

November 22, 2021

HPCL LNG Limited: Provisional [ICRA]AA+(CE) (Stable) and Provisional [ICRA]A1+ (CE) assigned while [ICRA]A+ (Stable) rating withdrawn and Short-Term rating of [ICRA]A1+ (CE) finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan-Long term	3,010.0	3,000.0	Provisional [ICRA]AA+(CE) (Stable) assigned [ICRA]A+ (Stable) withdrawn
Short Term Loan	800.0	800.0	[ICRA]A1+ (CE); finalized from Provisional [ICRA]A1+ (CE)
Forward cover-Short Term*	0.0	(10.0)	Provisional [ICRA]A1+ (CE) assigned
Total	3810.0	3800.0	

*Forward Cover- Short term is a sub-limit of Fund based-term loan and the long term rating will be applicable when the limit is utilized under the term loan facility while when the limit is utilized against forward cover the short term rating will be applicable

Rating in the absence of the pending actions/ documents	[ICRA]A+/[ICRA]A1
Rating Without Explicit Credit Enhancement	[ICRA]A+/[ICRA]A1

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the (provisional) rating symbol indicates that the rated instrument/facility is to be backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The table above also captures ICRA's opinion on (a) the rating if the pending actions/ documents are not completed, and (b) the rating without factoring in the proposed explicit credit enhancement.

Rationale

For the Provisional [ICRA]AA+ (CE)(Stable) and [Provisional [ICRA]A1+ (CE) rating

The above rating is based on the strength of the draft Sponsor Support Undertaking (SSU) provided by Hindustan Petroleum Corporation Limited (HPCL, rated [ICRA]AAA (stable)/[ICRA]A1+), the parent of HPCL LNG Limited (HPLNG), for the rated Rs. 3000.0 crore term loan programme and Rs. 10.0 crore forward cover program (a sub limit of the Rs. 3000.0 crore term loan program). The Stable outlook on this rating reflects ICRA's outlook on the rating of the parent HPCL. The facility had a rating of [ICRA]A+ (Stable) earlier factoring in implicit support from HPCL. However, the same has been withdrawn and the facility has been assigned the rating of Provisional [ICRA]AA+ (CE) (Stable) given the explicit support being provided by HPCL.

Adequacy of credit enhancement

The rating of the instrument is based on the rating notch up approach whereby the rating of the entity has been notched up factoring the extent of the parent support undertaking. The draft parent support undertaking once executed will be legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, will ensure that the entity will maintain a Gross Debt Servicing Coverage Ratio (GDSCR) of 1.0x at all times and the parent will also ensure timely servicing of the interest and principal payment in a timely manner. Given these attributes, the draft SSU provided by HPCL is adequately strong to result in an enhancement in the rating of the said instrument to Provisional [ICRA]AA+ (CE) and Provisional [ICRA]A1+ (CE) against the rating of [ICRA]A+ and [ICRA]A1 without explicit credit enhancement. In case the rating of the Parent which has furnished the parent support undertaking i.e. HPCL was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- » HPCL will maintain at least 51% ownership in the company till the tenor of the loan
- » HPCL shall ensure that the minimum GDSCR of 1.0 time, is maintained by the Borrower in all circumstances in each Fiscal Year until the Final Settlement Date and the Promoter shall infuse funds into the relevant sub-account of the Trust and Retention Account so as to enable the Borrower to pay/ repay/ discharge the interest and principal amounts in relation to the Rupee Facility in a timely manner at all times until the Final Settlement Date.

For the [ICRA]A1+(CE) rating

In July 2021, ICRA had assigned a provisional rating of [ICRA]A1+ (CE) to Rs. 800.0 crore short term loan of HPLNG backed by a draft of Letter of Comfort (LOC) from HPCL. HPLNG has shared the executed version of the transaction documents including the LOC with ICRA. Since the executed version of the transaction documents is in line with the rating conditions, the rating of Provisional [ICRA]A1+ (CE) is now being finalised to [ICRA]A1+ (CE). The rating is based on the strength of an LOC provided by HPCL., which shall remain effective until the Facility is fully repaid together with all interest payable under the agreement.

Salient covenants of the rated facility

- » HPCL will maintain at least 51% ownership in the company till the tenor of the loan
- » During the currency of the loan, the borrower will not, without banks permission (a) Formulate any scheme of amalgamation or reconstruction or merger or demerger, (b) Plan for any project or scheme of expansion or acquisition of fixed assets (except the land of ~ 138 acres to be acquired from Simar Port Pvt Ltd for the Project)., (c) Undertake guarantee obligations on behalf of any other company (d) Declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default is subsisting in any repayment obligations to the Bank.

Key rating drivers and their description

Credit strengths

Strong track record of promoter in crude oil refining segment- HPLNG was promoted equally by HPCL and the SP Group through SP Ports Private Limited (SPPPL). On March 30, 2021, HPCL acquired SP Group's 50% stake in HPLNG thereby making the company its wholly-owned subsidiary. HPCL is involved in the production and marketing of various petroleum products, operation of pipeline network and has presence in the exploration and production (E&P), city gas distribution, and renewable energy businesses. HPCL enjoys an established brand name and has strategic importance in the domestic energy sector.

Parent support in the form of Sponsor Support Undertaking and letter of comfort supporting the borrowing program- HPLNG's borrowing programs i.e. term loan programme and short term loan program are backed by a draft Sponsor Support Undertaking (SSU) and Letter of Comfort (LOC) respectively both furnished by Hindustan Petroleum Corporation Limited (HPCL). The company is supported by the parent for contracting loans from the banking system and remains a strategically important entity for the parent.

Initial capital cost remains competitive amongst upcoming LNG terminals- With several other upcoming LNG terminals in the country, HPLNG is well-placed in terms of the initial capital cost requirements. Furthermore, the company has awarded its plant facilities construction to reputed domestic and global contractors at highly competitive prices on an LSTK basis.

Credit challenges

Exposed to residual execution risks given the project is ~73% complete as of now- - As against scheduled progress of ~95.75%, the actual progress achieved till October 2021 is ~72.57%. The backlog in construction is mainly due to a halt in construction activities due to the initial lockdowns following the outbreak of COVID-19, which is expected to be covered in upcoming months. The project cost at Rs. 4,293.02 crore is to be funded in a debt-equity ratio of 70:30. The company had executed the loan agreement for the project debt but is renegotiating the terms post the exit of the SP group and is expected to receive

fresh sanctions shortly. To mitigate the risk of time and cost over runs the company has awarded plant facilities contracts to renowned contractors on LSTK basis. Out of 138.27 acres of land required for the project, 135.28 acres has been acquired and sale deeds have been executed by Simar Port Private Limited (SPPL). Additionally, the start-up of the LNG terminal would also be contingent upon successful completion of the breakwater by SPPL. While construction of the breakwater is in progress duly prioritizing the section required for the LNG Terminal, timely completion of the same will be a key monitorable. Furthermore, any delays in pipeline connectivity to the gas grid will pose a significant challenge towards off-take of the R-LNG. The pipeline is to be constructed by GSPL. While GSPL has completed the Right of Way (RoW) status for the entire stretch of the 87km-long pipeline, it is yet to award EPC contracts for the construction of the pipeline.

Competition from the existing R-LNG infrastructure (operated by PLL, Shell, GAIL, etc.) as well as from the several upcoming LNG terminals expected to be commissioned in the near term in West Coast-The port at Chhara being located on the west coast faces strong competitive pressures from the established players like Petronet LNG, Shell, GAIL, etc. as well as from other upcoming terminals at Dhamra, Jaigarh and Jafrabad. The company would, however, benefit from the strong off-take support from its parent, which alleviates the market risks to some extent.

Demand outlook for R-LNG to face competition from liquid fuels which could impact the off-take from the terminal depending on energy price parity-The domestic demand for R-LNG remains exposed to competition from other alternate as well as cheaper sources of fuels viz. liquid fuels.

Liquidity position

For Rating with Explicit Credit Enhancement: Strong

HPCL's liquidity is expected to remain strong, aided by healthy cash flow generation and sizeable cash and cash equivalents (~Rs. 5,573.0 crore on standalone books as on March 31, 2021). Further, the company has adequate fund-based and non-fund based working capital limits, a sizeable part of which is un-utilised. It also enjoys high financial flexibility owing to its strong parentage.

For the [ICRA]A+/[ICRA]A1 rating: Adequate

Liquidity position is expected to remain adequate given the availability of sanctioned term loans and short-term debt expected to be availed to meet the capex requirements. Further, the current debt tie-up is being renegotiated to include more favorable terms following the change in HPLNG's ownership. In the interim the company plans to utilize short term facilities for meeting project expenses and once the new debt sanctions are in place the short-term debt would be paid off. Post-commissioning, the cash flows from the project are expected to be supported by the marketing requirements and captive consumption by the parent and the comfortable moratorium period on the debt repayment.

