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(A Subsidiary of Indian Bank)

PETRONET LNG LTD.

September 30, 2011

BSE Code:	532522	NSE Code:	PETRONET	Reuters Code:	PLNG.NS	Bloomberg Code:	PLNG:IN

Petronet LNG Ltd is the fastest growing import and re-gasification of liquefied natural gas company in India, banking high on capacity utilization at Dahej and commencement of operations from Kochi. The company is riding high on being the major beneficiary for providing gas to the massive Indian gas market mainly due to its de-risked business model of charging fixed tariffs for supplying R-LNG. Significant gap in domestic gas demand-supply, elevated prices along with capacity expansion provides to be an attractive investment opportunity.

Investor's Rationale

- Petronet LNG is primarily affianced in the business of LNG procurement, transportation and re-gasification. Escalating natural gas demand supply mismatch in the country has become a boon for the companies in the LNG business, as the additional demand needs to be met by imported LNG. The company, with its ongoing expansion plans and diversification into port & power segment is well-poised to have its slice of pie from the favorable environment for LNG.

- Backed by elevated capacity utilization at Dahej and commencement of operations from Kochi, Petronet LNG is set to report strong headline performance going forward, it is expected that net sales and profit to grow at a CAGR of 31% & 43% during FY'10- FY'13E respectively. It is expected that the revenues during FY'12 and FY'13 will be largely driven by increasing volumes from the Kochi terminal and expanded capacity at Dahej. We believed that the company to report revenue of ₹195,112 million and ₹240,988 million in FY'12 and FY'13 respectively.

- The company is also planning to foray into power generation by setting up a gas based 1,200 MW power plant at Dahej and has recently set-up a solid cargo port through a JV company; Adani Petronet (Dahej) port, where it has a 26% stake. These projects, we believe, would be earnings and value accretive over the medium term.

- Petronet has long term sale and purchase agreement for 7.5mtpa of LNG with Rasgas of Qatar. On the customer side, it has off-take agreement with GAIL, IOC and BPCL. This provides a strong revenue visibility for over the longer term. Further, with limited threat to re-gasification margins, earnings visibility is also robust.

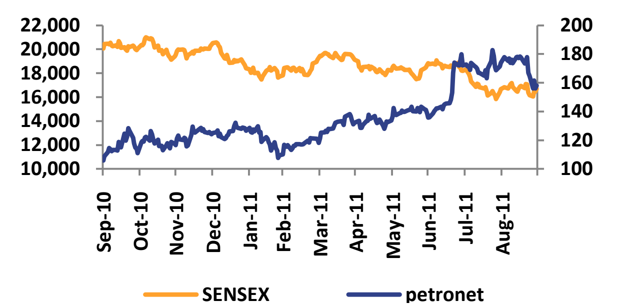
Market Data

Rating	**BUY**
CMP (₹)	159.6
Target (₹)	**195**
Potential Upside (%)	~22
Duration	Med-term
52 week H/L (₹)	185.9/105.1
All time High (₹)	185.9
Decline from 52WH (%)	26.3
Rise from 52WL (%)	54.5
1 year relative-return (%)	59.2
Mkt. Cap (₹ bn)	1,194.8
Enterprise Val (₹ bn)	1,501.0

Fiscal Year Ended

	FY10A	FY11A	FY12E	FY13E
Revenue (₹bn)	106.5	132.0	195.1	241.0
Net Profit(₹bn)	4.0	6.2	10.6	11.9
Capital (₹bn)	7.5	7.5	7.5	7.5
EPS (₹)	5.4	8.3	14.1	15.9
PE (x)	29.5	19.3	11.3	10.0
P/BV (x)	5.3	4.5	3.4	2.6
EV/EBITDA (x)	16.7	12.3	8.3	7.5
ROE (%)	18.1	23.1	29.7	26.0
ROCE (%)	13.5	16.5	21.3	20.2

