January 10, 2020

# 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 | 200.00 | 200.00 | [ICRA]AAA (Stable); Reaffirmed |
| Short Term Limits- Non-Fund Based | 8,360.00 | 6,848.00 | [ICRA]A1+; Reaffirmed |
| Long Term/Short Term Limits- Fund based/ Non-fund-based limits | 3,440.00 | 4,952.00 | [ICRA]AAA (Stable)/ [ICRA]A1+; Reaffirmed |
| Issuer Rating | - | - | [ICRA]AAA (Stable); Reaffirmed |
| Long Term - Bond programme | 600.00 | 0.0 | [ICRA]AAA (Stable); withdrawn |
| **Total** | **12,600.00** | **12,000.00** | |

**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, 2019), robust debt servicing ability (NCA/Total debt of 142% as on March 31, 2019) and high financial flexibility including sizeable liquid investments (Rs 4587.2 crore as on March 31, 2019). 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 February/March 2020. 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, which includes construction of two storage tanks and an additional Jetty for expansion of Dahej terminal's capacity from 17.5 MMTPA to 20.0 MMTPA. 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. However, there is limited progress on the project as Bangladesh Government has changed the proposed location of the terminal to Matarbari from Kutubdia. 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. The project is likely to be commenced in CY2021 post requisite approvals. Besides Bangladesh and Sri Lanka, the company is also considering setting up LNG regasification terminal in the Andaman. Further, ICRA also notes that the company had signed a non-binding Memorandum of Undertaking (MOU) with the Tellurian Inc. (US) to buy upto 5 MTPA of LNG over the next 40 years from the Driftwood project by acquiring equity stake in the project. The transaction agreements are yet to be finalized. Besides the Tellurian project the company is looking at several other LNG projects globally for possible investment. 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.

Stable Outlook reflects ICRA's opinion that 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.

## Key rating drivers and their description

## 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]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 17.5 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 are expected to increase post Dahej phase IIIB1 expansion (from 15 MMTPA to 17.5 MMTPA) which was completed in June 2019.

- **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 90 MMSCMD in FY2019) 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 131 MMSCMD by FY2022 and 145 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 17.5 MMTPA post phase IIIB1 expansion (20 MMTPA post phase IV expansion) which provides visibility to the cash flows. 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.

- **Comfortable financial profile as reflected by comfortable capital structure and adequate debt protection metrics:** The operating income of PLL increased from Rs 30612.6 crore in FY2018 to Rs 38412.4 crore in FY2019 following higher volumes processed. The operating profits increased from Rs 3389.4 crore in FY2018 to Rs 3406.9 crore in FY2019 due to higher volumes, besides better operational efficiencies during FY2019. Accordingly, the net profit increased from Rs 2077.9 crore in FY2018 to Rs 2150.9 crore in FY2019. The debt reduced from Rs 1453.0 crore as at FY2018 end to Rs 733.4 owing to re-payment of debt. Accordingly, the gearing was 0.1 times as at FY2019 end as against 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 0.4 times as at FY2018 end to 0.2 times as at FY2019 end. The company has achieved an operating income of Rs 17974.6 crore, operating profits of Rs 2184.4 crore and net profits of Rs 1663.4 crore in H1 FY2020 on standalone basis.

- **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 4822.4 crore as on March 31, 2018 to Rs 4587.2 crore as on March 31, 2019 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 CY2020**: 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 February/March 2020. 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.

- **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.

- **Competition from other terminals several of whom are being commissioned in the near term; however, the Dahej terminal is expected to remain competitive with respect to regasification charges owing to lower capital intensity:** 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: Superior

The liquidity position of PLL is expected to remain Superior 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 Rs 4587.2 crore as on March 31, 2019 as against the total debt of Rs 733.4 crore as on March 31, 2019.

## Rating sensitivities

**Positive triggers** – **Not Applicable**

**Negative triggers** – The ratings could be downgraded if the company makes any large debt funded acquisition or increases its capital spending significantly, resulting in a deterioration in its credit metrices with net debt/EBIDTA increasing beyond 1.5x.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | [Corporate Credit Rating Methodology]<br>[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, 15 MMTPA in October 2016 and 17.5 MMTPA in June 2019. 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.

## Key financial indicators (audited)

| | FY2018 | FY2019 |
|---|---|---|
| Operating Income (Rs. crore) | 30,612.6 | 38412.4 |
| PAT (Rs. crore) | 2,077.8 | 2150.9 |
| OPBDIT/OI (%) | 11.1% | 8.9% |
| RoCE (%) | 27.8% | 27.7% |
| | | |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.6 | 0.5 |
| Total Debt/OPBDIT (times) | 0.4 | 0.2 |
| Interest Coverage (times) | 20.8 | 34.4 |
| DSCR | 3.2 | 3.6 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | | Rating History for the Past 3 Years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 |
| | | | | | 10-Jan-2020 | 27-Feb-2019 | 07-Nov-2017 | 16-Jan-2017 |
| 1 | Long Term limits- Fund Based | Long Term | 200.00 | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AA+ (Stable) |
| 2 | Short Term limits- Non-Fund Based | Short Term | 6848.00 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 3 | Long Term/Short Term limits- Fund Based/Non-Fund Based | Long Term/ Short Term | 4952.00 | - | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AAA (Stable)/ [ICRA]A1+ | [ICRA]AA+ (Stable)/ [ICRA]A1+ |
| 4 | Issuer Rating | - | - | - | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | Ir AA+ (Stable) |
| 5 | Long Term Bond programme | Long Term | 600.00 | - | [ICRA]AAA (Stable); withdrawn | [ICRA]AAA (Stable) | [ICRA]AAA (Stable) | [ICRA]AA+ (Stable) |

*Amount in Rs. crore*

## 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 click here

## 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 | - | - | - | 6713.00 | [ICRA]A1+ |
| - | Long Term/Short Term Limits- Fund Based/ Non-Fund Based | - | - | - | 4952.00 | [ICRA]AAA (Stable)/ [ICRA]A1+ |
| - | Issuer Rating | - | - | - | - | [ICRA]AAA (Stable) |
| INE347G08035 | Long Term Bond programme | Oct 28, 2014 | 9.05% | Oct 28, 2019 | 600.00 | [ICRA]AAA (Stable); withdrawn |

*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 |

*Source: Petronet LNG Limited*

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