March 25, 2022

Petronet LNG Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Limits- Fund based limits	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Short Term Limits- Non-Fund Based	6,526.00	5,602.00	[ICRA]A1+; reaffirmed
Long Term/Short Term Limits- Fund based/ Non-fund-based limits	4,974.00	5,898.00	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**12,000.00**	**12,000.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Petronet LNG Limited's (PLL) favourable business risk profile, its robust contractual structure which addresses critical risks in existing regasification operations and new projects, and the company's demonstrated track record in running regasification operations profitably. The ratings also factor in PLL's strong financial flexibility because of its strong parentage and very low external debt on its books. Further, the company has a healthy liquidity with cash and investments of more than Rs. 6,000 crore as on September 30, 2021. These also translate into robust debt protection metrics (interest coverage of 17 times for 9M FY2022). The ratings also factor in the enhanced visibility of PLL's cash flows, considering the 15.75-MMTPA agreements (on either 'take or pay' or 'use or pay' basis) signed with strong counterparties for its Dahej terminal.

While the volumes moderated on account of Covid-19 and elevated gas prices, the capacity utilisation of the Dahej terminal remains healthy at more than 90%. Moreover, the capacity utilisation at the Kochi terminal continues to be low at around 22-25%, even after the increase in the same post the commencement of the Kochi Mangalore pipeline. It is expected that the pipeline will ramp up the capacity utilisation of PLL's Kochi terminal, which will not only support the cash flow and improve the return indicators but also diversify the cash flow across two assets. Further, ICRA notes that the offtakers are in discussions with the company to reduce the regasification charges of the Kochi terminal; however, the same is likely to be compensated by an increase in the volume offtake.

The ratings also factor in the competition to natural gas from alternative fuels like hydrogen and electricity (for electric vehicles); however, these alternative sources are likely to take a very long time to materially impact gas consumption. Further, the company remains exposed to competition from other terminals, which are likely to be commissioned in the near to medium term, although PLL's Dahej terminal continues to be one of the most competitive by having one of the lowest regasification charges. ICRA also notes that the company is incurring capex to construct two storage tanks and an additional jetty at the Dahej terminal, along with capacity expansion. The company also has other capex plans that are in very nascent stages.

The Stable outlook on the long-term rating reflects ICRA's opinion that PLL will continue to benefit from a healthy demand outlook for LNG in the near to medium term due to a wide natural gas deficit and agreements (on either 'take or pay' or 'use or pay' basis) for most of the capacities signed with strong counterparties.

Key rating drivers and their description

Credit strengths

Robust contractual structure addresses critical risks in business: PLL's volumes have been tied up under long-term sales agreements and 'use or pay' tolling agreements with strong counterparties for the Dahej plant. The terms and conditions of the sale purchase agreements with the offtakers are co-terminus with that of the supply purchase agreements with the RLNG supplier (RasGas, Qatar). These agreements pass on the price risks to the offtakers and ensure the offtake of minimum contracted quantities or use of minimum contracted capacity.

Favourable outlook for R-LNG demand in the medium term - India's domestic natural gas production has been consistently decreasing in the last few years (from a peak of 143 MMSCMD in FY2011 to around 79 MMSCMD in FY2021), primarily due to a fall in production levels at the KG-D6 and Panna-Mukta-Tapti fields. While domestic natural gas production from existing or already discovered fields is expected to increase going forward, the same is likely to fall short of the demand. Accordingly, the outlook for LNG demand remains favourable due to a widening domestic gas deficit.

Sales agreements offer healthy revenue visibility - The company has an agreement with RasGas for 7.50 MMTPA gas from its Dahej terminal and with Exxon Mobil for 1.44 MMTPA gas from the Kochi terminal. Besides, PLL regasifies LNG procured through medium-term contracts and spot cargoes for direct sales to customers. At present, 15.75 MMTPA capacity has been tied up under long-term sales agreements and 'use or pay' tolling agreements with strong counterparties for the Dahej plant, out of a total capacity of 17.5 MMTPA which provides visibility to the cash flows.

Comfortable financial profile - While the operating income declined in FY2021 due to lower gas prices and reduced mobility resulting in lower gas demand, the trend in operating income reversed in the current fiscal owing to elevated gas prices. The high gas prices have impacted the demand to some extent. PLL reported an operating income of Rs. 32,008 crore in 9M FY2022 vis-à-vis Rs. 26,023 crore in FY2021. The margins were high in FY2021 on account of inventory gains and higher margins on spot volumes. The margins had moderated in the current fiscal but remained healthy. The external debt on the books of the company remains extremely low, resulting in a robust capital structure and healthy debt protection metrics.

Healthy liquidity and financial flexibility from strong parentage: PLL's liquidity profile remains healthy, characterised by cash and investments of more than Rs. 6,000 crore as of September 2021. This, along with the strong parentage of four oil & gas PSUs viz. ONGC, GAIL, IOC and BPCL, provides healthy financial flexibility. The four PSUs - ONGC {rated [ICRA]AAA(Stable)/[ICRA]A1+}, GAIL {rated [ICRA]AAA(Stable)/[ICRA]A1+}, IOC {rated [ICRA]AAA(Stable)/[ICRA]A1+} and BPCL - have 12.50% equity stake each in PLL.

