■ Background and Strategy

Petronet LNG Ltd was the pioneer in the field of LNG in India, and is currently the largest domestic importer of LNG in the country. PLL was established in 1998 as a JV with the four leading oil and gas sector Public Sector Undertakings ("PSUs") (with equal shareholdings) to develop an alternative source of NG, given the substantial shortage of NG supplies in India. In 2003, the company brought in Gaz de France (IDR 'AA/F1+') as a strategic investor in the project, to provide them with the requisite technical expertise in planning, construction and operating one of India's first LNG terminals. The company received substantial commercial and financial support during the initial phase from its key sponsors, bringing in their significant experience in the oil and gas sector. The sponsors also provided assistance to PLL at the time of raising debt to finance its first plant by way of a guarantee during the initial years of construction (now no longer valid). The critical contracts, including the design, engineering, procurement and construction ("EPC"), transportation and operations and maintenance ("O&M") were given to leading players with many years of experience in the LNG sector i.e. IHI, Mitsui OSK Lines and GDF respectively. Foster Wheeler Energy was appointed as the project management consultant during the construction.

The use of strong vendors, combined with the strong experience of the sponsors in executing large-scale contracts together enabled PLL to complete its greenfield LNG terminal on time, and well within the estimated budget. Due to the high efficiency of the plant, the company reported cash profits even in its first year of commercial operations.

The company's operations are supervised by a board of directors headed by the Chairman, M S Srinivasan (the secretary of the ministry of petroleum and natural gas). In addition, the board comprises three full-time executive directors and four independent directors, as well as nominees from the four key sponsors, GDF and ADB. The day-to-day management of the company is undertaken by the managing director and CEO, Prosad Dasgupta, who is supported by a team of qualified professionals with many years of experience in the oil and gas sector, many of whom have had prior experience with the key sponsors.

Shareholding Pattern at 31 March 2006

Shareholder	(%)
GAIL	12.5
ONGC	12.5
IOC	12.5
BPCL	12.5
Gaz de France	10.0
Asian Development Bank	5.2
Other institutional investors	11.1
Others	2.7
Indian Public	21.0
Total	**100.0**

Source: PLL.

■ Business Overview

Operations

PLL imports LNG using tankers and transports it to its facilities at Dahej, Gujarat, where it is then transferred from the tankers to its LNG storage facilities, which is the critical aspect of PLL's

History of PLL

Year	Event
1997-98	Established as a JV between the four oil and gas PSUs as a means of boosting domestic NG supplies, and approved by the ministry of petroleum.
1999	25-year SPA signed with Rasgas, subsequently assigned to Rasgas II (IDR 'A+').
2000-01	Finalisation of transport arrangements (lease of two LNG carriers) and EPC contracts.
2003	Financing arrangements for the plant construction were completed. GDF and ADB brought in as strategic and financial advisors with a 10% and 5% stake, respectively. Concession agreement with Gujarat Maritime Board signed.
2004	Completion of construction, commercialisation in April 2004. Successful completion of IPO, raising about INR3.2bn
2005-06	Finalisation of capex plans for: a. Expansion of Dahej facilities to 10mtpa b. Establishing of new facilities in Kochi of 2.5mtpa (with the option to expand to 5mtpa) c. Establishing a solid cargo port in Dahej (as part of the agreement with Gujarat Maritime Board) through a JV with Adani Exports.

Source: PLL.

business, as the liquid must be stored at very low temperatures (around -161° C). It is then passed into a regasification unit, where the liquid is heated under controlled conditions, and then transferred to GAIL's pipeline adjacent to PLL's plant. The boil-off LNG from the storage tanks is then transferred to a condensation unit, to minimise loss of NG in the process. The company also has captive gas turbines which run on LNG as a supplementary power source. The technology used by the company in its existing plants are standard practice globally, such as the use of membrane tankers for greater stability of the vessel in transit and the use of full containment storage tanks which minimise leakage of NG into the environment.

Performance Reflects Contracts

The company's import, transport and sale of gas are all governed by 25-year contracts, valid until 2028. These contracts factor in full utilisation of its existing five mtpa capacity, as well as 2.5mtpa of additional capacity. As a result, PLL's performance is contingent upon the terms of these contracts, resulting in highly predictable future cash flows.

