May 27, 2022

HPCL LNG Limited: Ratings reaffirmed and provisional ratings finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term: Fund based - term loan@	3,000.0	3,000.0	[ICRA]AA+ (CE)(Stable); finalised from provisional [ICRA]AA+ (CE)(Stable)
Long term: Non-fund based limits#	-	(750.0)	[ICRA]AA+ (CE)(Stable); assigned
Short term: Fund based – short-term loan	800.0	800.0	[ICRA]A1+ (CE); reaffirmed
Short term: Forward cover *	(10.0)	(10.0)	[ICRA]A1+ (CE); finalised from provisional [ICRA]A1+ (CE)
Total	**3800.0**	**3800.0**	

Rating Without Explicit Credit Enhancement	[ICRA]A+/A1

**Instrument details are provided in Annexure-1*

@Forward Cover- Short term is a sub-limit of fund based-term loan and the long-term rating will be applicable when the limit is utilised under the term loan facility while when the limit is utilised against forward cover the short-term rating will be applicable.

#sub-limit of fund based-term loan

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the final [ICRA]AA+ (CE)(Stable) and [ICRA]A1+ (CE) rating for Rs. 3000 crore bank limits (including the sub limits)

The above rating is based on the strength of the promoter support agreement (PSA) provided by Hindustan Petroleum Corporation Limited (HPCL, rated [ICRA]AAA (stable)/[ICRA]A1+), the parent of HPCL LNG Limited (HPLNG). The Stable outlook on this rating reflects ICRA's outlook on the rating of the parent HPCL.

In November 2021, ICRA had assigned the provisional ratings of [ICRA]AA+ (CE) /[ICRA]A1+ (CE) to the Rs. 3000.0-crore proposed term loan programme and Rs. 10.0-crore forward cover programme (a sub-limit of the Rs. 3,000.0-crore term loan programme) based on the strength of the draft PSA from HPCL. HPLNG has shared the executed version of the transaction documents, including the PSA, with ICRA. As the executed version of the transaction documents is in line with the rating conditions, the rating of Provisional [ICRA]AA+ (CE) /[ICRA]A1+ (CE) has now being finalised to [ICRA]AA+ (CE) /[ICRA]A1+ (CE).

Adequacy of credit enhancement

The rating of the instrument is based on the rating notch-up approach whereby the rating of the entity has been notched up factoring in the extent of the PSA. The PSA has been executed which is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and ensures that the entity will maintain a gross debt servicing coverage ratio (GDSCR) of 1.0x at all times and the parent will also ensure timely servicing of the secured obligations (including interest and principle payment) in a timely manner. Given these attributes, the PSA provided by HPCL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AA+ (CE) and [ICRA]A1+ (CE) against the rating of [ICRA]A+ and

[ICRA]A1 without explicit credit enhancement. In case the rating of the parent which has furnished the PSA i.e. HPCL was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility (For Rs. 3000 crore bank facilities)

» HPCL will maintain at least 51% ownership in the company till the tenor of the loan

» HPCL shall ensure that the minimum GDSCR of 1.0 times is maintained by the borrower in all circumstances in each fiscal year until the final settlement date and the promoter shall, in case of a debt service shortfall on the written request of the rupee lenders/facility agent infuse funds into the relevant sub-account of the trust and retention account to enable the borrower to pay/repay/discharge the secured obligations in a timely manner at all times until the final settlement date (including during the construction period).

For the [ICRA]A1+ (CE) rating reaffirmed for Rs. 800 crore short term bank limits

ICRA has reaffirmed a rating of [ICRA]A1+ (CE) for the Rs. 800.0-crore short-term loan of HPLNG backed by a letter of comfort (LOC) from HPCL. The rating is based on the strength of an LOC provided by HPCL, which shall remain effective until the facility is fully repaid together with all interest payable under the agreement.

Salient covenants of the rated facility (For Rs. 800 crore bank facilities)

» HPCL will maintain at least 51% ownership in the company till the tenor of the loan

» During the currency of the loan, the borrower will not, without the bank's permission (a) formulate any scheme of amalgamation or reconstruction or merger or demerger, (b) plan for any project or scheme of expansion or acquisition of fixed assets (except the land of ~ 138 acres to be acquired from Simar Port Pvt Ltd for the Project)., (c) undertake guarantee obligations on behalf of any other company (d) declare dividends for any year except out of profits relating to that year after making all due and necessary provisions and provided further that no default is subsisting in any repayment obligations to the bank.

