Petronet LNG Limited

February 27, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Limits- Fund based limits	200.00	200.00	[ICRA]AAA (Stable); Reaffirmed
Short Term Limits- Non Fund Based	8,067.00	8,360.00	[ICRA]A1+; Reaffirmed
Long Term/Short Term Limits- Fund based/ Non-fund based limits	3,733.00	3,440.00	[ICRA]AAA (Stable)/ [ICRA]A1+; Reaffirmed
Issuer Rating	-	-	[ICRA]AAA (Stable); Reaffirmed
Long Term - Bond programme	900.00	600.00	[ICRA]AAA (Stable); Reaffirmed
Total	12,900.00	12,600.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings factors in the company's favorable business risk profile, 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 strong financial risk profile, characterized by low gearing level (0.1 times as on March 31, 2018), robust debt servicing ability (NCA/Total debt of 162% as on March 31, 2018) and high financial flexibility including sizeable liquid investments (Rs 4822.4 crore as on March 31, 2018). The ratings also take into account the enhanced visibility to the cash flows considering the 15.75 MMTPA agreements (on either 'Take or pay' or "use or pay" basis) signed with strong counterparties for Dahej terminal facilities.

Further the ratings also take into account the increased visibility on completion of the Kochi Mangalore pipeline which is expected to be completed by May/June 2019. The Kochi Mangalore pipeline, once executed, should enable substantial ramp up in the capacity utilisation of the Kochi terminal of PLL due to several large potential customers at Mangalore, which should increase the cash flows and improve the return indicators of the company besides diversifying the cash flows across two assets.

The ratings however factor in the project implementation risks arising from the company's capex programme, primarily Dahej IIIB1 expansion project (for expansion to from 15.0 MMTPA to 17.5 MMTPA capacity) as well as further planned expansion at Dahej terminal. 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 entire long-term volumes. The ratings also consider the exposure of PLL to competition from new regasification terminals, many of whom would be commissioned in the near term, however the existing terminals would remain cost efficient owing to their low capital intensity.

Further, ICRA also notes that PLL had signed a MoU with Petrobangla for setting up a 7.5 MMTPA LNG regasification terminal in Bangladesh. The project is being considered by the Government of Bangladesh. Additionally, PLL is also involved in developing a LNG regasification terminal in Sri Lanka in a joint venture with a 47.5% stake and Mitsubishi and Sojitz Corporation with 37.5% stake and Sri Lanka Govt with the remaining 15% stake. Various studies related to the project are currently under progress. Besides Bangladesh and Sri Lanka, the company is also considering setting up LNG regasification terminal in the Andaman. 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 however takes comfort from the stated intent of the management to limit its exposure to equity capital and cost overrun support, while the debt to be contracted without any recourse to PLL and the terminals to be operated on a tolling basis.

Outlook: Stable

ICRA believes Petronet LNG Limited will continue to benefit from healthy demand outlook for LNG due to a widening natural gas deficit and agreements (on either 'take or pay' or "use or pay" basis) for most of the capacities signed with strong counterparties. The outlook may be revised to 'Negative' if there is a material time/cost overrun in any projects leading to weakening of PLL's credit metrics.

Key rating drivers

Credit strengths

- **Strong and financially sound promoters:** PLL has been promoted by four PSU oil & gas companies viz. ONGC (rated [ICRA]A1+ by ICRA), GAIL (rated [ICRA]AAA (Stable)/[ICRA]A1+ by ICRA), IOC (rated [ICRA]AAA (Stable)/[ICRA]A1+ by ICRA) and BPCL with each of them having 12.50% equity stake. These promoters are dominant companies in the oil and gas sector and have deep understanding and interest in the domestic gas business

- **Robust contractual structure, which effectively addresses critical risks in the business:** The volumes of PLL have been tied up under long term sales agreements and "use or pay" tolling agreements signed with strong counterparties for Dahej plant wherein terms and conditions of Sale Purchase Agreement of PLL with offtakers are co-terminus with that of Supply Purchase Agreement with RLNG supplier (RasGas, Qatar). These agreements pass on price risks to offtakers and ensures offtake of minimum contracted quantities or use of minimum contracted capacity.

