March 17, 2023

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 cash credit	500.00	1,001.00	[ICRA]AAA (Stable); reaffirmed
Short-term limits- Non-fund based	5,602.00	10,632.00	[ICRA]A1+; reaffirmed
Long term/Short-term limits fund-based/non-fund-based limits	5,898.00	367.00	[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-I*

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 position with cash and investments of more than Rs. 7,000 crore as on September 30, 2022. These also translate into robust debt protection metrics (interest coverage of 16.28 times for 9M FY2023).

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) with strong counterparties for its Dahej terminal. The utilisation of the Dahej terminal declined to 87% in FY2022 and to 77% in 9MFY2023, adversely impacted by lower offtake amid high LNG prices. Moreover, the capacity utilisation at the Kochi terminal continues to be low at 22-25%, even after the commencement of the Kochi-Mangalore pipeline. Going forward, the pipeline is expected to ramp up the capacity utilisation of the Kochi terminal, which will not only support the cash flow and improve the return indicators but also diversify the cash flow across two assets.

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, along with capacity expansion at the Dahej terminal. 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 and the agreements in place for most of the capacities with strong counterparties, which will keep its credit profile comfortable.

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 R-LNG 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 medium-term outlook for R-LNG demand – The demand growth is expected to accelerate on the back of strong GDP growth, expanding infrastructure, rising domestic production and a supportive policy environment.

Sale 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 – The operating income increased in FY2022 and 9M FY2023 on account of a spike in gas prices despite lower volumes. Petronet LNG (PLNG) reported healthy EBITDA despite lower volumes due to the 'use or pay charges' of Rs. 850 crore booked during Q3 FY2023. The external debt on the company's books 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. 7,000 crore as of September 2022. 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 utilisation levels for the Kochi terminal continue to be low. Despite the commencement of the Kochi-Mangalore pipeline, the capacity utilisation of the terminal has not increased as expected amid high gas prices. However, even at a standalone level, the Kochi terminal is profitable. At Kochi, the utilisation is still ~20%, which the company is unable to increase due to pipeline completion issues. The enhancement of pipeline connectivity is likely to increase the Kochi terminal's capacity utilisation, going forward.

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.

Environmental and social risk

PLL is moderately exposed to the risks of tightening regulations on environment and safety. However, it has been compliant with environmental regulations, enabling it to mitigate the regulatory risks by demonstrating a sound operational track record and ensuring regulatory compliance. PLL is not as exposed to carbon transition risk as other oil and gas companies as it is engaged in the business of LNG re-gasification which is less susceptible to carbon transition relative to crude oil. Further, it deals with natural gas, which is a cleaner form of fuel compared to other fossil fuels. The company is installing rooftop mounted solar panels at the Dahej and Kochi terminals to reduce carbon footprint. Further, it has also optimised its operations, improving the energy efficiency at both the terminals. PLL also has been working towards water conservation.

Liquidity position: Superior

The liquidity position of PLL is expected to remain superior owing to the large scale of operations coupled with the robust operating profitability, healthy cash generation, strong debt protection metrics and large cash and liquid investments which were more than Rs. 7,000 crore as on September 30, 2022. Further, despite the planned capex and dividend outflow, the liquidity position is expected to remain healthy.

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 the consolidated financial statements of PLL

About the company

PLL is 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 and to 15 MMTPA in October 2016. The operations of the company 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 payment security mechanism. PLL sources LNG from RasGas, Qatar, under a 25-year SPA. For transporting LNG to its plant, PLL has entered into TCA with Mitsui consortium, which 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 GSPA are materially co-terminus with that of SPA. A GSPA of 1.425 MMTPA (as amended from time to time) was entered in 2010 with BPCL, IOCL and GAIL in the ratio of 40:30:30 respectively, with validity till 2035.

The company also has an agreement with ONGC Limited for the extraction of higher hydrocarbons from imported LNG which is replenished through LNG sourced on long-term/short-term/spot basis and is valid till 2028. This contract is for a volume of up to 0.973 MMTPA. The company also has long-term regasification services agreements, including an agreement for 2.5 MMTPA capacity with GAIL, 1.5 MMTPA with IOCL and 1 MMTPA with BPCL at the Dahej terminal, valid till 2036. 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. Besides, the company expanded the capacity of its Dahej terminal from 15 MMTPA to 17.5 MMTPA (Dahej Phase IIIB1 project) which has been commissioned in June 2019-end.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	26,022.9	43,169
PAT	2,949.4	3,352.4
OPBDIT/OI	18.1%	12.4%
PAT/OI	11%	8%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	0.8	0.6
Interest coverage (times)	14.0	16.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 17, 2023	Mar 25, 2022	Jan 25, 2021	Jan 10, 2020
1	Fund based cash credit	Long term	1,001.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-fund based	Short term	10,632.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based/ Non-fund based	Long term and short term	367.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
4	Issuer rating	Long term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
5	Long Term Bond programme	Long term	-	-	-	-	-	[ICRA]AAA (Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term limits- Fund based cash credit	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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based cash credit**	NA	NA	FY2024	1,001.00	[ICRA]AAA (Stable)
NA	**Non fund based**	NA	NA	FY2024	10,632.00	[ICRA]A1+
NA	**Fund based/Non fund based**	NA	NA	FY2026	367.00	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	**Issuer rating**	NA	NA	FY2025	-	[ICRA]AAA (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Petronet Energy Limited	100.00%	Full Consolidation
Petronet LNG Foundation	100.00%	Full Consolidation
Adani Petronet (Dahej) Port Pvt. Ltd.	26.00%	Equity Method
India LNG Transport Co No (4) Pvt. Ltd.	26.00%	Equity Method

Source: PLL annual report FY2022
Note: ICRA has taken a consolidated view of the parent (PLL), its subsidiaries and associates while assigning the ratings.

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