Key rating drivers and their description

Credit strengths

Strong track record of promoter in crude oil refining segment- HPLNG was promoted equally by HPCL and the SP Group through SP Ports Private Limited (SPPPL). On March 30, 2021, HPCL acquired the SP Group's 50% stake in HPLNG, thereby making the company its wholly-owned subsidiary. HPCL is involved in the production and marketing of various petroleum products and operation of pipeline network. Besides, it is present in the exploration and production (E&P), city gas distribution and renewable energy businesses. HPCL has an established brand name with strategic importance in the domestic energy sector.

Parent support to borrowing programmes - HPLNG's borrowing programmes i.e. a term loan programme and a short-term loan programme are backed by a PSA and a LOC, respectively, both furnished by HPCL. The company is supported by the parent for contracting loans from the banking system and remains a strategically important entity for the parent.

Initial capital cost remains competitive among upcoming LNG terminals- With several other upcoming LNG terminals in the country, HPLNG is well-placed in terms of the initial capital cost requirements. Further, the company has awarded its plant facilities construction to reputed domestic and global contractors at highly competitive prices on an LSTK basis.

Credit challenges

Exposed to residual execution risks as project is ~81% complete as of now- The actual project progress achieved till January 2022 is ~80.92% against a revised scheduled plan[1] of ~80.13%. The project cost at Rs. 4,293.02 crore is to be funded in a debt-equity ratio of 70:30. There has been no cost escalation in the project costs till date. The company has spent around Rs. 2,393 crore on the project, funded through Rs. 1,257 crore of equity and Rs. 1,136 crore of loan, which includes a bridge loan of Rs. 800.0 and a term loan of Rs. 336 crore. The bridge loan is expected to be repaid shortly. To mitigate the risk of time and cost overruns, the company has awarded plant facilities contracts to renowned contractors on LSTK basis. Out of 138.27 acres of land required for the project, 135.28 acres have been acquired and sale deeds have been executed by Simar Port Private Limited (SPPL).

Moreover, the commissioning of the LNG terminal would be contingent on the successful completion of the breakwater by SPPL. While the construction of the breakwater is in progress duly prioritising the section required for the LNG terminal, timely completion of the same will be a key monitorable. Further, any delays in pipeline connectivity to the gas grid will pose a significant challenge to the offtake of R-LNG. The pipeline is to be constructed by GSPL. While GSPL has completed the right of way (RoW) status for the entire stretch of the 87km pipeline, it is yet to award EPC contracts for the construction of the pipeline.

Competition from existing players and several upcoming LNG terminals on the west coast-The port at Chhara located on the west coast faces strong competition from established players like Petronet LNG, Shell, GAIL, etc. as well as from the upcoming terminals at Dhamra, Jaigarh and Jafrabad. The company would, however, benefit from the strong offtake support from its parent, which alleviates the market risks to some extent.

Competition from liquid fuels which could impact offtake depending on energy price parity-The domestic demand for R-LNG remains exposed to competition from cheaper alternative sources of fuels viz. liquid fuels.

Liquidity position: Adequate

For Rating with Explicit Credit Enhancement: Strong

HPCL's liquidity is expected to remain strong, aided by healthy cash flow generation and sizeable cash and cash equivalents of Rs. 5,723 crore on the standalone books as on September 30, 2021. Further, the company has adequate fund-based and non-fund based working capital limits, a sizeable part of which is unutilised. It also enjoys high financial flexibility owing to its strong parentage.

For the [ICRA]A+/[ICRA]A1 rating: Adequate

The liquidity position is expected to remain adequate given the availability of sanctioned term loans to meet the capex requirements. Post-commissioning, the cash flows from the project are expected to be supported by the marketing requirements and captive consumption by the parent and the comfortable moratorium period on the debt repayment.