- **Demonstrated track record in profitable regasification operations; successful commissioning of the expanded capacities at the Dahej terminal have increased the cash accruals:** Beginning with a 5.0 MMTPA LNG regasification plant at Dahej, Gujarat, which has been expanded to 15.0 MMTPA now, the company has a long track record of profitable regasification operations and the company enjoys a strong competitive position in terminal usage charges. The cash accruals of the company have increased post Dahej phase IIIA expansion (from 10 MMTPA to 15 MMTPA).

- **Favourable outlook for R-LNG demand in the medium term owing to widening domestic gas deficit:** India's domestic natural gas production has been consistently decreasing over the past few years (from peak of 143 MMSCMD in FY2011 to 89 MMSCMD in FY2018) primarily due to fall in KG-D6 and Panna Mukta Tapti production levels. The domestic natural gas production from existing or already discovered fields is expected to increase to around 130 MMSCMD by FY2022 and 147 MMSCMD by FY2027 whereas the gas demand will rise to around 290 MMSCMD by FY2025 from the current demand potential of more than 230 MMSCMD. Accordingly, the outlook for LNG demand remains favourable due to a widening domestic gas deficit.

- **Enhanced visibility to the cash flows considering that 15.75 MMTPA volumes have been tied up under long term sales agreements and "use or pay" tolling agreements signed with strong counterparties for Dahej plant, out of a total capacity of 17.5 MMTPA post phase IIIB1 expansion:** The company has SPA with RasGas for the quantity of 7.50 MMTPA for its Dahej terminal. Besides, the company regasifies LNG procured through medium term contract and spot cargoes for direct sales to customers. Currently 15.75 MMTPA capacity of PLL have been tied up under long term sales agreements and "use or pay" tolling agreements signed with strong counterparties for Dahej plant, out of a total capacity of 15 MMTPA post phase III expansion (17.5 MMTPA post phase IIIB1 expansion) which provides visibility to the cash flows.

- **Comfortable financial profile as reflected by comfortable capital structure and adequate debt protection metrics:** The operating income increased from Rs 24631.0 crore in FY2017 to Rs 30612.6 crore in FY2018 following higher volumes processed. The operating profits increased from Rs 2707.4 crore in FY2017 to Rs 3389.4 crore in FY2018 due to higher volumes following increase in regasification capacity of Dahej terminal, besides better operational efficiencies during FY2018. Accordingly, the net profit increased from Rs 1705.7 crore in FY2017 to Rs 2077.9 crore in FY2018. The debt reduced from Rs 2218.0 crore as at FY2017 end to Rs 1453.0 owing to re-payment of debt. Accordingly, the gearing reduced from 0.3 times as at FY2017 end to 0.1 times as at FY2018 end. Owing to higher profitability and lower debt the debt coverage indicators improved with total debt/OPBDTA declining from 0.8 times as at FY2017 end to 0.4 times as at FY2018 end. The company has achieved an operating income of Rs 30,012.2 crore, operating profits of Rs 2666.2 crore and net profits of Rs 1715.2 crore in 9M FY2019.

- **High financial flexibility derived from strong parentage and liquid investments:** The company enjoys high financial flexibility owing to strong parentage and a healthy financial risk profile characterised by large liquid investments. The liquid investments of the company increased from Rs 3100.1 crore as on March 31, 2017 to Rs 4822.4 crore as on March 31, 2018 owing to healthy cash accruals.

Credit challenges

- **Low capacity utilisation of Kochi terminal due to delay in commissioning of Kochi-Mangalore pipeline; however due to progress on Kochi-Mangalore section of the pipeline capacity utilisation is expected to ramp up in CY2019**: The Kochi terminal has been operating at low capacity utilisations in absence of connectivity to Mangalore and Karnataka, through GAIL's Kochi-Mangalore-Bangalore pipeline. However, the construction of the Kochi-Mangalore section of the pipeline has been making progress and construction is expected to be completed by May/June 2019. Once completed the Kochi terminal's capacity utilisation is expected to increase meaningfully due to several large potential customers at Mangalore. The utilisation of the Kochi terminal will remain subdued till the Bangalore stretch of the pipeline laid, albeit overall credit metrics will remain robust due to healthy cash accruals from the Dahej plant and anticipated rise in the utilisation of Kochi terminal from a low level, once the Kochi-Mangalore stretch is commissioned.