Beneficial Long-Term Sourcing Arrangements

PLL purchases from Rasgas, Qatar are governed by a 25-year SPA, which has the following salient features:

Minimum Assured Quantities of Purchase

The agreement ensures that PLL will receive a assured minimum quantity of five mtpa, with take or pay terms, whereby PLL must purchase the minimum assured quantity under the terms of the contract, or pay Rasgas for any quantities which are not purchased at the contract price. However, there is some flexibility in terms of quantity of up to 10% of the annual contracted amounts accumulated up to 50% of Average Annual Contractual Quantities. The contract also has a provision to increase the quantity of gas supplied to 7.5mtpa, which is expected to commence from Q309 (on completion of the Dahej expansion).

Minimum Assured Quantities*

Term	TBTU**	MMTPA**
2003	3.1	0.1
2004	103.8	2.0
2005	223.1	4.4
2006-27	254.9	5.0
2028	84.4	1.7

*Figures are rounded. **TBTU: Thousand British Thermal Units; MMTPA: Million Metric Tonnes Per Annum
Source: PLL.

Pricing

The price for the gas is fixed until December 2008 at USD2.53/unit, as compared to current prevailing prices of USD8-10/unit. From then until December 2013, the price is linked to the five-year weighted average price of crude oil, as defined by the Japanese Crude Cocktail ("JCC") Index. After 2013, the price would vary directly with the JCC. This contract has given PLL a significant advantage over the past two years, making its NG substantially cheaper than that of its competitors.

Payment Mechanism

PLL has a 15-day credit period for making its payments to Rasgas, which are secured by a sight letter of credit. Rasgas has also put forward the following payment mechanism to be followed to make payments:

- A no-lien trust and retention account is opened naming the LNG supplier and the owners of the ships as beneficiaries, and operated by a trustee;
- Receipts from PLL's intermediate customers are directly deposited into the account, from which payments are made by the trustee, subject to a waterfall mechanism. Statutory and other dues are given first priority, followed by payments to the LNG supplier and the LNG tanker supplier and O&M payments. Any residual amounts are then transferred to PLL. The letter of credit works as a standby facility for two months' payment of LNG charges, which are for use in the case of a failure of the above payment mechanism. PLL is also subject to a penal interest rate in the case of delays in payment, and any delays in excess of 180 days. The LNG supplier can terminate the contract in the instance of such a delay.

Shipping Contract

PLL has taken 2 ships of 138,000cubic metres capacity each to transport the LNG from Qatar to its Dahej LNG terminal. The ships have been hired on a time charter basis, whereby monthly payments are made to the shipping company, although fuel charges are borne by PLL. The time charter agreement is valid until April 2028. The ships use a small proportion of the LNG to run its turbines, as it is significantly more economical vis-à-vis substitutes. The payment structure is the same as that followed for the LNG purchase agreement, with a letter of credit for four months of hire charges. The effective credit period for these payments is 31 days. In terms of pricing, the contract stipulates an escalating and a non-escalating component. The contract has an inbuilt escalation clause, although the level of increase is limited to a maximum of 3% p.a. Based on an escalation of 3% and full capacity utilisation

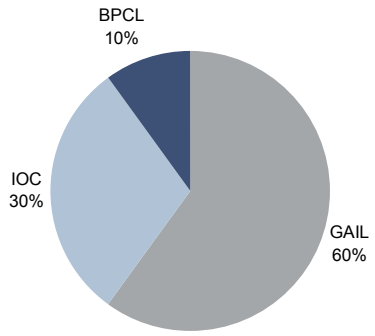
(including port charges), the average charges work out to USD0.26/Million British Thermal Units ("mmbtu"), based on full capacity utilisation including port charges.

The average time taken for a round trip (including loading and unloading) from Dahej to Qatar is around eight days. As a result the inventory levels maintained by the company are very low.

Selling Arrangements Mirror the SPA

The company has structured its sales agreements with its key customers i.e. GAIL, IOC and BPCL, to mirror its purchase and transportation contracts, thereby minimising its working capital requirements, and protecting it from price fluctuations. These agreements are valid until 2028, reflecting the terms of the sourcing contract. The allocation of the NG between the various customers is defined by the individual gas sale purchase agreements ("GSPA") signed with each customer.