Relative Price Chart

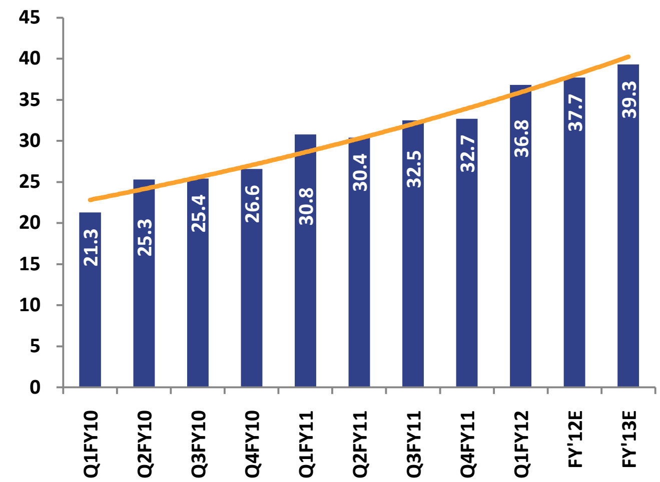


Shareholding Pattern	Jun'11	Mar'11	Diff.
Promoters	50.0%	50.0%	-
Institutional	21.6%	21.3%	(0.30)
General Public	15.3%	15.8%	(0.50)
Others	13.1%	12.9%	0.20

Annual hike of 5% in re-gasification charges expected to continue

Re-gasification charges, growing at the rate of 5% every year, have developed a stable income stream for the company. Petronet's re-gasification charges for its Dahej terminal were fixed at ₹23.7/mmbtu for CY04 with a 5% escalation per annum. Considering that the current tariffs are at ₹33.35/mmbtu, the original formula was based on the capacity of 5mtpa and initial project costs of ₹25 billion to allow the Company earns equity IRR of 16%. However, Petronet has augmented the capacity since then, through de-bottlenecking and new extensions which has brought the per ton capital cost of the project much below the initial estimates. This has enabled the company to earn RoE of more than 20% for the past few years. However, it is believed that backed by strong demand for LNG from end users industries like fertilizers and others, the company is expected to continue with its policy to hike re-gasification charges by 5% per annum.

Re-gasification charges ₹/mmtbu



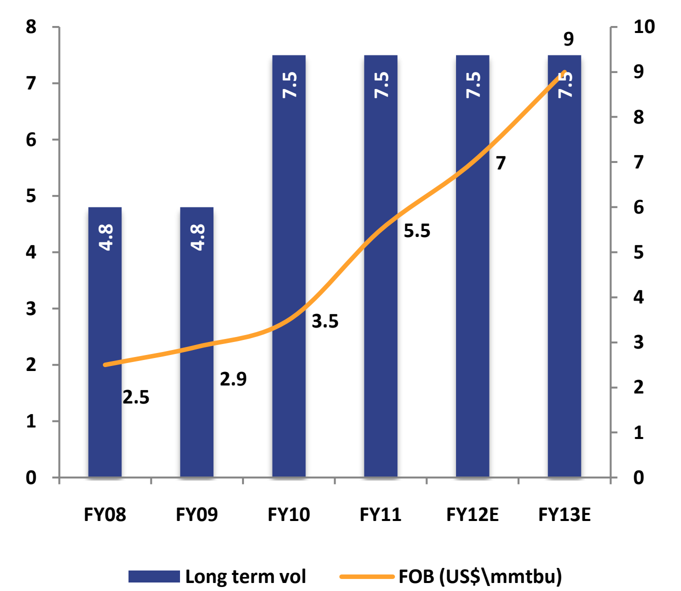
Favorable natural gas demand and supply to augur well for PLNG

With the widening demand supply gap on the back of growing consumption from end user industries, Petronet LNG, with its expanded capacity is well placed to garner a major portion of this incremental demand. This is because, demand for natural gas is expected to grow at a faster rate of 16.3% (5 year CAGR) to 381 mmscmd, compared to supply which is expected to grow at a CAGR of 6.8% to 202.9 mmscmd over the next 5 years. This escalating demand supply gap is expected to be met through LNG imports, which is why we expect the revenues of Petronet LNG to grow at a CAGR of 31% to ₹241.0 billion over the forecast period.

Sizeable portion of volumes on long term contracts

For its Dahej plant, Petronet has a long term contract with Rasgas, Qatar for 7.5 million tons for 25 years. Additionally, the company has tied up for 1.1 million tons in FY'12 and FY'13 while GAIL and GSPC have reserved 0.8mtpa capacity taking the total long term contracts to about 9.4mtpa. This means the company would have 1.1mtpa at Dahej for re-gasifying spot cargos, whereby it earns US$0.3/mmbtu marketing margins over and above its re-gasification charges. It is expected that the RasGas FOB price to increase from $5.5/mmBtu in FY'11 to $7/mmBtu & $9/ mmBtu in FY'12 & FY'13 respectively. For Kochi, Petronet has tied up 1.4mtpa from Exxon Mobil's Gorgon project in Australia. The company is scouting for other longer term contracts as well.

