

May 14, 2024

Petronet LNG Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short term – Others – Non-fund based	10,632.00	10,840.59	[ICRA]A1+; reaffirmed
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Long term/Short term – Others – Fund-based/Non-fund based	367.00	159.41	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long term - Cash credit – Fund-based	1,001.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Total	12,000.0	12,000.0	

*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 superior 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, 2023. These factors, coupled with healthy profit generation, translate into robust debt protection metrics (interest coverage of 18.74 times for 9M FY2024).

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. The utilisation of the Dahej terminal declined to 77% in FY2023 owing to lower offtake following the elevated gas prices, which once again triggered the use or pay charges for the customers. Gas prices were largely stable in FY2024, which resulted in improved capacity utilisation of the Dahej terminal to more than 90% during 9M of the fiscal. The capacity utilisation of the Dahej terminal is likely to remain healthy as LNG prices are expected to remain range-bound over the medium term. The capacity utilisation of the Kochi terminal, however, continues to be low at 18-20%, even after the commencement of the Kochi-Mangalore pipeline. The capacity utilisation of the Kochi terminal will ramp up to 25-30% with the expected completion of the Bengaluru leg of this pipeline in November 2024, 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 as it has 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 to 22.5 MMTPA. The company also plans to set up a petrochemical facility with an approved capex of Rs. 20,685 crore along with other plans that are in a very nascent stage. However, the implementation of these capex plans is likely to moderate the on-book cash balances and might also result in reliance on debt, in addition to exposing the company to commodity price risks. However, it is not likely to materially impact the leverage metrics.

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 ensure steady cash flow generation and 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 financial risk profile remains comfortable with no external debt and healthy profitability. The company’s revenue declined 15.40% in 9M FY2024 over 9M FY2023 on account of lower gas prices. However, it has reported healthy OPBDITA due to booking of the ‘use or pay charges’. PLL has booked Rs. 1,890 crore as use or pay charges over the last 3 years (CY2021 - Rs. 430 crore, CY2022 - Rs. 850 crore and CY2023 - Rs. 610 crore). The external debt on the company’s books remains extremely low (only lease liabilities), resulting in a robust capital structure and healthy debt protection metrics.

Healthy liquidity and financial flexibility from strong parentage – PLL’s liquidity profile remains strong, characterised by cash and investments of more than Rs. 7,000 crore as of September 2023. This, along with the strong parentage of the four oil & gas PSUs viz. ONGC, GAIL, IOC and BPCL, provides exceptional 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 {rated [ICRA]AAA(Stable)} - have 12.50% equity stake each in PLL.

Credit challenges

Low-capacity utilisation of Kochi terminal and competition from other terminals – The utilisation levels for the Kochi terminal continue to be low. The capacity utilisation of the terminal has not increased as expected despite the commencement of the Kochi-Mangalore pipeline. However, at a standalone level, the Kochi terminal is profitable. The completion of the Kochi-Bengaluru leg of the pipeline (expected in November 2024) is likely to increase the Kochi terminal’s capacity utilisation, going forward.

Project related risks for petrochemicals project – The company’s board approved the setting up of a petrochemical project with a capacity of 750 KTPA of propane dehydrogenation (PDH) & 500 KTPA of polypropylene (PP) plant, including a propane and ethane handling facility at Dahej at an estimated cost of Rs. 20,685 crore, which is likely to take around four years. The funding of the capex is likely to be done through a mix of existing cash, internal accruals and debt. This project, along with other capex plans, might increase the reliance on debt. Moreover, the capex plan exposes the company to project as well as commodity risks once the project becomes operational.

Environmental and social risk

PLL is moderately exposed to the risks of tightening regulations on environment and safety. 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 the carbon footprint. It has also optimised its operations, thereby resulting in improved 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 cash and cash equivalents of more than Rs. 7,000 crore as of September 2023 and nil external debt as on date. Despite the planned capex and dividend outflow, the liquidity is expected to continue to be healthy.

Rating sensitivities

Positive factors – NA

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of PLL

About the company

Petronet LNG Limited (PLL) is promoted by four PSU oil & gas companies - ONGC, GAIL, IOC and BPCL - with each having a 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 a supply purchase agreement (SPA) with RasGas, Qatar, a time charter agreement (TCA) with Mitsui OSK consortium, a port operations service agreement (POSA), gas supply purchase agreements (GSPA) with the offtakers and a payment security mechanism.

PLL sources LNG from RasGas, Qatar, under the 25-year SPA. For transporting LNG to its plant, PLL has entered into a TCA with the 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 the GSPA are materially co-terminus with that of the 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 IIB1 project) which was commissioned in June 2019.

Key financial indicators

	FY2022	FY2023	9MFY2024*
Operating income	43,168.6	59,941.0	38,935.3
PAT	3,352.4	3,239.9	2,798.6
OPBDIT/OI (%)	12.4%	8.6%	10.5%
PAT/OI (%)	7.8%	5.4%	7.2%
Total outside liabilities/Tangible net worth (times)	0.6	0.5	-
Total debt/OPBDIT (times)	0.6	0.6	-
Interest coverage (times)	16.8	15.6	18.7

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; * Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 14, 2024		Mar 17, 2023	Mar 25, 2022	
1 Fund-based	Long term	1,000.00	-	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	
2 Non-fund based	Short term	10,840.59	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+	
3 Fund-based/ Non-fund based	Long term and short term	159.41	-	[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)	

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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based cash credit	NA	NA	FY2024	1,000.00	[ICRA]AAA (Stable)
NA	Non-fund based	NA	NA	FY2024	10840.59	[ICRA]A1+
NA	Fund based/Non fund based	NA	NA	FY2026	159.41	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Issuer rating	NA	NA	FY2025	-	[ICRA]AAA (Stable)

Source: Company

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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
Petronet LNG Singapore Pte. Ltd	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 FY2023

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

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