Sales by Customer



Source: PLL

The key terms of the GSPA are as below:

- LNG supply charges are paid on actuals
- Customs duties are passed through on actuals
- Shipping costs are passed through on actuals
- The company's margins depend on the regasification charges specified in the contract. The agreement has an inbuilt escalation clause, whereby the regasification rate would increase by 5% y-o-y.
- Payment terms for the customers mirror the corresponding payment terms at PLL, thereby minimising net receivables, and hence working capital.
- Take or pay and assured offtake terms of the SPA are mirrored in the sales agreements.

Unforseen Risks are Protected by Insurance

PLL has protected itself against unforeseen risks by taking out business interruption insurance, such that if there is a force majeur event which disrupts supply either at the shipment or plant, the insurance policy will cover the following costs during the interruption period i.e. lost profits, debt service, the cost of damage to plant/equipment and the cost of restarting operations if any. This is subject to a total limit of USD850m. The company has also taken out third party liability insurance, as well as project insurance for the new capex. PLL plans to undertake similar contracts for its future capacities as well.

Operating Performance

The above contracts have ensured that PLL will receive strong, stable cash flows from this contract over the medium to long term. In addition, from the first year of commercial operation itself, the company has shown cash profits. In FY06, with the plant operating at just under 100% utilisation, the cash flows and key operating metrics have shown substantial improvement. Fitch believes that this will continue for the duration of the contract. Any fluctuations in the future are likely to be due to changes to the existing contractual terms.

Capacity Utilisation

	FY06	FY05	(%)
Capacity (mmtpa)	5.00	5.00	
1MT:MMBTU	50.99	50.99	
Production (mmtpa)	4.90	2.45	100
Utilisation (%)	98	49	
Sales (INRm)	38,372	19,453	97
Sales (mmbtu)	247	125	
(INR/mmbtu)	155.5	155.6	
EBITDA (INRm)	5,076	1,658	206
(INR/mmbtu)	20.6	13.26	55

Source: PLL.

■ Industry Overview

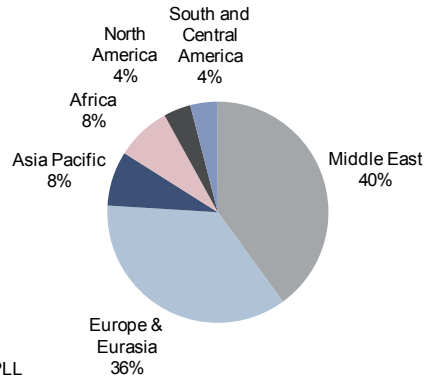
Global Natural Gas Scenario

The world's total NG reserves for CY05 were estimated at 179.83 trillion cubic metres ("tcm"), concentrated in the Middle East and Eurasia, which together account for over 75% of total reserves.

Prices of global NG depend on demand supply dynamics prevailing in each region, although ultimately, prices are linked to crude prices. Price trends in NG vis-à-vis crude prices over the past 20 years are given in the charts below. In future, Fitch estimates that the future growth in consumption of NG is expected to remain strong, and is estimated to growth at around 2.5%-3% p.a. in terms of volumes

in the medium term, with prices continuing to be linked with that of crude.

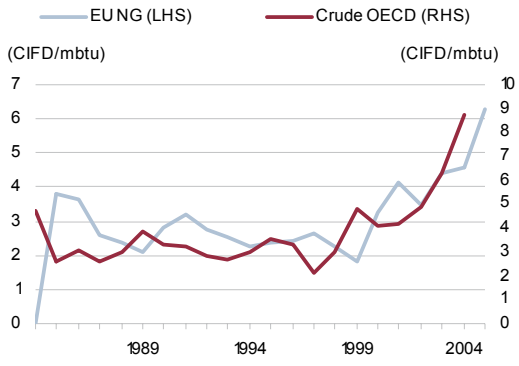
Distribution of Global NG Reserves by Region



Source: PLL

While the demand/supply situation for NG in the global sector is relatively balanced on an overall basis (the net global excess production over consumption is estimated at around 13bncm), due to the skewed geographical distribution of global LNG consumption and production, certain regions have a net surplus of NG, while others have a deficit. Net surplus regions such as the Middle East and Africa become net NG exporters, while net deficit regions such as the Asia Pacific and Europe and Eurasia become net importers of NG.

