CRISIL
Ratings

Rating Rationale

February 13, 2023 | Mumbai

Petronet LNG Limited

Rating Reaffirmed

Rating Action

Corporate Credit Rating	**CRISIL AAA/Stable (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the corporate credit rating of Petronet LNG Limited (Petronet).

The rating reflects the strong business risk profile of Petronet, backed by its dominant market position in the re-gassified liquified natural gas (RLNG) business, superior operating efficiency, and healthy financial risk profile.

The long-term take-or-pay contracts and tolling agreements primarily insulate the performance of the Dahej terminal, from any fluctuations faced in its utilisation levels. Given the increase in RLNG prices, utilisation levels at the Dahej (Gujarat) terminal dropped to 81% in the first nine months of fiscal 2023 (88% in fiscal 2022 and 94% in fiscal 2021). Petronet has however continued to book its regasification charges under use or pay contracts. The dues totaling around Rs 1200 crore till December 2022 are pending and will be cleared on negotiations with customers. However, utilisation at Dahej terminal is expected to ramp-up with a cool off in gas prices. Pending completion of the Kochi-Bengaluru pipeline and amidst the spike witnessed in R-LNG prices, the Kochi (Kerala) terminal continues to operate at around a modest 25%.

Further, Petronet is evaluating various proposals to expand its reach, both in the domestic as well as international markets. It plans to augment the capacity of its Dahej terminal from the current 17.5 metric tonne per annum (mtpa) to 22.5 mtpa along with another 5 mtpa LNG terminal (planning stage) on the east coast. Additionally, it also plans to diversify and venture into the petrochemicals segment, which would require a capital expenditure (capex) of around Rs 15000 crore. CRISIL Ratings believes that Petronet would prudently invest in new projects that will be undertaken only after tying-up with offtakers and ensuring presence of requisite transportation infrastructure.

Analytical Approach

The standalone business and financial risk profiles of Petronet have been considered for analysis.

<u>Key Rating Drivers & Detailed Description</u>

Strengths:

Strong business risk profile

Petronet controls nearly 50% of the domestic RLNG capacity, which includes its flagship terminal at Dahej, with capacity of 17.5 mtpa (the largest and oldest facility in India) and a 5-mtpa terminal in Kochi. It has an established track record and strong relationships with suppliers (RasLaffan Liquefied Natural Gas Co Ltd, Qatar) and intermediate offtakers such as Gail India Ltd, Indian Oil Corporation Ltd (IOCL; 'CRISIL AAA/Stable/CRISIL A1+'), and Bharat Petroleum Corporation Ltd (BPCL; 'CRISIL AAA/Stable/CRISIL A1+'). While domestic regassification capacity is likely to increase over the medium term, Petronet may retain its dominant position in the RLNG business.

The capacity at Dahej is almost tied-up through take-or-pay contracts or tolling agreements, providing stability to operating profits. These agreements protect Petronet from risks pertaining to capacity utilisation, gas price variability, exchange rate fluctuations, and counterparties. Of the total tied-up capacity, 7.5 mtpa at Dahej and 1.44 mtpa at Kochi are under take-or-pay contracts with suppliers/customers. Additionally, 8.25 mtpa is under tolling arrangements. Counterparty risks remain low as intermediate offtakers have a strong credit risk profile. Although the Dahej terminal has been operating at more than 100% historically, utilisation has moderated to 80-90% in the past two years due to higher gas prices. Utilisation is expected to remain healthy post capacity expansion in Dahej. Low capital cost compared to other greenfield terminals, provides superior bargaining power. CRISIL Ratings believes Petronet will maintain its superior operating efficiency owing to continued high-capacity utilisation and stable operating profits.

Healthy financial risk profile

Financial risk profile continues to be strong, marked by comfortable debt protection metrics, with interest coverage of over 17.51 times for fiscal 2022. Earnings before interest, depreciation, tax and amortisation (EBIDTA) of more than Rs 4000 crore for the past three years coupled with lower capital have led to healthy return on capital employed (RoCE) of above 30%. Liquidity position was adequate at Rs 6,900 crore as on December 31, 2022, imparting healthy financial flexibility. The company does not plan to avail any debt in the near-to-medium term for its expansion plans. Accordingly, financial risk profile is expected to remain strong over the medium term.

Expansion plans using internal accrual

The Dahej terminal is being expanded from the current 17.5 mtpa to 22.5 mtpa, by the end of fiscal 2024 at a cost of around Rs 1800 crore, of which the company has already expended Rs 1200 crore.

Petronet also plans to diversify into petrochemicals and build a complex at Dahej. The company has completed a pre-feasibility report for setting up an integrated petrochemicals complex including Propane Dehydrogenation (PHD) Unit with a capacity of 750 kilo tonne per annum (KTPA), a 500 ktpa Poly Propylene (PP) unit. This plan would require a capex of Rs 13000 crore, which is expected to happen in a staggered manner over the next 4-5 years. These investments are likely to be funded through internal accruals given the healthy annual net cash accrual of Rs 2,300-2,500 crore. While the company is exploring multiple project expansion options, it may exercise prudence in their implementation, phasing and funding

Weaknesses:

Execution risks for new projects

Petronet is currently evaluating other potential investments, including small-scale terminals in India, entry into retail sales, and terminals overseas along with large investments into a new terminal on the east cost and petrochemicals project at Dahej. CRISIL Ratings believes that while these projects may carry implementation and offtake risks over the medium term, Petronet may mitigate these by prudently phasing out large regasification terminal projects, maintaining a funding balance with respect to project debt, and ensuring full pipeline connectivity for evacuation of gas and substantial minimum capacity tie-up for the projects. These will remain key monitorables.