Long term contract ~ Rasgas



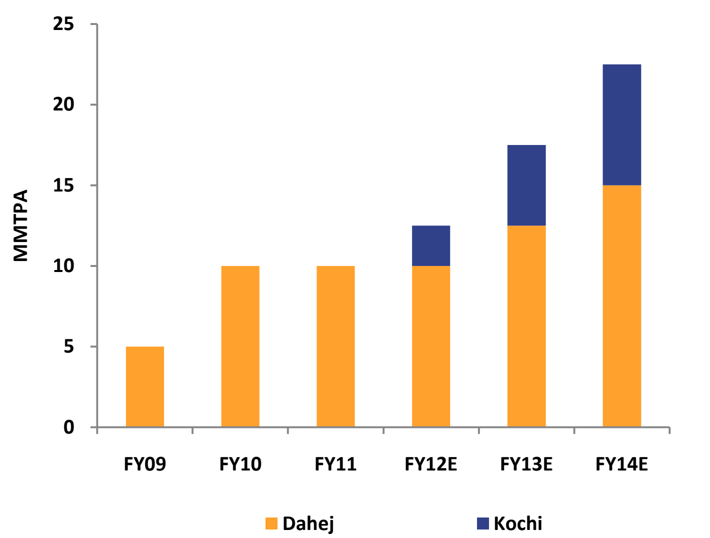
Dahej capacity expansion

Petronet is increasing the re-gasification capacity at its Dahej terminal further by constructing a new jetty of 2.5 mmt. It is also constructing additional LNG storage tanks and increasing the capacity of its re-gasification plant to take the total capacity to 5 mmt. Construction of a new jetty will provide redundancy to the Dahej terminal in that if any accident takes place on the old terminal, operations can continue on the new jetty. The increased terminal capacity will also enable unloading of LNG from larger ships. The new 2.5 mmt jetty to be commissioned by Mar 2014 while commissioning of additional storage tanks and expanded re-gas facilities is expected by Mar 2015. The management has guided towards capex of ₹9 billion for the new jetty and an additional ₹11 billion for storage tanks & re-gas facilities.

₹42 bn Kochi expansion ~ next growth driver

Lack of gas infrastructure in Southern India makes it difficult for the domestic gas producers to serve the market and increases the landed cost of domestic gas. To gain on the rising demand of gas in the southern India with higher landed cost of domestic gas, Petronet is setting up a terminal at Kochi, with the total capex of ₹42 billion, having an initial capacity of 2.5mtpa is expected to commence operations in FY'13E. The capacity can be further scaled upto 5mtpa. However, Petronet LNG with its Kochi terminal is well placed to serve the market. Going further, the company is expected to operate with a total installed capacity of ~22 MMTPA in the coming 3-4 years.

Capacity expansion trend

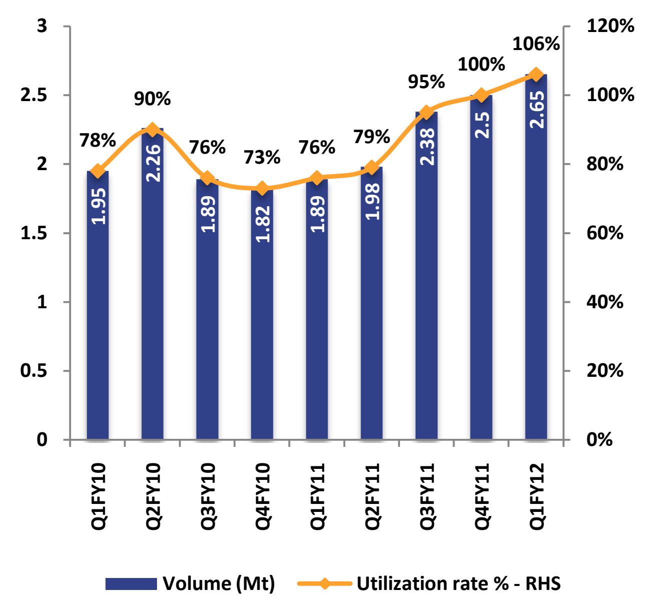


Highest ever capacity utilization @ 105%

In addition to long term volumes, Petronet actively sources spot / short term cargoes on which the levied marketing margin to compensate for marketing risk associated with spot cargoes. Currently, the company has entered into a medium term agreement for 2 yrs for sourcing 1.5 MMT of LNG. Pricing is linked to Brent and is currently in the range of $10.5-11.5/mmBtu. The back to back off-take agreement with customers provides for marketing margin of ~0.5% of Brent. In addition, the company also provides re-gasification services to other players for which the company charges tariffs similar to re-gas charges on long term LNG.

First time in a history company has achieved 105% capacity utilization during the quarter. As per the management capacity utilization will improve further from current level. It is expected that capacity utilization @ 106% & 108% during FY'12E & FY'13E with volume of 10.6 mtpa & 10.8 mtpa respectively against 10.5 mtpa reported during FY'11.

Capacity utilization to remain elevated



LNG pricing not a major concern

Petronet LNG is perhaps the only player in the oil & gas industry whose margins /pricing / returns are not subject to any regulations. Although the LNG pricing is linked to JCC, over the forecast period, we do not expect significant cost increases as there is a fixed formula for pricing the sourced LNG. Also, with the company having back to back off-take agreements, we do not foresee any risk in passing on any of the increased costs. While the recent nuclear mishap in Japan would lead to increased demand for LNG and fossil fuels which could lead to price increases, long term with new supply centres opening up there would exist ample supply which would help keep prices benign.

Higher volumes and re-gas charges boosted Q1FY12 net earnings to best level

During the quarter ended June 30th, 2011, the company has operated at 105% of its capacity breaching the psychological barrier of its nameplate capacity of 10 MMTPA. Total re-gasified volume rose to 133.37 TBTUs against 95.11 TBTUs in the corresponding quarter last year. Due to increase volume, the turnover of the company has risen sharply to ₹46,233.1 million, an increase of over 83%. The Net Profit of the Company has increased to ₹2,567.1 million, a whopping increase of over 130% from the corresponding quarter of last year. This increase in net profit is on account of additional volumes, better margins on short term contracts/sopt cargoes sourced by the company, coupled with increased efficiency in operations. Going further, the net profits of the company are expected to breach the ₹10,000 million levels with an expected 70-80 bps upside in margins.

Risk Factor

Highly dependent on LNG prices

In the past LNG volumes have been negatively affected by sharp spikes in LNG prices. However given the fact that energy costs of other competing sources is also rising we do not expect volumes to dip. In addition back to back off take agreements with GAIL, IOC & BPCL ensure that the risk is minimal.

Change in regulatory norms

Currently, re-gasification tariffs are not under the purview of the regulator. Any verdict towards regulating the tariff may influence the valuation of the stock.

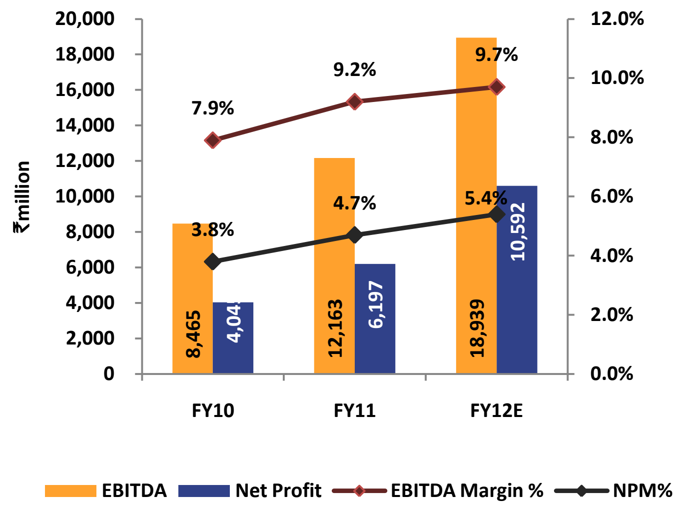
Delay in capacity expansion

Delays in capacity expansion at Dahej and commencement of Kochi terminal could impact our earning prospectus of the company.

LNG import model feasible in long run

It is believed that LNG is likely to be a key source of gas supplies in the medium term on back of strong gas demand in the country. Hence, Petronet LNG is a proxy play on the escalating gap between natural gas provisions and demand in the country. The delay in the KG basin gas ramp-up has further helped the matters. Moreover, the government is making efforts to maintain long-term feasibility of LNG in the overall gas mix of the country. Government could act on the Mercado's Energy Markets International report regarding uniform domestic gas pricing. This move, if implemented, is likely to increase marketability of R-LNG in the country.