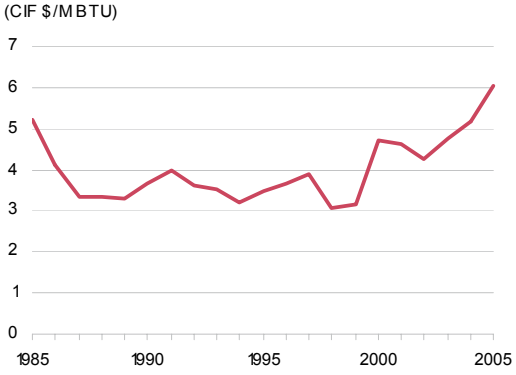
NG and Crude Price Trends



Source: BP Statistical Review of World Energy 2006

For short distances, NG is usually transported in gas form through pipelines. However, the pipeline costs become prohibitive to transport it over longer distances. As a result, NG is usually converted into liquid form (by cooling it to -161ºC), and then transported using special LNG tankers to the destination, where it is regasified by heating it under controlled conditions.

LNG Price Trends



Source: BP Statistical Review of World Energy 2006

LNG price trends follow a similar trend. However, it is very important to note that prices are not as volatile as those of NG and crude, due to the fact that the majority of LNG purchases are governed by long-term contracts, with a typical maturity of around 20 years. As a result, the degree of price volatility faced by LNG importers is less than that of direct NG purchasers. This, however, also results in the availability of only small quantities of LNG on spot contracts.

Most LNG processors (i.e. those who import LNG and sell the regasified NG) typically ensure that their sales contracts mirror the key terms of their LNG purchase agreements. As a result, they remain largely protected from commodity price fluctuations. The greater stability is, however, offset by the relatively lower margins garnered by other direct suppliers of NG. PLL has used the same business model in establishing its LNG facilities in India.

Energy Scenario in India

India's strong economic growth over the past few years has resulted in a corresponding increase in energy demand. Total primary energy consumption in the country has been estimated to be growing at a CAGR of around 3.9% over the past 5 years. India is estimated to account for around 3.7% of the total global commercial energy demand in 2005.

India's present energy mix is heavily weighted in favour of coal due to its hitherto relatively easy availability. However, the substantial increase in coal prices over the past few years, coupled with the rising prices of other energy sources such as naphtha and fuel oil, have resulted in an increased share of gas-based thermal power to 8.5% in 2005. This is still low vis-à-vis a global average of 23.5%, while the comparable figure for China is 14.6%. Natural gas preference in power generation emanates from

Global Demand Supply Statistics 2005

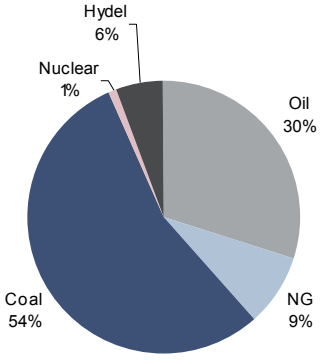
	% of Global Reserves	Reserves (trcm)	Output (bncm)	Cons. (bncm)	Surplus (Deficit) (bncm)	Constant Growth (%)*
Middle East	40.1	72.1	293	251	42	3.90
Europe & Eurasia	35.6	64.0	1,061	1,122	(61)	2.20
Asia Pacific	8.3	14.9	360	407	(47)	7.80
Africa	8.0	14.4	163	71	92	4
North America	4.1	7.4	751	775	(24)	-1.20
South and Central America	3.9	7.0	136	124	12	5.70
Total World	100.0	179.8	2,762.9	2,749.6	13.3	2.30
India		1.1	30.40	36.60	(6.20)	12.20
% of World		0.6	1.1	1.3		

*Growth in 2005 compared with 2004.
Source: BP Statistical Review of World Energy 2006

its higher thermal efficiency and lower capital costs supplemented by a shorter construction period.

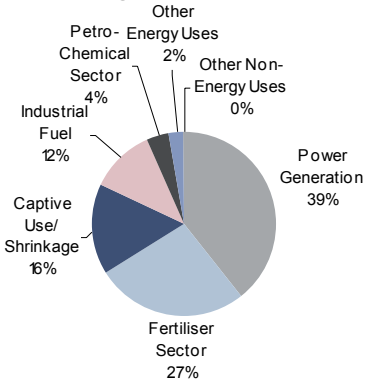
Development of new combined cycle power generation technologies has further increased the attractiveness of gas as economic fuel. Based on these factors, the government of India's recently drafted Hydrocarbon Vision 2025 envisages NG contributing to around 20% of India's overall energy requirements by 2025. The document also forecasts that India's NG consumption is likely to increase to 200 million standard cubic metres per day ("mmscmd") by 2007 from 63 mmscmd in FY02, vis-à-vis existing supply of 70m mmscmd.

India Power Generation by Fuel 2005



Source: Ministry of Power

Domestic NG Usage Pattern FY05



Source: BP Statistical Review of World Energy 2006

The rate of growth of domestic NG consumption has been substantially higher at around 6.4% CAGR over the past five years as compared to a global average of around 2.5% for the same period.

The demand for NG in India is driven largely by the power and fertilizer sectors, which together account for around 70% of total NG consumption in India.

Regulatory Initiatives

The domestic demand for natural gas has largely been constrained by supply-side bottlenecks. In its vision statement the government has undertaken the following regulatory initiatives in order to increase domestic supply of NG:

- Deregulation: In 1998, the government deregulated the pricing of NG such that any contracts signed after the deregulation could be filled at market rates. The market has, however, been slow to accept the higher gas prices (for instance under the regulated regime, effective prices were around USD2/mbtu as compared to prevailing prices of USD8-10/mbtu). This trend has witnessed a change over the past few years,

as consumers are faced with rapidly escalating costs of comparable fuels.

- Exploring alternative sources of NG: With the significant cost economics of NG use in power generation, the government has encouraged the exploration of gas generation from underground coal deposits, as well as using coal-bed methane, and awarded the exploration contracts for as many as 16 blocks for this purpose.
- Encouraging the use of cleaner fuels: The government is increasingly focusing on cleaner fuels for automotive and industrial use e.g. use of compressed NG for automobiles. This will further boost the demand for NG.
- Lack of transmission and distribution infrastructure: The government has increasingly focused on establishing a national gas transmission grid, an initiative which GAIL is currently implementing. The estimated investment in a national gas grid is expected to be over INR160bn. The improved transmission and storage network will increase availability of NG, and hence help boost demand.
- Removal of quotas for LNG imports: LNG is already under an open general licence, making the import process significantly easier.
- Establishing supply arrangements with other countries: The government is currently in discussions with countries such as Bangladesh, Myanmar and Iran to establish LNG/NG supplies.

LNG in India

Over the past few years, given the substantial shortage in NG availability, many players, including PLL, have announced plans to establish significant LNG storage and regasification facilities across the country. India is well placed to augment its supply through LNG, given its proximity to the Middle East, the largest LNG exporter. The proximity ensures shorter transportation time, greater predictability of shipment times, necessitating lower inventory holdings and lower transportation costs. In addition to PLL, Shell has established a 2.5mtpa capacity LNG terminal in Hazira, Gujarat. However, given the lack of acceptance of higher NG prices in the domestic market thus far, the company has not processed significant volumes. The only other LNG terminal in the country is at Dhabhol, although this was designed for captive use. Many players, including logistics providers as well as the leading domestic oil companies (either independently, or in partnership with international players) have announced plans to establish LNG facilities. The total capacity of these announced expansions (including PLL) is around 53mtpa, of which only around 60% are likely to become operational.

Outlook

The government's target to increase the use of NG, and its ongoing attempt to implement enabling regulations, are likely to augment the ongoing strong growth in domestic NG consumption. The expectation of naptha and other competitive fuels continuing firm would continue to make NG a more economical alternative. The demand supply gap is likely to continue in the medium- to long-term, even factoring the expected increase in domestic NG supply on commercialisation of the recent new gas discoveries by Reliance and ONGC. With the increased acceptance of higher gas prices in the domestic prices (the Shell Hazira terminal has processed a few independent cargos at globally comparable prices of NG), and the moving away from the regulated price regime, domestic prices are likely to reflect international trends over the medium term. However, in the case of most LNG producers, this is unlikely to have a significant impact on their operating margins and dynamics, as commodity costs are entirely passed through.

■ Capital Expansion Plans

Following the success of its first project, PLL has chalked out an aggressive expansion plan. The details of this expansion plan are given below.

Brownfield Expansion at Dahej

PLL plans to double its existing capacity at Dahej to 10mtpa. The existing SPA with Rasgas allows for an increase in the supply quantity to 7.5mtpa, expected to commence on completion of the Dahej expansion. With regard to the remainder, the company is currently in serious talks with various parties to finalise its supply agreements. The company has stated that all its future SPA/GSPA agreements will be structured such that PLL remains protected against commodity price risk, with its margins relying on the contractual regasification charges. The total cost of the expansion project is estimated at around INR15.6bn. The company has already spent around INR1.08bn in FY06 on this project. The Dahej expansion is expected to become operational by end-FY09.

PLL is also finalising its JV agreement with Adani Exports, to establish a solid cargo terminal at Dahej, which was stipulated as part of PLL's requirements under its agreement with the Gujarat Maritime Board. The Stage I cost of the project is estimated at INR5bn, of which the equity contribution from the sponsors is to be 30%, with the remainder financed through debt. PLL will contribute half of the equity of the project i.e. INR750m. This investment has already been factored by the company for Dahej phase I, and will be financed through internal accruals.

New Project Capital Expenditure Schedule

(INRm)	FY06**	FY07	FY08	FY09	FY10	FY11	Total ***
Dahej Expansion	1,071	4,114	5,181	5,177			14,473
Solid Cargo	7	225	300	225			750
Maintenance Capex	NA	100	100	100	100	100	500
Total (ex-Kochi)	1,077	4,439	5,581	5,502	100	100	15,723
Kochi*	100	4,206	5,159	8,935	3,363	524	22,187
Total	**1,177**	**8,645**	**10,740**	**14,437**	**3,463**	**624**	**37,910**

* This assumes EPC contract getting awarded in September 2006. However, it is likely that the implementation would be delayed as PLL is still in the process of tying up the requisite long term contracts for LNG supply. **on actuals. *** Aggregate of FY07-FY11
Source: Company.

Financing Arrangements: Dahej

In terms of financing, the expansion will be financed primarily through debt of INR12.3bn. The company has executed financing agreements and the repayment schedules of this debt reflect the expected cashflows from the expansion. Fitch notes that according to the feasibility study undertaken by the company, the cash accruals generated from 7.5mtpa are more than sufficient to make the scheduled repayments for the existing and new term loans. The company has proposed to allocate the surplus funds (INR1.5bn) raised during its IPO to part-finance this project. The remainder is to be financed through internal accruals.

While the debt/equity ratio for the project is higher than the company's internal limit of 2.33x, the overall gearing for the company post-implementation of the project will remain at the stipulated limit due to the ongoing accruals from its existing operations.

Financing Plan - Dahej Expansion

Financing	(INRm)
Surplus equity	1,520
Debt	12,333
Internal accruals	1,746
Total	**15,599**
Project Debt/Equity (incremental)	3.78

Source: PLL.

Greenfield LNG Terminal at Kochi

The company is also finalising its plans to establish a new greenfield 2.5mtpa facility at Kochi, Kerala (expandable to 5mtpa). The planned storage facilities for Kochi are sufficient for the expanded capacity i.e. 5mtpa, with only additional regasification capacity required to achieve the same. The company is still in the process of finalising the financing and sourcing arrangements for this project.

In terms of the LNG supply contract, the company is close to establishing a long-term contract with a leading international LNG supplier from their Australian plant. The terms of the contracts are likely to be similar to that of its existing contracts, whereby the payment terms, transportation costs and commodity price risk are fully passed on to the end-consumers.

PLL is planning to establish this unit within the planned Special Economic Zone ("SEZ") such that it will receive the requisite import duty benefits, thereby resulting in lower project costs. The target customers for this project would be BPCL's Kochi Refinery, as well as NTPC's gas-based thermal power plant at Kayamkulam, amongst others. The company plans to commence this expansion only once the project financing is in place, which will reduce the likelihood of liquidity mismatches during construction.

