Energy (Oil & Gas)/India
Credit Analysis

Petronet LNG Ltd

National Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Petronet LNG Ltd			
Long-Term	AA(ind)	NR	Sep 2006
Short-Term	F1+(ind)	NR	Sep 2006

Rating Watch	None
Rating Outlook	Stable

NR – Not Rated

Analysts

Abhinav Goel
+91 11 4165 7230
abhinav.goel@fitchratings.com

Priyamvada Balaji
+91 22 4000 1742
priyamvada.balaji@fitchratings.com

Company Contact

Abhilesh Gupta
+91 11 2341 1411
abhileshgupta@petronetlng.com

Profile

Established in 1998, Petronet LNG Ltd (PLL) imports liquefied natural gas (LNG), stores and regasifies it at its 6.5 million tonne per annum (mtpa) facility at Dahej, Gujarat, and sells the resulting natural gas (NG) to its customers. PLL plans to increase its capacity to 12.5mtpa at Dahej and Kochi. It has a 25-year assured-quantity LNG supply contract, and back-to-back sales agreements with its customers for the existing operations of up to 5mtpa. In FY07, PLL reported revenues of INR55.1bn, with a profit after tax of INR3.13bn.

Rating Outlook

The Stable Outlook reflects the cash flow stability resulting from the nature of PLL's back-to-back contracts, and the favourable NG demand-supply dynamics in India. Future rating actions may be triggered by:

Positive Rating Factors

- Completion of expansion plans without time/cost overruns, along with long-term supply and sales contracts
- Improved debt protection measures on commercialisation of the new projects

Negative Rating Factors

- Time/cost overruns during implementation of the new projects
- Greater-than-expected deterioration in key credit metrics
- Change in the existing contractual structure

Rating Rationale

PLL's ratings derive strength from its assured-quantity supply contract with Qatar's Ras Gas and its back-to-back sales agreements with key customers Indian Oil Corporation, Bharat Petroleum Corporation and GAIL India Ltd for its existing operations. As LNG prices are pass-through, PLL is protected from commodity price-fluctuations, which helps stabilise earnings. Fitch also notes the financial and operational strengths of the key sponsors, which are of the highest credit quality. The company's margins are determined by the terms of the contract, which specify the regasification rate to be paid by the customers. This is a key factor supporting the ratings. The ratings also factor in the project execution skills PLL exhibited while commissioning the existing facility at Dahej, which was completed within cost and time estimates. PLL's well-structured sales and purchase agreements (SPAs) with its LNG suppliers and NG customers ensure stable cash flows over the contractual period. In FY07, PLL started the regasification of spot LNG cargoes, which complemented its stable cash flows from long-term cargoes.

The ratings are constrained by PLL's aggressive plan to fund the near-doubling of its existing capacity to 12.5mtpa. This exposes the company to risks of time and cost overruns during implementation, and consequent cash flow pressures. These risks are partly mitigated by PLL's recent experience in commissioning a similar project. The ratings factor in the expectation that the contractual terms for these expansions will be similar to those of the existing contracts. The political, location and force majeure risk resulting from PLL's dependence on its single-supply contract is partly mitigated by its comprehensive business interruption risk insurance.

PLL has benefited from favourable demand-supply dynamics in the domestic NG sector. India has a supply shortage, which is expected to continue in the medium term. However, expected increases in domestic gas supplies in the medium- to long-term might affect PLL's business position. Given the strong LNG demand globally and the willingness of other markets to pay high import prices, it might also be difficult for PLL to sign additional term contracts at prices that Indian end-users are willing to accept.

Recent Developments

In July 2007, PLL signed an agreement with Ras Gas for supply of 1.5mt of LNG over a two-year period

Liquidity and Debt Structure

PLL's working capital requirements are low due to its high inventory turnover and its financing of receivables through supplier credit from Ras Gas on contractual terms. PLL does not have funded working capital limits, with any short-term mismatches met through internal accruals. PLL had cash and marketable securities of INR6.1bn at FYE07 (INR4.1bn at FYE06). PLL's debt protection measures remained comfortable in FY07, with a debt/EBITDA of 2.02x, and debt/equity of 1.1x. Financial leverage will increase in the medium-term due to the expansion plans, although the risks are mitigated by the stability of PLL's cash flows, supported by revenue from processing spot cargoes.

Business Update

During FY07, PLL's revenue increased 44% to INR55.1bn while net profits increased to INR3.13bn. The rise in revenues and net profit was helped by regasification of 12 spot cargoes, over and above that carried out under long-term contracts. The Dahej facility was initially commissioned with a capacity of 5mtpa, which was later increased to 6.5mtpa by de-bottlenecking certain equipment. In FY07, PLL bought 256 trillion British thermal units (tbtu) of LNG as part of its long-term contract, and 36.8 tbtu on spot contracts.

In July 2007, PLL entered into a contract with Ras Gas for supply of 1.5mt of LNG over a two-year period. This will replace part of the spot cargoes that PLL processed in FY07.

PLL's EBITDA margins reduced slightly to 12.4% during FY07 from 13.1% in FY06. This is because although spot cargoes are bought at market prices (which are substantially higher than the long-term contracted price for LNG), the regasification charges received by PLL are same as for long term cargoes. Spot-cargo processing is beneficial for PLL, however, as it enables higher capacity utilisation and increases cash flow without any increase in fixed costs. Moreover, PLL is also able to earn marketing margins on some of the spot cargo deals, depending on the price it negotiates with the LNG supplier, and the price the off-taker is willing to pay.

