Konkan LNG Limited

February 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	4,598.00	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	10.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Konkan LNG Limited (KLL) continue to draw comfort from its strong parentage of GAIL (India) Limited (GAIL; rated 'CARE AAA; Stable / CARE A1+'), the majority shareholder, which has significant presence in the natural gas value chain and has provided sustained operational and financial support to KLL. The ratings also continue to factor in the company's experienced and professional management team, limited off-take risk and no pricing risk due to long-term use-or-pay agreement with GAIL with a yearly escalation in the regasification rate providing revenue visibility and adequate liquidity profile.

The rating strengths, however, continue to be tempered by KLL's high leverage and its ongoing capex plans, including capex towards breakwater facility and captive heating system, which is crucial for its operations and to attain peak capacity utilisation.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of construction of breakwater facility, captive heating system and other capex within the envisaged cost and time.
- Sustained improvement in the operational performance and reduction in leverage in terms of total debt / PBILDT of less than 6x.

Negative factors

- Change in the credit profile of GAIL or substantial delay in receipt of use-or-pay charges.
- Material reduction in shareholding or withdrawal of support or change in support philosophy by GAIL.

Analytical approach

Standalone, along with notching-up on account of GAIL's majority ownership, financial linkages with GAIL in the form of inter-corporate loans and operational support in terms of use-or-pay agreement and management personnel.

Key strengths

Strong parentage of GAIL having significant presence in the natural gas value chain along with experienced and professional management team

GAIL is India's principal natural gas transmission and distribution company with around 14,385 km of pipeline network (i.e., around 70% of the country's pipeline) and natural gas handling capacity of 206 million metric standard cubic metres per day (MMSCMD) as on March 31, 2022.

It was set-up by the Government of India (GoI) in August 1984 to create natural gas transportation and distribution infrastructure for development of the natural gas sector across the country. As on March 31, 2022, the GoI held 51.45% stake in the company, and the balance is held by various institutions and public. The company's activities range from gas transmission and distribution to processing (for fractionating liquefied petroleum gas (LPG), propane, special boiling point (SBP) solvent and pentane), transmission of LPG, production and marketing of petrochemicals like high density polyethylene (HDPE) and linear low-density polyethylene (LLDPE) and leasing bandwidth in telecommunications. The company has developed adequate liquified natural gas (LNG) import tie-ups for supply of natural gas both domestically and internationally. The company sourced around 50% of its total gas requirement through domestic sources and remaining 50% through imported gas – regasified liquified natural gas (RLNG) (long-term RLNG, medium-term RLNG and spot) for which it has long-term LNG contract of around 14 million metric tonne per annum (MMTPA) from USA, Russia and Qatar. Through various equity and joint venture (JV) participations, GAIL has extended its presence in power, LNG regasification, city gas distribution (CGD), and exploration & production (E&P).

KLL is being managed by professional and experienced management team nominated by GAIL, which is knowledgeable and has exposure to various aspects of the gas industry in India.

Demonstrated support of GAIL post demerger from Ratnagiri Gas and Power Private Limited (RGPPL)

GAIL has demonstrated explicit support to KLL in terms of fund infusion, project execution and implementation one-time settlement (OTS) for debt resolution issues between KLL and the lenders.

In March 2020, based on OTS between KLL and the lenders, large part of debt was taken over by GAIL. Also, the lenders novated the residual debt in favour of GAIL and transferred their equity share to GAIL. During FY21 (refers to the period from

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

April 01 to March 31), GAIL purchased equity shares from NTPC Limited (NTPC; rated 'CARE AAA; Stable / CARE A1+'). Furthermore, in FY22 and 9MFY23 (refers to the period from April 01 to December 31), GAIL infused additional equity of ₹117 crore and ₹231 crore, respectively, in KLL and the shareholding of GAIL in KLL stood at around 91% at the end of March 31, 2022.
Apart from the financial support in the past, GAIL is also looking after the balance work of breakwater construction as owner's engineer and will be bringing equity as promoter contribution for the capex for any cash shortfall, if required.

Presence of long-term use-or-pay mechanism providing revenue visibility
KLL has entered into a 20-year agreement with GAIL which commenced from April 01, 2018, for regasification of LNG at its Dabhol facility in Ratnagiri district of Maharashtra. Under the agreement, GAIL has booked capacity of 30 cargoes per year without breakwater and 80 cargoes per year with breakwater construction. GAIL is responsible for importing LNG and bringing at the terminal where KLL will provide regasification services to GAIL i.e., storage and regasification of LNG and supply to the delivery point of GAIL. The regasification rate to be paid by GAIL has been fixed for CY18 with yearly escalations. The payment towards use-or-pay charges is done annually. Thus, with the agreement in place, exposure of KLL gets limited in terms of off-take along with no price risk.
Upon payment of use-or-pay charges, GAIL gets make-up rights for the next five years from the year of payment which entitles it to avail regasification services for use-or-pay deficient quantity in respect of which GAIL has paid use-or-pay charges.

Industry outlook
India's natural gas market is characterised by supply deficit, primarily due to low domestic gas production and inadequate transmission and distribution infrastructure resulting in reliance on LNG. Natural gas consumption has increased at a compounded annual growth rate (CAGR) of 2.79% during FY17-FY22, whereas domestic production of natural gas (gross) has increased at a CAGR of 1.44% during FY17-FY22; thus, increasing its reliance on imports of LNG, which have increased at a CAGR of 4.37% during FY17-FY22 signifying the growing need for natural gas in the Indian economy. The imports of LNG are expected to further increase plugging the structural gap between domestic demand and production. There is also push from the government to transform India into a gas-based economy and increase the share of natural gas to 15% in the entire energy basket from the current level of around 6% by 2030. At present, nameplate capacity of six operating RLNG terminals is about 42.70 MMTPA with an overall capacity utilisation of around 56% dominated by Petronet LNG Limited (PLL) with a capacity of 17.50 MMTPA and utilisation of around 79% during April 2022 to November 2022.

Key weaknesses

Moderate financial risk profile with leveraged capital structure
During FY19-FY22, the total operating income (TOI) (excluding non-cash income) of KLL has grown at a CAGR of around 30% with KLL reporting TOI of ₹646 crore in FY22, an increase of around 15% on a y-o-y basis (FY21: ₹563 crore). In FY22, KLL received 37 LNG cargoes (FY21: 32 cargoes). The PBILDT margin stood at 61.16% in FY22 (FY21: 63.25%). The PAT margins improved significantly to 59.53% in FY22 as against loss in FY21. However, the performance of KLL deteriorated in 9MFY23 as KLL was able to handle only 11 cargoes in 9MFY23 as against 23 cargoes in 9MFY22 due to receipt of less heat from RGPPL. The leverage continued to remain high with overall gearing ratio at 5.53x as on March 31, 2022 and 9.26x as on December 31, 2022, mainly on account of high debt levels and lower tangible net worth given past losses. The debt in the books of KLL is in the form of inter-corporate loan from GAIL of ₹3,813 crore.

Ongoing capex plans
At present, KLL's RLNG terminal is operating at lower capacity because of partially completed breakwater due to which cargoes are received during the non-monsoon period only, i.e., from October to April. KLL is thus building breakwater for successful unloading of LNG cargo during monsoon period and to operate the facilities throughout the year. It will increase the cargo handling capacity to 80 cargoes per year (5 MMTPA) from present capacity of 30 cargoes per year (1.875 MMTPA). The balance work of breakwater is being looked after by GAIL as owner's engineer and has given the contract to Larsen & Tourbo Limited for completion of balance work on L-1 basis at LNG terminal end. The construction of breakwater was earlier expected to be completed by March 2023. However, the same is now expected to get completed by December 2023. Physical progress of breakwater construction is 63.54%. For ramping-up of the operations of the RLNG terminal, completion of breakwater within the envisaged cost and timeline is essential.
In addition to the same, KLL is incurring capex towards constructing its captive power system, captive heating system and a truck loading facility. The construction of captive heating system is of key importance to KLL, as handling of higher cargoes by KLL post commissioning of breakwater facility is dependent upon availability of heat from captive heating system, which is expected to get completed by December 2024. KLL's total capex requirement till FY26 is around ₹1,330 crore, which is expected to be funded through internal accruals and equity from GAIL.

Liquidity: Adequate

KLL reported gross cash accruals (GCA) of ₹78 crore during FY22 (FY21: ₹64 crore) as against nil debt repayments. The operating cycle of the company stood at 432 days during FY22 (FY21: 294 days), primarily on account of increase in the inventory days from 317 days in FY21 to 464 days in FY22. The inventory pertains to natural gas retained over and above used during the regasification process (KLL is allowed total loss of 0.66% as per the term of the regasification agreement with GAIL.

However, the actual consumption by KLL for regasification is around 0.2-0.3%, and the balance natural gas is inventoried). KLL has no working capital limits sanctioned from the lenders and its cash and bank balance stood at around ₹468 crore as on December 31, 2022. The collection period of KLL stood at around 29 days in FY22 (FY21: 41 days) on the basis of timely payment of regasification charges by GAIL.

Applicable criteria

Rating Outlook and Credit Watch
Policy on Default Recognition
Policy On Curing Period
Liquidity Analysis of Non-Financial Sector Entities
Short Term Instruments
Factoring Linkages Parent Sub JV Group
Infrastructure Sector Ratings
Financial Ratios – Non-Financial Sector
Policy on Withdrawal of Ratings

About the company

KLL, formerly known as Konkan LNG Private Limited (KLPL), was incorporated on December 04, 2015, for taking over the RLNG business under the demerger scheme of RGPPL. The RLNG terminal was transferred from RGPPL to KLL with effect from March 26, 2018, with an appointed date of January 01, 2016.
The RLNG terminal has capacity of approximately 5 MMTPA with breakwater at Dabhol, Maharashtra. The shareholders of KLL as on March 31, 2022 are GAIL (around 91%) and MSEB Holding Company Limited (MSEB) (around 9%).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	563	646	198
PBILDT	356	395	3
PAT	-43	385	-510
Overall gearing (times)	20.19	5.53	9.26
Interest coverage (times)	1.16	1.39	0.01

A: Audited; UA: Unaudited; The above financials have been adjusted as per CARE Ratings' criteria.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments/facilities rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument/Bank Facilities	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2033	4,598.00	CARE AA-; Stable
Non-fund-based-Short term	-	-	-	-	10.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT*	-	-	-	-	1)Withdrawn (11-May-20)	-
2.	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (11-May-20)	-
3.	Fund-based - LT-Term loan	LT*	4,598.00	CARE AA-; Stable	-	1)CARE AA-; Stable (24-Feb-22)	1)CARE A+; Stable (02-Dec-20)	-
4.	Non-fund-based-Short term	ST	10.00	CARE A1+	-	1)CARE A1+ (24-Feb-22)	1)CARE A1+ (02-Dec-20)	-

*LT: Long-term / ST: Short-term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments/facilities rated

Sr. No.	Name of the Instrument/Bank Facilities	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Non-fund-based-Short term	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Janki Aswani
Phone: +91-79-4026 5612
E-mail: janki.aswani@careedge.in

Relationship contact
Name: Dinesh Sharma
Phone: +91-11-4533 3200
E-mail: dinesh.sharma@careedge.in

About us:
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