- **Project implementation risks in its capital expenditure programme related to Dahej Phase IIIB1 expansion project and further expansion at Dahej terminal:** PLL is executing phase IIIB1 expansion of the name plate capacity of the terminal from 15 MMTPA to 17.5 MMTPA with an estimated capex of about Rs 450.00 crore and met through internal accruals. The expansion from 15 MMTPA to 17.5 MMTPA is expected to be completed by June 2019. The company is planning further expansion at Dahej terminal which includes construction of an additional jetty and an additional tank which is likely to be funded through internal accruals. Though the company is exposed to project implementation risks, the same are mitigated by its track record in implementing such projects without significant time and cost overruns.

- **Exposure of PLL to market risks related to R-LNG and likely competition from other sources of gas and alternative fuels; partly offset by the anticipated demand-supply deficit for domestic gas and materially back-to-back contracts with offtakers for entire long-term volumes:** The prospects for LNG demand remain favourable over the medium to long term in line with limited domestic supply of natural gas. Though PLL remains exposed to market risks related to R-LNG and likely competition from other sources of gas and alternative fuels 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. Additionally, PLL is exposed to competition from new regasification terminals, many of whom would be commissioned in the near term, however the existing terminals would remain cost efficient owing to their low capital intensity.

Liquidity Position:

The liquidity position of PLL is robust owing to large scale of operations coupled with robust operating profitability, healthy cash generation, healthy debt protection metrices and large cash and liquid investments which were about 4822.4 crore as on March 31, 2018 as against the total debt of Rs 1453.0 crore as on March 31, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Issuer Rating—A Note on Methodology
Parent/Group Support	Parent/Group Company: NA
Consolidation / Standalone	The rating is based on consolidated financial statements of the company.

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 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, 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. Terms and conditions of GSPA are materially co-terminus with that of SPA. In December 2015, PLL renegotiated its existing 7.5 MMTPA SPA with RasGas and signed a new SPA for an additional 1 MMTPA R-LNG with materially back to back GSPAs with IOCL, GAIL, GSPC and BPCL to whom R-LNG is sold in the ratio 30:30:30:10. However, the additional 1 MMTPA contract has been restructured by having direct arrangement between the LNG supplier and offtakers (IOCL, GAIL, GSPC and BPCL) w.e.f. Jan 1, 2019 with PLL only providing regasification services. 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 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 is also expanding the capacity of its Dahej terminal from 15 MMTPA to 17.5 MMTPA (Dahej Phase IIIB1 project) which is likely to be commissioned by June 2019.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	24,630.9	30,612.6
PAT (Rs. crore)	1,705.6	2,077.8
OPBDIT/OI (%)	11.0%	11.1%
RoCE (%)	26.6%	27.8%
Total Debt/TNW (times)	0.3	0.1
Total Debt/OPBDIT (times)	0.8	0.4
Interest coverage (times)	12.9	20.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017
					February 2019	December 2018	November 2017	January 2017
1	Long Term limits-Fund Based	Long Term	200.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)
2	Short Term limits-Non-Fund Based	Short Term	8,360.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Long Term/Short Term limits- Fund Based/Non-Fund Based	Long Term/ Short Term	3,440.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+
4	Issuer Rating	-	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)
5	Long Term Bond programme	Long Term	600.00	600.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AA+ (Positive)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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 – Cash Credit	-	-	-	200.00	[ICRA]AAA (Stable)
-	Short Term Limits- Letter of Credit	-	-	-	135.00	[ICRA]A1+
-	Short Term Limits- Non-Fund Based Limits	-	-	-	8225.00	[ICRA]A1+
-	Long Term/Short Term Limits- Fund Based/ Non-Fund Based	-	-	-	3440.00	[ICRA]AAA (Stable)/ [ICRA]A1+
-	Issuer Rating	-	-	-	-	[ICRA]AAA (Stable)
-	Long Term – Non-Convertible Debenture	October 29, 2014	9.05%	October 28, 2019	600.00	[ICRA]AAA (Stable)

Source: Petronet LNG Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Adani Petronet (Dahej) Port Pvt. Ltd.	26%	Equity Method
India LNG Transport Co No (4) Pvt. Ltd.	26%	Equity Method

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