PLL's debt protection measures improved in FY07 as EBITDA increased 36% to INR6.8bn while total debt increased 10% to INR13.8bn. In FY07, interest coverage was 6.4x (4.5x in FY06); debt/EBITDA was 2.02x (2.51x in FY06); and debt/equity was 1.09x (1.18x in FY06). Financial leverage is, however, expected to increase in the medium-term as debt is taken to part-finance the brownfield expansion at Dahej and the greenfield facility at Kochi.

Capex Update

Dahej

Work on the Dahej expansion has begun, and is expected to be completed by end of December 2008. The Dahej plant is being expanded to 10mtpa. LNG supply to the tune of 2.5mtpa (for expansion) is tied up with Ras Gas on a long-term basis. The remaining 2.5mtpa might be operated under short- to medium-term contracts like that signed with Ras Gas in July 2007), or for spot processing.

Kochi

Engineering, procurement and construction (EPC) contracts are planned to be awarded by the end of September 2007, and the project should be commissioned by March 2011. The Kochi facility will initially have a capacity of 2.5mtpa, which could be expanded to 5mtpa. PLL is at an advanced stage of negotiations to secure long-term LNG supply for the Kochi facility from the Gorgon project in Australia. PLL is also in discussions with gas suppliers in other countries including Algeria and Oman. Financial closure for the project has been achieved; the company will borrow USD300m in two equal tranches from the International Finance Corporation (IFC) and INR6bn from domestic lenders.

Investments

As part of its agreement with the Gujarat Maritime Board for the Dahej project, PLL entered into a joint venture with Adani Exports to establish a solid cargo terminal at Dahej. PLL plans to invest INR850m in this joint venture during FY08- FY10.

PLL also plans to buy minority equity stakes in the special purpose vehicles (SPVs) formed to provide shipping services for its new projects. It might invest up to INR2.7bn in these SPVs during FY08- FY10.

Table 2: Q1FY08 Brief Results

(INRm)	Q1FY08	Q1FY07
Revenue	15,510	10,191
Other Income	116	53
Total Income	15,626	10,244
EBITDA	2,165	1,361
EBITDA margin (%)	13.85	13.28
Depreciation	254	254
Interest	257	266
Net profit	1,080	561
Net margin (%)	6.91	5.47

Source: PLL

Table 1: Capital Expenditure and Investment Schedule

(INRm)	FY06	FY07	FY08	FY09	FY10	FY11	Total
Dahej Expansion	980	3,730	4,800	3,200	3,200	0	15,910
Solid Cargo Port	0	0	340	340	170	0	850
Maintenance Capex	0	20	150	150	150	250	720
Shipping investment	20	100	810	1,080	810	0	2,820
Kochi Project[a]	0	100	7,800	7,800	5,200	5,150	26,050
Total	**1,000**	**3,950**	**13,900**	**12,570**	**9,530**	**5,400**	**46,350**

[a] This assumes that EPC contracts are awarded in September 2007.
Source: PLL

Table 3: Debt Repayment Schedule (INRm)

Year	FY08	FY09	FY10	FY11	FY12	FY13	>FY13	Total
Term Loans – Dahej Phase I	756	756	1,512	1,512	1,764	1,764	3,087	12,033
Term Loans – Dahej Phase II	-	-	308	1,233	1,295	1,480	8,014	12,330

Note: Borrowings for Phase I (Dahej) were INR12.60bn (repayments started in FY07). Borrowings for Phase II (Dahej) are planned to be INR12.33bn, of which INR1.8bn had been drawn by FYE07 (repayments to start in FY10).
Source: PLL

Ratio Analysis: Petronet LNG Limited

(INRm) FOR THE YEAR ENDED	31 Mar 07	31 Mar 06	31 Mar 05
Coverage Ratios			
EBIT/ Interest (x)	5.44	3.60	0.67
EBDIT/Interest (x)	6.40	4.51	1.55
Profitability			
Operating Income	55,103	38,382	19,454
% Change	43.56	97.30	-
Total Income	55,452	38,498	19,559
EBDIT	6,846	5,029	1,755
EBDIT Margin (%)	12.42	13.10	9.02
Interest Expense	1,070	1,116	1,209
Depreciation plus Write off	1,020	1,010	997
Net Income	3,133	1,902	(311)
Net Margin (%)	5.65	4.94	(1.59)
Net Cash Accruals	4,140	3,704	573
Cash Flow			
From Operations	4,888	3,588	468
% Total Debt	35.34	28.48	3.71
Change in Working Capital	(381)	(2,053)	620
Capital Expenditure	(3,682)	(734)	(2,274)
Investments	(0)	-	-
Net Debt Proceeds	1,233	-	10
Net Equity Proceeds	-	-	-
Dividends	(1,097)	-	-
Net Change in Cash/market securities	2,110	916	(1,106)
Liquidity			
Cash and market securities	6,185	4,075	3,159
Net Working Capital (current assets net of cash less current liabilities)	1,602	1,221	(832)
Gross Working Capital Intensity (%)	13.60	7.68	14.15
Current Ratio (x)	1.91	2.35	1.22
Days Receivables Outstanding	15	12	14
Inventory Turnover	30.98	29.03	15.74
Capitalisation			
Long Term Debt	13,832	12,599	12,599
Short Term Debt	0	0	0
Secured Debt	13,832	12,599	12,599
Unsecured Debt	0	0	0
Total Debt	13,832	12,599	12,599
Off Balance Sheet Debt	0	0	0
Total Adjusted Debt	13,832	12,599	12,599
Equity Share Capital	7,500	7,500	7,500
Tangible Networth	12,737	10,685	8,596
Total Capital employed	29,041	23,889	21,195
Debt/Equity	1.09	1.18	1.47
Total Debt/EBDIT (X)	2.02	2.51	7.18
ROCE (%)	21.93	17.26	3.71

Source: PLL, Fitch