Low-capacity utilisation at Kochi terminal

The Kochi terminal was commissioned in September 2013, with about 30% capacity tied-up in contractual agreements. However, it faced ramp-up risks due to the absence of pipeline connecting the terminal to Bengaluru and Mangaluru, wherein utilisations have been low at around 18% over the past three years.

Commissioning of the Kochi-Mangaluru pipeline in November 2020 was expected to improve utilisation to around 30% in fiscal 2022. Utilisation levels however remain low at approximately 25%, amidst the spike witnessed in RLNG prices. Nevertheless, over the medium term, moderation in RLNG prices combined with the commissioning of the Kochi-Bengaluru pipeline should gradually improve the utilisation levels for this terminal. Additionally, the Kochi terminal also offers various value-added services, including bunkering, storage and reload, gassing up, and cooling down.

Liquidity: Superior
Liquidity, driven by annual cash accrual of more than Rs 2,500 crore, stood at a healthy Rs. 6,900 crore as on December 31, 2022. Petronet also has access to secured fund-based intra-day limit of Rs 500 crore with minimum utilisation. Ample liquidity coupled with moderate accruals would enable Petronet to fund its near-term expansion plans, internally. With nil gearing as on March 31, 2022, Petronet has sufficient headroom, to raise additional debt to meet its capex requirements, if the need arises.

Environment, Social, and Governance (ESG) profile
CRISIL Ratings believes that the company's Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile, which further benefits from the support received from the Government of India.

The oil and gas sector has a significant impact on the environment due to the high carbon emissions released from the refineries and petrochemical plants. In line with this, Petronet has been continuously focusing on mitigating its environmental and social risks to ensure minimal impact.

Key ESG highlights:
- Petronet is not an environment-footprint heavy organisation, however it is conscious of the environmental impact of the oil and gas industry. In this regard, Petronet's biggest contribution is in the form of its product, i.e., natural gas, which is a cleaner form of fuel as compared to fossil fuels such as coal and petroleum.
- Company plans to install rooftop mounted solar panels at Dahej and Kochi terminals to further reduce carbon footprint and contribute to the renewable energy drive of the country.
- As a step towards conservation of water, a plant for conversion of Air Heater Condensate water into potable water is operating. Also, a 100 kilo liters per day sewage treatment plant (KLD STP) has been commissioned at Dahej terminal to treat sewage.
- Petronet has defined Quality, Health, Safety and Environment (QHSE) Policy. This policy is applicable to all employees and stakeholders involved in its business.
- Petronet's governance structure is characterised by 33% of the board comprising independent directors (none of them having tenure exceeding 10 years), split in chairman and CEO positions, dedicated investor grievance redressal mechanism and healthy disclosures.

There is growing importance of ESG amongst investors and lenders. The commitment of Petronet to ESG principles will play a key role in enhancing stakeholder confidence.

Outlook: Stable
Petronet's credit risk profile is expected to remain stable over the medium term due to healthy terminal utilisation and stable profitability. While the company is exploring multiple project options, CRISIL Ratings believes it will exercise prudence in their implementation, phasing, and funding.

Rating Sensitivity Factors
Downward factors
- Changes in contractual or tolling structure, impacting overall capacity utilisation levels to below 70%
- Weakening of credit metrics due to large, debt-funded capex, acquisition, or diversification

About the Company
Petronet was formed by the government in 1998, to import LNG and set up LNG terminals. It commenced commercial operations in April 2004. It is a joint venture of GAIL, Oil and Natural Gas Corporation Ltd, IOCL, and BPCL; each have 12.5% equity share totalling 50%, with the balance held by the public. Petronet has a 17.5-mtpa regasification facility in Dahej and a 5-mtpa regasification facility in Kochi.

For the nine months ended December 31, 2022, profit after tax (PAT) was Rs 2, 626 crore on net sales of Rs 46,025 crore, against Rs 2,602 crore and Rs 32,008 crore, respectively, for the corresponding period in the previous fiscal.

Key Financial Indicators

As on/for the period ended March 31	Unit	2022	2021
Revenue	Rs crore	43194	26052
PAT	Rs crore	3352	2939
PAT Margin	%	7.8	11.3
Adjusted debt/adjusted networth	Times	--	0.01
Interest coverage	Times	17.5	15.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	NA	NA	NA	NA	NA	NA	NA

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Corporate Credit Rating	LT	0.0	CRISIL AAA/Stable		--	12-12-22	CRISIL AAA/Stable	26-02-21	CCR AAA/Stable	28-02-20	CCR AAA/Stable	--
			--		--	15-02-22	CCR AAA/Stable		--		--	--
Non Convertible Debentures	LT		--		--		--		--	28-02-20	Withdrawn	CRISIL AAA/Stable

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
Rating Criteria for Petrochemical Industry

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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For more information, visit www.crisilratings.com

About CRISIL Limited

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