Tentative Financing Plan - Kochi

Financing	(INRm)
Additional Equity*	4,500
Debt	15,531
Internal Accruals	2,156
Total	**22,187**
Project Debt/Equity	2.33

*Either through FCCB or rights issue.
Source: PLL

■ Financial Analysis

Financial Summary

- As PLL commenced commercial production in FY05, there is no meaningful operating history
- High capacity utilisation in FY06 resulting in substantial improvements in margins
- Well structured repayment schedule reflecting the cash flows expected from the existing business
- Very stable cash flows due to the long-term, contractual nature of revenues and costs
- Aggressive capex plans chalked out, though the loan repayments are expected to reflect the cash flows from the new project.

■ Profitability and Cost Structure

LNG costs account for 97% of PLL's operating costs, with other operating costs being a very negligible component. The company has very low operating cost levels, accounting for less than 3% of total costs. PLL has stable margins with a high degree of predictability of future cash flows due to the contractual obligations of its sales and key costs.

PLL's margins are directly contingent upon the terms of the GSPA, which specifies the regasification charges accrued to the company. Increases in PLL's operating costs are built into the agreement, which provides for a 5% p.a. escalation in these charges. In FY07, PLL's capacity utilisation is likely to be more than 100% (around 20% excess capacity is built into the plant), with the additional volumes accruing from spot cargo contracts, wherein the company undertakes regasification on a job-work basis. These incremental benefits would further support margins going forward.

PLL Cost Structure

(%)	FY06	FY05
LNG Costs	97.2	95.3
Personnel Costs	0.3	0.5
Operating Costs*	1.9	3.1
General, Administrative and Other Costs	0.6	1.1
Total	100.0	100.0
Op. EBITDA Margin	12.8	8.3

*Including ship hire charges, customs duties and port charges, among others.
Source: Company

■ Liquidity and Working Capital

PLL's liquidity position remains comfortable, with net cash accruals of INR3.7bn for FY06, and liquid balances of over INR4bn as on 31 March 2006. The company's working capital requirements are minimal, due to the high inventory turnover and low receivables period. Working capital requirements are very low, with the receivables period broadly matching the current liabilities. The company's working capital intensity was low at 7.68% for the same period. However, in the event that there is pressure on PLL's liquidity, it does not have any liquidity back up in the form of funded working capital limits. However, the fact that all projects are fully-funded prior to commencement, the high degree of stability of cash flows and the contractual nature of obligations mitigate any consequent liquidity risk for PLL. The company has a large amount of non-funded working capital limits, comprising primarily guarantee and letter of credit limits, required for its daily operations. The repayment schedule for the existing loans of INR12.6bn is well-structured, with repayments starting in September 2006. However, the large cash accruals generated from its operations are sufficient to meet these repayment obligations as well as meet its future capex requirements.

Given that future contracts for the expanded capacity are likely to follow the same pattern as in the current business, Fitch expects PLL's liquidity to remain comfortable going forward.

■ Capital Structure and Gearing

Despite the fact that the repayments of PLL's project loans are yet to commence, the company's capital structure remains comfortable with a debt/equity ratio of 1.18x in FY06. With the near 100% capacity utilisation for FY06, earnings-based gearing ratios are also comfortable. PLL reported a debt/EBITDA ratio of 2.51x in FY06. In future, PLL plans to ensure that despite aggressive expansion plans, its gearing will not exceed 2.33x in terms of debt/equity at any point. As a result, the company has drawn up a financing plan for its capex involving a judicious mix of debt and equity. PLL's earnings-based gearing is expected to increase significantly in the short- to medium-term. However, the gearing ratios will stabilise over the long term once the revenues from the capex start to accrue.

■ Outlook

The domestic NG market is showing signs of maturing, and will become increasingly important in meeting India's fast-growing energy needs. The government's new Hydrocarbon Vision 2025 envisages an increasingly critical role for NG. The Petroleum and Natural Gas Regulatory bill has appointed an independent regulator for the sector, which will also accelerate the pace of implementation of a national gas grid. This will in turn increase availability, and thus boost demand. Once the recent discoveries of gas in the country are developed, these will significantly boost domestic supply. However, on the back of the expected strong growth in NG demand, the demand-supply gap is likely to remain favourable for NG suppliers.

