August 28, 2007

ICRA retains the issuer rating assigned to Petronet LNG Limited

ICRA has retained the issuer rating of IrAA, indicating high credit quality, assigned to Petronet LNG Limited (PLL). The rated entity carries low credit risk. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any particular debt instrument. The rating reflects the strength arising from strong and financially sound project participants, including sponsors, the robustness of the contractual structure which effectively addresses most of the risks in the project, and PLL's demonstrated track record in running the regassification facility and generating profits. The rating also favourably factors in the large latent demand for gas in the country and the company's favourable financial risk profile, characterized by moderate gearing level and comfortable debt servicing ability. The rating is constrained by the project implementation risks inherent in the company's significant capex programme and the supply risks emanating from the fact that the LNG is yet to be tied up on a long term basis for the balance requirement of Dahej expansion and greenfield project at Kochi. ICRA also notes that the current Supply Purchase Agreement (SPA) with Rasgas provides for a gradual alignment of the LNG prices to prevailing JCC prices from 2009 onwards, which could expose the project off-takers to a certain degree of market risks, given the likely competition from alternate fuels. Further, gas-to-gas competition could also emerge in the near to medium term, given the projected availability of natural gas in India. This could also impair the demand prospects for spot LNG, regassifcation revenues of which have contributed significantly to PLL's profitability in recent quarters.

Background

PLL has been promoted by four PSU oil & gas companies viz. ONGC, GAIL, IOC and BPCL with each of them having 12.50% equity stake. Gaz De France (GDF) and Asian Development Bank (ADB) have 10% and 5.2% stake in the company with the rest held by institutional investors and general public. PLL had commissioned a 5 MMTPA LNG regassification plant at Dahej, Gujarat in April 2004. The operations of the company are governed by the provisions of a series of agreements such as supply purchase agreement (SPA) with RasGas, Qatar, Time Charter Agreement (TCA) with Mitsui OSK consortium, Port Operations Service Agreement (POSA) with a Singapore consortium, Gas Supply Purchase Agreement (GSPA) with the offtakers, and Payment Security Mechanism. PLL sources LNG from RasGas, Qatar under a 25 year SPA, for which prices will be linked to Japan Customs Cleared (JCC) crude oil of $20/bbl in the period April 2004-Dec 2008. In the subsequent period Jan 2009-Dec 2013, LNG prices will gradually float in line with the specified formula, with the prices fully indexed to previous 12 month JCC from Jan 2014 onwards, subject to cap and floor price. Except during Force Majeure events, PLL is committed to buy LNG from RasGas at the contracted quantity, failing which it is to pay liquidated damages. For transporting LNG to its plant, PLL has entered into TCA with Mitsui consortium, who have deployed two dedicated LNG ships for the company. R-LNG from the plant is sold to GAIL, IOC & BPCL in the ratio 60:30:10, through the GSPA. Terms and conditions of GSPA are co-terminus with that of SPA. The offtakers have take or pay liabilities to PLL and the latter has supply or pay liabilities to the offtakers. While the O&M of the regassification plant is done by PLL, marine services are undertaken by PSA Marine, Singapore. Payments to RasGas, shippers, O&M agent and debt servicing are governed by payment security mechanism.

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