Rating sensitivities

For the [ICRA]AA+(CE) (Stable) rating

Positive factors: Completion and stabilisation of the project without any major time/cost overruns.

Negative factors: Downward pressure on HPLNG's rating could arise (i) in case the credit profile of HPCL weakens or (ii) the linkage between HPCL and HPLNG weakens, or (iii) significant delay in commissioning or material cost overruns.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	HPCL ([ICRA]AAA (Stable)/[ICRA]A1+) has extended support to the borrowing program of HPLNG (beyond the equity commitment) in the form of LOC and SSU, given the high strategic importance that HPLNG holds for HPCL. HPLNG shares a common name with HPCL, which in ICRA's opinion, would persuade HPCL to provide financial support to the entity to protect its reputation from the consequences of a group entity's distress. The short-term borrowing programme is backed by letter of comfort from HPCL and the term loan program will be backed by a Sponsor Support Undertaking.
Consolidation/Standalone	The rating is based on a standalone financial profile of the company.

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Execution of the Sponsor Support Undertaking

Validity of the provisional rating

In case the debt instrument/ borrowing facility to which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days ("validity period") from the date of issuance of the debt instrument/ date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/ documents over the near term. In no circumstance shall the Validity Period be extended beyond 180 days from the date of issuance. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/ documents are not completed by the entity within 90 days ("validity period") from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/ documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/ documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

HPCL LNG Limited (HPLNG, erstwhile HPCL Shapoorji Energy Private Limited) is a special purpose vehicle (SPV) which was formed as an equal joint venture between Hindustan Petroleum Corporation Limited (HPCL) and SP Ports Private Limited (SPPPL), a Shapoorji Pallonji Group company in October 2013. In March 2021, HPCL acquired SPPPL's 50% stake in HPLNG thereby making the company its wholly-owned subsidiary. The SPV has been incorporated with the purpose of setting up a 5 million metric tonne per annum (MMTPA) land-based LNG storage and regasification terminal with all the associated facilities as well as subsequent supply of regasified LNG to the gas grid. The total capital cost for the aforesaid project has been

estimated at Rs. 4,293.02 crore which is proposed to be funded in a debt-equity mix of 70:30. The Chhara LNG Terminal shall be within the boundary of an all-weather multi-purpose greenfield port being developed at Chhara. The LNG project will have provisions for expansion of capacity up to 10 MMTPA in the future; the utilities, flare header and unloading lines are being designed for handling higher capacity.

Key financial indicators (audited)

Parent

HPCL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	269,092	233,248
PAT (Rs. crore)	3,097	10,524
OPBDIT/OI (%)	2.1%	6.9%
PAT/OI (%)	1.2%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.8	2.5
Total Debt/OPBDIT (times)	7.8	2.7
Interest Coverage (times)	5.0	16.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *Excluding profit/loss of joint ventures/associates

Company

Not Applicable as company is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument				Current Rating			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2022			Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					22-Nov-2021	07-Jun-2021	08-Apr-2021	16-Oct-20	27-Apr-20	-	22-Mar-19	28-Aug-18
1	Term Loan	Long term	3,000.0	0.00	Provisional [ICRA]AA+ (CE) (Stable)*	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Short term-fund based	Short Term	800.0	400.00	[ICRA]A1+ (CE)	Provisional [ICRA]A1+ (CE)	-	-	-	-	-	-
3	Forward cover	Short Term	(10.0)	0.00	Provisional [ICRA]A1+ (CE)	-						

* Provisional [ICRA]AA+(CE) (Stable) assigned while [ICRA]A+ (Stable) has been withdrawn

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short -term – Short Term Loan	Simple
Forward Cover-Short Term	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Proposed Term Loan	NA	NA	NA	3000.0	Provisional [ICRA]AA+ (CE) (Stable)#
HDFC Bank	Short Term Loan	June 2021	NA	June 2022	800.0	[ICRA]A1+ (CE)
-	Proposed Forward Cover*	NA	NA	NA	(10.0)	Provisional [ICRA]A1+ (CE)

Source: Company; *Sub-limit of Proposed Term loan; #: Provisional [ICRA]AA+(CE) (Stable) assigned [ICRA]A+ (Stable) withdrawn

Annexure-2: List of entities considered for consolidated analysis-NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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Branches



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