The domestic market has shown signs of maturing over the past few years, with players increasingly accepting the reality of gas prices significantly higher than those faced prior to deregulation. Even at these high levels, the use of NG is most regions of the country remains economical (for instance, the case of the power/chemicals sector, NG is economical even at USD12/mbtu). As a result, the market for NG through the LNG route is becoming increasingly viable.

The company's financial profile will benefit significantly from the positive industry dynamics in future. In addition, the company's very stable cash flows will boost growth in the longer-term, due to the

long maturities of key contracts. The same strategy is being followed for the new contracts as well as spot cargos, thereby protecting PLL from the risk of commodity price fluctuations.

Until FY09, when the new expansion projects come into commercial production, PLL's cash accruals are likely to remain at current levels, with some upside potential on account of regasification of select spot cargos. However, the cashflows arising from these would fluctuate and are difficult to predict. PLL's gearing is likely to remain high in the medium term, although after FY09, earnings-based gearing is expected to fall to more moderate levels. The low working capital requirements of the business, as well as the fact that the capex plans are fully-funded (including operating losses for the first year), mitigate the risk of an adverse liquidity impact during the expansion period.

■ Annex I – Standard Conversion Metrics

Standard Conversion Metrics

1m Standard Cubic Metres (scm) of NG	36bn British Thermal Units (btu)
1m tonnes of LNG	1,380 m SCM of NG
1m mtpa of LNG	50.985 tr. Btu or 3.9mscmd

Source: Market sources, company.

Annex II – Debt Repayment Schedule

Repayment Schedule

Year/INRm	FY07	FY08	FY09	FY10	FY11	FY12	>FY12	Total
Term Loans	567	756	756	1,512	1,512	1,764	5,733	12,599

Source: Company.

■ Annex III

Ratio Analysis Petronet LNG Limited**

(INRm) For the Year Ended -	31 Mar 06	31 Mar 05
Coverage Ratios		
EBIT/ Interest (X)	3.60	0.67
EBITDA/Interest (X)	4.51	1.55
Profitability		
Operating Income	38,382	19,454
% Change	97.30	NA
Total Income	38,498	19,559
EBITDA	5,029	1,755
EBITDA Margin (%)	13.10	9.02
Interest Expense	1,116	1,209
Depreciation + Write off	1,010	997
Net Income	1,902	(311)
Net Margin (%)	4.94	(1.59)
Net Cash Accruals	3,704	573
Cash Flow		
From Operations	3,588	468
% Total Debt	28.03	3.71
Change in Working Capital	(2,053)	620
Capital Expenditure	(734)	(2,274)
Investments	-	-
Net Debt Proceeds	-	10
Net Equity Proceeds	-	-
Dividends	-	-
Net Change in Cash/Mkt. securities	916	(1,106)
Liquidity		
Cash & Mkt. Sec	4,075	3,159
Net Working Capital (current assets net of cash less current liabilities)	1,221	(832)
Working Capital Intensity (%)*	7.68	14.15
Current Ratio (X)	2.35	1.22
Days Receiv. Outstanding	12	14
Inventory Turnover	29.03	15.74
Capitalisation	12,599	12,599
Long Term Debt	0	0
Short Term Debt	12,599	12,599
Secured Debt	0	0
Unsecured Debt	12,599	12,599
Total Debt	12,599	12,599
Total Adjusted Debt	12,599	12,599
Equity Share Capital	7,500	7,500
Tangible Net Worth	10,685	8,596
Total Capital Employed	23,889	21,195
Debt/Equity	1.18	1.47
Total Debt/EBITDA (X)	2.51	7.18
ROCE (%)	17.26	3.71
NCA/Debt (%)	29.40	4.55

*Gross Current Assets Net of cash as % of Operating Income. We have analysed financial statements from FY05, the year of commercialisation. An analysis of earlier statements would not be relevant as the company was still in the project execution stage.
Source: Company, Fitch. **Note: Ratios are calculated as per Fitch's internal norms.

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