Credit challenges

Low capacity utilisation of Kochi terminal - The capacity utilisation of the Kochi terminal has been low. While the utilisation increased after the commencement of the Kochi-Mangalore pipeline, it was around 22-25% for 9M FY2022 and still remains low. Going forward, the consumption is expected to increase with the availability of several large potential customers in Mangalore along the pipeline.

Exposure to market risks related to R-LNG; competition from other sources and alternative fuels: The prospects for LNG demand remain favourable over the medium to long term in line with the limited domestic supply of natural gas. PLL remains exposed to market risks related to R-LNG and likely competition from other sources of gas and alternative fuels. However, the risk is partly offset by the anticipated demand-supply deficit for domestic gas and back-to-back contracts with offtakers for entire long-term volumes.

Competition from other terminals: PLL is exposed to competition from new regasification terminals. However, the existing terminals would remain cost-efficient owing to their low capital intensity.

Liquidity position: Superior

The liquidity position of PLL is expected to remain superior owing to the large scale of operations coupled with robust operating profitability, healthy cash generation, strong debt protection metrics and large cash and liquid investments which were more than Rs. 6,000 crore as on September 30, 2021.

Rating sensitivities

Positive factors – NA

Negative factors – The ratings could be downgraded in case of any sizeable debt funded capex or large dividends impacting the credit metrics and/or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of PLL

About the company

PLL has been promoted by four PSU oil & gas companies viz. ONGC, GAIL, IOC and BPCL with each of them having 12.50% equity stake, with the rest being held by institutional investors and the general public. PLL had commissioned a 5-MMTPA LNG regasification plant at Dahej, Gujarat, in April 2004 which was expanded to 10 MMTPA in July 2009, 15 MMTPA in October 2016 and 17.5 MMTPA in June 2019. The company's operations are governed by the provisions of a series of agreements such as supply purchase agreement (SPA) with RasGas, Qatar, time charter agreement (TCA) with Mitsui OSK consortium, port operations service agreement (POSA), gas supply purchase agreement (GSPA) with the offtakers and a payment security mechanism. PLL sources LNG from RasGas, Qatar, under a 25-year SPA. For transporting LNG to its plant, PLL has entered into a TCA with Mitsui consortium, who has deployed three dedicated LNG ships for the company. The 7.5-MMTPA long-term committed R-LNG from the Dahej plant is sold to GAIL, IOCL & BPCL in the ratio 60:30:10, through the GSPA. The terms and conditions of the GSPA are materially co-terminus with that of the SPA. Additionally, the company had tied up 'use or pay' tolling agreement for 8.25 MMTPA with GAIL (India) Ltd. (GAIL), Indian Oil Corporation Ltd. (IOC), Bharat Petroleum Corporation Ltd. (BPCL) and Gujarat State Petroleum Corporation (GSPC) and Torrent Power. The offtakers have take or pay liabilities to PLL and the latter has supply or pay liabilities to the offtakers.

PLL commissioned a 5-MMTPA greenfield regasification terminal at Kochi in September 2013. The company has SPA of 1.44 MMTPA with Exxon Mobil for its Kochi terminal and has GSPA with offtakers for the same quantity on a materially back-to-back basis.

Key financial indicators (audited)

PLL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	35,452	26,023
PAT (Rs. crore)	2,698	2,949
OPBDIT/OI (%)	11.3%	18.1%
PAT/OI (%)	7.6%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	1.0	0.8
Interest Coverage (times)	9.9	14.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: PLL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					March 25, 2022	Jan 25, 2021	Jan 10, 2020	Feb 27, 2019
1	Long Term limits- Fund Based	Long Term	500.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Short Term limits- Non-Fund Based	Short Term	5602.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Long Term/Short Term limits-Fund Based/Non-Fund Based	Long Term/ Short Term	5898.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
4	Issuer Rating	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Limits- Fund based limits	Simple
Short Term Limits- Non-Fund Based	Very Simple

Long Term/Short Term Limits- Fund based/ Non-fund-based limits	Simple
Issuer Rating	NA

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
-	Long Term Limit – Fund Based Limits	-	-	-	500.00	[ICRA]AAA (Stable)
-	Short Term Limits- Non-Fund Based Limits	-	-	-	5602.00	[ICRA]A1+
-	Long Term/Short Term Limits- Fund Based/ Non-Fund Based	-	-	-	5898.00	[ICRA]AAA (Stable)/ [ICRA]A1+
-	Issuer Rating	-	-	-	-	[ICRA]AAA (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Petronet Energy Limited	100%	Full consolidation
Petronet LNG Foundation	100%	Full consolidation
Adani Petronet (Dahej) Port Pvt. Ltd.	26%	Equity Method
India LNG Transport Co No (4) Pvt. Ltd.	26%	Equity Method

Source: *PLL annual report FY2021*

Note: *ICRA has taken a consolidated view of the parent (PLL), its subsidiaries and associates while assigning the ratings.*

ANALYST CONTACTS

Sabyasachi Majumdar
+91 145 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches