industrial gas, commercial auto gas etc. Natural Gas is predominantly Methane, but also present in varying proportions are smaller amounts of ethane, propane and butane. Natural Gas is transported via pipeline. However, it is extremely bulky; for example, a high-pressure gas pipeline can transport only about one-fifth of the amount of energy a day that can be conveyed through an oil pipeline.

Natural Gas meets many of the requirements for fuel in a modern day industrial society. It is efficient, clean burning fuel, eco friendly and has flexibility of control. The key uses are:

- Electricity generation by utilities: Fuel for base load power plants and for use in combined cycle/co-generation power plants.
- Public and commercial: LNG is clean fuel for use as is piped Gas in household. Economically cheaper as compared to LPG. In fact most of the Western Countries use piped gas in houses. The household use of piped gas is expected to increase in future.
- Industrial: As an under boiler fuel for steam raising and heating applications.
- Alternative Motor fuel to diesel: With only one carbon and four hydrogen atoms per molecule, natural gas is the cleanest burning fossil fuel. Moreover, it has 30 to 40 % higher fuel efficiency for running motor vehicles. Due to environmental considerations, the use of natural gas in Automotive Sector is bound to increase considerably on account of higher efficiency and being a cleaner fuel.

- Petrochemicals: A variety of chemical products e.g. methanol can be derived from natural gas

Petronet LNG Ltd. has set up India' s first LNG Receiving and Regasification Terminal at Dahej , Gujarat. The Dahej LNG Terminal has been designed to handle a nominal capacity of 5 MMTPA initially, which is equivalent to 20 MMSCMD of natural gas, with a provision for expansion up to 10 MMTPA. Natural Gas from this terminal is being distributed to consumers through a pipeline from Dahej to the Vijapur, which runs parallel to the existing HBJ Pipeline from Vemar (84 KM from Dahej). The Dahej site is ideally located to satisfy the enormous demand of Power, Fertilizer and other users located in the industrial belt between Vadodara and Surat. Gujarat Maritime Board allotted 55 Ha. of land for setting up LNG Terminal. The marine facilities for Dahej Terminal includes a 2.4km long all weather Jetty . The receiving, storage and regasification facilities include unloading arms, two tanks of 160,000 cu. mtrs. capacity each, vaporization system and utilities and off-site facilities. The cost of the terminal is US \$ 550 million and was mechanically completed and thereafter, received the first ever LNG cargo in India.

By 2008, the second phase of the expansion of Dahej LNG terminal will be completed which will include augmenting the capacity of regasified LNG (natural gas) from 5 MMTPA to 10 MMTPA. PLL is looking forward to a financially and technically strong company for the EPC contract for the expansion.

The share premium of Rs 165 crore earned during the company's initial public offer will be invested in the project as Petronet's equity. The remaining equity portion of Rs 135 crore will come from internal accruals. The expansion of the Dahej terminal from a capacity of 5 to 10 million tonnes per annum (mtpa) will begin next year and is expected to be completed by 2008, according to Mathur. The Kochi terminal will have a capacity of 2.5 million tonne. This terminal was planned along with the Dahej terminal but the company put it on hold till such time the demand for LNG picked up in the region.

Financials—

Financial results for half year ended 30th September 2004

1	Net Sales / Income from Operations	89,045.35
2	Other Income	471.86
3	Total Expenditure	
	a) Increase/decrease in stock in trade	-
	b) Consumption of Raw materials	78,720.98
	c) Staff Cost	319.00
	d) Other expenditure	4,304.83
4	Interest	5,027.90
5	Profit/ (Loss) before Depreciation & Tax	1,144.50
6	Depreciation	4,707.85
7	Profit/ (Loss) before tax	(3,563.35)
8	Provision for Taxation	-
9	Net profit/ (Loss)	(3,563.35)
10	Paid-up equity share capital (Face Value of Rs 10 each)	75,000.00
11	Reserves excluding revaluation reserves	

12	Basic and Diluted EPS (Not annualised)	(0.48)
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Valuation—

Demand for Natural Gas is increasing at a rate, which can't be fulfilled by the domestic production, as there is a large gap between the demand and supply of Natural Gas. In the year 2002, supply of Natural Gas was 72 MMSCMD and demand is 151 MMSCMD, whereas in year 2007, this gap is projected to get widened, as the supply will remain constant and demand is expected to increase further to 231 MMSCMD. Further in year 2012, the Natural Gas demand is projected at 319 MMSCMD leaving a large gap between demand and supply.

Share of Natural Gas has been increasing due to increment availability of gas through domestic availability, LNG and Pipeline Imports. Gas consumption pegged at domestic availability. Need for import of LNG/piped Gas to meet the growing demand. Natural Gas to play a dominant role in total energy supplies during next decade and beyond, as natural gas is an environment friendly and cost effective. Development of large gas reserves throughout the World and its low emission characters will make Natural Gas the "Fuel of the Future". India is moving towards enhanced use of Natural Gas in Transport, Domestic and Other Industries. The high cost liquid fuel will be replaced by Natural Gas wherever feasible to imbibe the cost advantage, efficiency and environment protection.

By 2008, the second phase of the expansion of Dahej LNG terminal will be completed which will include augmenting the capacity of regassified LNG (natural gas) from 5 MMTPA to 10 MMTPA. As, company is going for huge expansion and consumption level of gas in coming days will give company to make Turnaround in coming few Quarters, **We Recommend investors to Accumulate "Petronet LNG" for medium to long term investment Horizon.**