Rating sensitivities

Positive factors: Completion and stabilisation of the project without any major time/cost overruns would trigger an upgrade.
Negative factors: Downward pressure on HLL's ratings could arise if (i) the credit profile of HPCL weakens, or (ii) the linkage between HPCL and HLL weakens, or (iii) there are significant delays in commissioning or material cost overruns

[1] Against the original schedule plan of ~98.08%

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	HPCL ([ICRA]AAA (Stable)/[ICRA]A1+) has extended support to the borrowing programme of HPLNG (beyond the equity commitment) in the form of LOC and SSU, given the high strategic importance that HPLNG holds for HPCL. HPLNG shares a common name with HPCL, which in ICRA's opinion, would persuade HPCL to provide financial support to the entity to protect its reputation from the consequences of a group entity's distress. The short-term borrowing programme is backed by letter of comfort from HPCL and the term loan programme is backed by a PSA.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

HPCL LNG LIMITED (erstwhile HPCL Shapoorji Energy Private Limited), incorporated in October 2013, is a wholly-owned subsidiary of Hindustan Petroleum Corporation Limited (HPCL). The entity was initially incorporated as a JV between HPCL and SP Ports Private Limited (SPPPL), a Shapoorji Pallonji Group company which exited the JV in March 2021 by selling its stake to HPCL. The SPV was incorporated with the purpose of setting up a 5-million-metric-tonne-per-annum (MMTPA) land-based LNG storage and regasification terminal with all the associated facilities as well as subsequent supply of re-gasified LNG to the gas grid. The total capital cost for the aforesaid project has been estimated at Rs. 4,293 crore which is expected to be funded in a debt to equity mix of 70:30. The LNG terminal will be within the boundary of an all-weather multi-purpose greenfield port being developed at Chhara under Simar Port Private Limited ([ICRA]BBB- (Negative)), an SPV under SPPPL. The LNG project will have provisions for capacity expansion up to 10 MMTPA in the future; the utilities, flare header and unloading lines are being designed for handling higher capacity.

Key financial indicators (audited) Parent

HPCL Consolidated	FY2021	FY2022
Operating Income (Rs. crore)	2,33,248	3,49,913
PAT (Rs. crore)	10,524	7,294
OPBDIT/OI (%)	6.9%	2.9%
PAT/OI (%)	4.5%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.5	2.7
Total Debt/OPBDIT (times)	2.7	4.7
Interest Coverage (times)	16.6	10.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Company

Not applicable as company is in project stage

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022			Date & Rating in FY2021		Date & Rating in FY2020
					May 27, 2022	Nov 22, 2021	Jun 07, 2021	Apr 08, 2021	Oct 16, 2020	Apr 27, 2020	-
1	Term Loan	Long-term	3,000.0	304.0	[ICRA]AA+ (CE) (Stable)	Provisional [ICRA]AA+(CE) (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable) [ICRA]A (Stable)	[ICRA]A (Stable) [ICRA]A (Stable)	-
2	Non-fund based	Long-term	(750.0)	-	[ICRA]AA+ (CE) (Stable)	-	-	-	-	-	-
3	Short term- fund based	Short term	800.0	800.0	[ICRA]A1+(CE)	[ICRA]A1+ (CE)	Provisional [ICRA]A1+(CE); assigned	-	-	-	-
4	Forward cover	Short term	(10.0)	-	[ICRA]A1+(CE)	Provisional [ICRA]A1+ (CE)	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Short -term – Short Term Loan	Simple
Forward Cover-Short Term	Simple
Long-term Non Fund-based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long term: Fund based-Term loan*	January 2022	1 year MCLR + 0.05%	March 2035	3,000.0	[ICRA]AA+ (CE) (Stable)
NA	Long term: Non-fund based limits#	NA	NA	NA	(750.0)	[[ICRA]AA+ (CE) (Stable)
NA	Short term: Fund based-Short term loan	June 2021	NA	June 2022	800.0	[ICRA]A1+ (CE)
NA	Short term: Forward Cover *	NA	NA	NA	(10.0)	[ICRA]A1+ (CE)

Source: *Company*

**Forward Cover- Short term is a sub-limit of Fund based-term loan and the long-term rating will be applicable when the limit is utilized under the term loan facility while when the limit is utilized against forward cover the short-term rating will be applicable.*

#sub-limit of Fund based-term loan

Annexure-2: List of entities considered for consolidated analysis - NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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