

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 RLNG 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.

Key Rating Drivers & Detailed Description

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 regasification 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 coast 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 cap ex, 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 manufacturing and service sector companies
Rating Criteria for Petrochemical Industry

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Manish Kumar Gupta Senior Director CRISIL Ratings Limited B:+91 124 672 2000 manish.gupta@crisil.com Naveen Vaidyanathan Director CRISIL Ratings Limited D:+91 44 4226 3492 naveen.vaidyanathan@crisil.com Shivani Prabhu Rating Analyst CRISIL Ratings Limited B:+91 22 3342 3000 Shivani.Prabhu@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:

This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites and portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

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).

CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").

For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visit www.crisil.com

Connect with us: [TWITTER](#) | [LINKEDIN](#) | [YOUTUBE](#) | [FACEBOOK](#)

CRISIL PRIVACY NOTICE

CRISIL respects your privacy. We may use your contact information, such as your name, address and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report' includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: <https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html>.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

This report should not be reproduced or redistributed to any other person or in any form without prior written consent from CRISIL Ratings.

All rights reserved @ CRISIL Ratings Limited. CRISIL Ratings is a wholly owned subsidiary of CRISIL Limited.

CRISIL Ratings uses the prefix 'PP-MLD' for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link: <https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html>