Higher re-gas charges to keep margins elevated



Dahej Port to aid growth

Petronet is currently setting up a solid cargo port through a JV company; Adani Petronet (Dahej) port, where it has a 26% stake. The project has recently commenced operations. It involved an investment of US$270 million. The Solid Cargo Port would have facilities to import/ export about 15 MMTPA capacities of bulk products like coal, steel and fertilizer.

Power generation ~ value accretive

Petronet LNG is planning to foray into power generation by setting up a gas based 1,200 MW power plant at Dahej at a cost of ~ ₹30,000 million. The absence of VAT, zero transmission tariff and use of cold energy would ensure competitive pricing and would be value accretive. However, since no timeline is assigned, we have not factored this in our valuations.

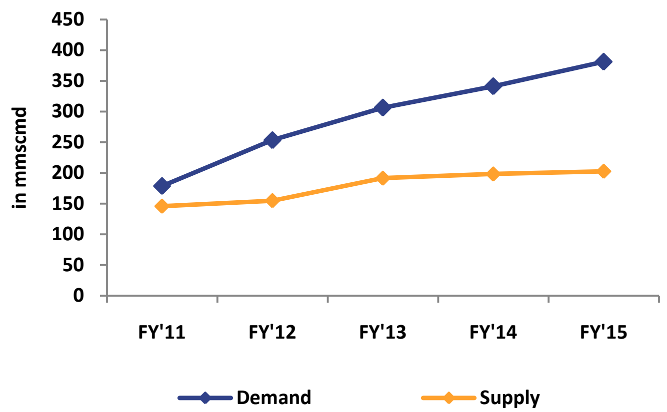
The LNG Industry

India's economic growth report card has been steady at 8-9%, and it is likely to maintain the same growth rate in the coming years. The Liquefied Natural Gas (LNG) has a decent growth prospective in the coming years, especially in the emerging nations. With lower carbon emissions and the efficiency of natural gas as a fuel have made LNG the fuel of choice in the developed world as well. On the other hand, developing nations like China and India are aggressively adopting natural gas to fuel their industry and to make their economic growth more environmentally sustainable. Further, India and China are expected to evolve as leading players in the Asian regional LNG market. Both the nations are expanding their gas pipeline network and adding more Regasification terminals. India is facing challenges to ensure reliable, clean and affordable energy to fuel its transformation. In India, gas demand started from a very low base. Consequently, despite the rapid growth in Indian gas demand over the past decade, gas accounts for merely 10% of total primary energy consumption.

Global Scenario

In near future, the entry of new players globally will expand the market and develop new trade flows. Presently, most of the heavyweight world economies are still recovering from the financial meltdown that began towards the end of 2008 and continued through 2009 with additional concern on Europe crisis. The global economic recovery would concomitantly lead to price and volume recovery in the LNG trade. With the US retooling its re-gasifiaction terminals for LNG, LNG market has changed significantly. This will have a major impact on countries like Qatar which were gearing up their LNG supply chain with super-sized LNG trains of 7.8 mmtpa capacity and US.

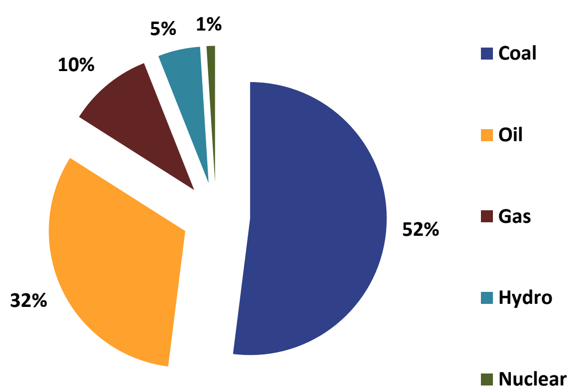
Present & Future Gas Demand-Supply Scenario



Domestic View

The 2010-11 figures reveal that the gas demand is around 179 mmscmd and the indigenous supply stands at less than 140 mmscmd. The gap is set to increase at a very fast pace. As expected, the gap is likely to vary between 70 and 100 mmscmd in 2011-12 and by 2014-15 the gap would touch the massive 150 mmscmd mark. Indigenous gas production has increased sharply since the commissioning of Reliance's D6 gas field in the Krishna Godavari Basin and production in 2011 is set to be more than double that of 2008 levels. India currently has over 9,000 km of gas transmission pipelines; however, geographical size of the country in compare to its gas network is in a relatively underdeveloped state. Most of the transmission and distribution infrastructure is located in the northwest of the country. Currently, India's LNG import capacity is around 13.5 MMTPA through its two terminals & meeting almost 20% of total gas supply of the country.

Indian Energy Demand



Outlook

Given India's growing energy requirements and unlikelihood of matching increase in the domestic supplies, despite some significant oil & gas finds recently, the import dependence is only going to accentuate sharply in the coming years. By 2025, India is expected to be dependent on imports for around 44% of its supply and would require nearly 5,100 mmcfd of imported gas. India's LNG import capacity is expected to surge to 47.5 million tonnes annually in 2015-16 and 62.5 mtpa in 2019-20.

Balance Sheet (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Share Capital	7,500.0	7,500.0	7,500.0	7,500.0
Reserve and surplus	14,849.0	19,302.0	28,150.7	38,339.0
Net Worth	22,349.0	26,802.0	35,650.7	45,839.0
Loan Funds	24,998.0	32,161.0	40,388.0	46,589.0
Net Deferred Tax Liability	3,262.0	3,480.0	3,480.0	3,480.0
Capital Employed	**50,609.0**	**62,443.0**	**79,518.7**	**95,908.0**
Gross fixed assets	35,495.0	35,537.0	38,009.7	77,424.0
Less: accumulated depreciation	6,667.0	8,513.0	10,485.0	12,872.0
Capital Work in Progress	13,184.0	22,029.0	34,529.0	13,023.0
Net Fixed assets	42,012.0	49,053.0	62,053.7	77,575.0
Investment	5,386.0	11,649.0	12,500.0	12,500.0
Net Current Assets	3,211.0	1,741.0	4,965.0	5,833.0
Capital Deployed	**50,609.0**	**62,443.0**	**79,518.7**	**95,908.0**

Profit & Loss Account (Consolidated)

(₹million)	FY10A	FY11A	FY12E	FY13E
Net Sales	**106,491.0**	**131,973.0**	**195,112.0**	**240,988.0**
Expenses	98,026.0	119,810.0	176,173.0	219,188.0
EBITDA	**8,465.0**	**12,163.0**	**18,939.0**	**21,800.0**
EBITDA Margin %	*7.9*	*9.2*	*9.7*	*9.0*
Depreciation	1,609.0	1,847.0	1,972.0	2,387.0
EBIT	**6,856.0**	**10,316.0**	**16,967.0**	**19,413.0**
Interest	1,839.0	1,931.0	2,081.0	2,557.0
Other income	978.0	680.0	690.0	690.0
Profit Before Tax	5,995.0	9,065.0	15,576.0	17,546.0
Tax	1,950.0	2,868.0	4,984.3	5,614.7
Profit after Tax	**4,045.0**	**6,197.0**	**10,591.7**	**11,931.3**
NPM %	*3.8*	*4.7*	*5.4*	*5.0*

Key Ratios

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	7.9	9.2	9.7	9.0
EBIT Margin (%)	6.4	7.8	8.7	8.1
NPM (%)	3.8	4.7	5.4	5.0
ROCE (%)	13.5	16.5	21.3	20.2
ROE (%)	18.1	23.1	29.7	26.0
EPS (₹)	5.4	8.3	14.1	15.9
Cash EPS (₹)	7.5	10.7	16.8	19.1
P/E (x)	29.5	19.3	11.3	10.0
BVPS	29.8	35.7	47.5	61.1
P/BVPS (x)	5.3	4.5	3.4	2.6
EV/Operating Income (x)	1.3	1.1	0.8	0.7
EV/EBITDA (x)	16.7	12.3	8.3	7.5
EV/EBIT (x)	20.6	14.5	9.2	8.4

Valuation

It is expected that volume growth would sustain in the coming quarter, as domestic natural gas supply persist to fall short to meet the ever rising demand. We maintained positive view on Petronet LNG, given the huge demand for imported LNG in the domestic market, expected increase in re-gasification charges, along with back to back long-term agreement which offers sustainable operating margin.

We rate the stock as ‘BUY’ at the current market price of ₹159.6, given the company’s strong fundamentals, apt management and favorable environment for LNG. The current market price of ₹159.6, implies a P/E of ~11.3x FY’12 EPS of ₹14.1 and 10.0x on FY’13E EPS of ₹15.9 respectively.

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