September 14, 2017

Petronet LNG Limited

On September 11, 2017, Petronet LNG Limited (PLL) announced reaching a broad understanding on the renegotiation of the Gorgon contract with Mobil Australia Resource Company (LNG Supplier), an affiliate of Exxon Mobil Company. PLL has a 20 years LNG supply contract for offtaking LNG from the Gorgon project of Exxon Mobil Company. The company has back to back contracts with off-takers BPCL, IOC, GAIL for Gorgon LNG in the ratio 40:30:30. Though LNG from Gorgon project was destined for Kochi terminal of PLL but due to unavailability of pipeline to reach key markets, cargoes are being diverted to the Dahej terminal of the company. Though the final agreements for the renegotiation are yet to be executed however as per media reports it has been agreed to revise the slope of the contract from 14.5% earlier to 13.9% now and the pricing will be on DES basis rather than FOB basis. Also as part of the deal PLL will take another 1 MMTPA LNG at a slope of 12.5% of Brent crude price.

With the revised terms of the contract, Gorgon LNG is now competitive vis-à-vis Rasgas LNG. Though the ultimate consumers and offtakers would be passed on the savings of slope and shipping costs post renegotiation and would be largely cash neutral for PLL, nevertheless it would cement the market position of the company and prevent customers from migrating to other existing and upcoming terminals.

ICRA also takes note of the company’s involvement in setting up a LNG project near Colombo in Sri Lanka. The Sri Lankan Government issued a Letter of Intent to the Govt. of India on September 1, 2017. PLL is expected to form a joint venture with Japanese and Sri Lankan companies for executing this project. However the capex, mode of funding and timelines are yet to be finalised and accordingly ICRA will review the impact on the credit profile of the company once more details are available.

ICRA has ratings outstanding of [ICRA]AA+ (pronounced ICRA double A plus) and [ICRA]A1+ (pronounced ICRA A one plus) for the various debt programmes of PLL. The outlook on the long-term rating is “Positive”.

ICRA also has Issuer Rating outstanding at IrAA+ (pronounced IR double A plus)[1] for PLL. The outlook on the Issuer rating is “Positive”. The issuer rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument.

The ratings reflect the strengths arising from strong and financially sound sponsors, the robust contractual structure which effectively addresses critical risks in the existing regasification operations and the new projects, and PLL’s demonstrated track record in running the regasification operations profitably. The ratings also factor in the favourable demand outlook for natural gas in India and the company’s comfortable financial risk profile, characterized by low gearing level, robust debt servicing ability and high financial flexibility. The ratings also take into account the enhanced visibility to the cash flows considering the 16.75 MMTPA agreements (on either ‘Take or pay’ or “use or pay” basis) signed with strong counterparties for Dahej terminal facilities.
The ratings are however constrained by the extremely low capacity utilisation of Kochi terminal expected over the short to medium term due to delay in commissioning of Kochi-Mangalore-Bangalore pipeline and the project implementation risks arising from the company’s capex programme, primarily Dahej IV expansion project and supply & offtake risks for Kochi terminal. Though PLL has tied up LNG for a part of its Kochi terminal capacity on a long term contract basis for 1.44 MMTPA LNG with Exxon Mobil for 20 years , however the capacity utilisation of the Kochi terminal is expected to remain low till the pipeline

[1] With effect from Sep 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA’s website for more details

connectivity issues are resolved. The lack of pipeline connectivity has prevented ramp up in capacity utilisation and the same would continue to adversely impact the overall return indicators of the company over the medium term, albeit diversion of Gorgon LNG to the Dahej terminal customers partly alleviates the risk. The ratings also consider the exposure of PLL to market risks related to R-LNG and likely competition from other sources of gas and alternative fuels, which is partly offset by the anticipated demand-supply deficit for domestic gas and back-to-back contracts with offtakers for the entire long-term volumes.

The positive outlook reflects the anticipated improvement in the business risk profile and financial performance of the company following commissioning of additional 5 MMTPA capacity at the Dahej terminal. As PLL has "use or pay" agreements for expanded 5 MMTPA capacity, cash accruals of the company are likely to increase, with a high degree of certainty due to strong competitive position of the company in terminal usage charges. Further, post renegotiation of the RasGas long-term LNG contract, the prices of long term LNG are realigned to recent crude oil prices due to which the offtake of long term gas has surged leading to high capacity utilisation of the Dahej terminal and significant improvement in cash accruals.

ICRA notes that PLL has signed a MoU with Petrobangla for setting up a 7.5 MMTPA LNG regasification terminal in Bangladesh; however, the agreement is as yet preliminary. Besides Bangladesh, the company is also considering setting up LNG terminals in Andamans and has plans related to gas-based power projects and equity investments in E&P projects. ICRA has not factored in the impact of these investments on the credit risk profile of the company and shall evaluate the same once the company takes the final investment decisions on the above. ICRA also notes that the company's plans to set up 5 MMTPA greenfield terminal at Gangavaram (Andhra Pradesh) have been put on hold following lack of customer tie ups and pipeline connectivity.

Any material improvement in the capacity utilisation of the Kochi terminal following the resolution of pipeline issues would improve the return metrics of the company and will be a key rating sensitivity factor. Moreover successful commissioning of the ongoing expansion project at Dahej (from 15 MMTPA to 17.5 MMTPA capacity) will also be a key monitorable.

As per unaudited results of Q1 FY2018 the company posted a net profit of Rs 437.6 crore on revenues of Rs 6435.1 crore as against a net profit of Rs 1705.7 crore on revenues of Rs 24616.0 crore in FY2017.

The previous rating rationale is available on the following link: Click here

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