January 25, 2023(Revised)

HPCL LNG Limited: [ICRA]AA+(CE) (Stable)/[ICRA]A1+(CE) withdrawn and simultaneously [ICRA]AA (Stable)/[ICRA]A1+ assigned; rating withdrawn for short term loan

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Long term: Fund based - term loan@	3,000.0	3,000.0	[ICRA]AA+ (CE)(Stable) withdrawn and simultaneously [ICRA]AA (Stable) assigned
Long term: Non-fund based limits#	(750.0)	(750.0)	[ICRA]AA+ (CE)(Stable) withdrawn and simultaneously [ICRA]AA (Stable) assigned
Short term: Fund based – short-term loan	800.0	0.00	[ICRA]A1+(CE) withdrawn
Short term: Forward cover *	(10.0)	(10.0)	[ICRA]A1+ (CE) withdrawn and simultaneously [ICRA]A1+ assigned
Total	**3800.0**	**3000.0**	

**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.

Rationale

ICRA has withdrawn its rating of [ICRA]AA+ (CE) (Stable)/[ICRA]A1+(CE) for the bank facilities of HPCL LNG Limited and has simultaneously assigned a fresh rating of [ICRA]AA (Stable)/[ICRA]A1+ for these bank facilities. ICRA has also withdrawn the [ICRA]A1+(CE) rating outstanding on Rs. 800 crore short term loan, which was backed by a letter of comfort (LOC) extended by HPCL, on the request of the company and due to repayment of loan, in line with ICRA's policy on withdrawal of credit ratings.

The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of an explicit support from sponsor, that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning the credit enhanced (CE) ratings.

For assigning the rating, ICRA had assessed the attributes of the promoter support agreement issued by Hindustan Petroleum Corporation Limited (HPCL) (rated [ICRA]AAA(stable)/[ICRA]A1+). PSA 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 (GDSCR) of 1.0x at all times and parent will also ensure timely servicing of the secured obligations (including interest and principal payment) in a timely manner. However, the PSA does not meet some of the attributes (related with payment mechanism and obligations on guarantor due to same) for strong form of support as laid down by the RBI.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering in its credit assessments the benefit of an explicit support which does not meet evaluation mechanism/criteria, though such a support represents a relatively strong expression of commitment on the part of the support provider for the supported facilities in comparison to the support that is only implicit in nature. The assigned ratings of [ICRA]AA (Stable)/ [ICRA]A1+ are higher than the ratings without explicit credit enhancement of [ICRA]A+/ [ICRA]A1 disclosed in the rating rationale dated May 27, 2022, as the former take into account the reduced project risk given the healthy project progress with around 96.95% of the work completed by December 2022. However, ICRA notes that while the mechanical completion of the project is expected to be completed before the SCOD of April 1, 2023, the progress of breakwater construction by Simar Ports Private Limited (SPPL) and pipeline connectivity undertaken by Gujarat State Petronet Limited (GSPL) has been slower than expected, which could lead to extension of SCOD and the developments will be monitored. Nonetheless, the contracts have been awarded for the pipeline project by GSPL in September 2022. The commencement of project without major cost and time overruns is a key monitorable.

The ratings draw comfort from the strong parentage, with HPCL being a major refining and marketing player, with an established brand name and strategic importance in the domestic energy sector. The company is supported by the parent for contracting loans from the banking system and remains a strategically important entity for the parent. Further, the capital cost of the project remains competitive among upcoming LNG terminals. The availability of sanctioned undrawn loans during the construction period, comfortable moratorium on loan repayments and captive requirement from the parent post commissioning are also considered.

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 is backed by a PSA, 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 - The actual project progress achieved till December 2022 is ~96.95% as against 97.7% required for mechanical completion. The project cost at Rs. 4,293 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. 2,879 crore on the project till December 2022, funded through Rs. 1,257 crore of equity and Rs. 1,622 crore of loan. The bridge loan of Rs. 800.0 crore has been repaid through project loan facility. To mitigate the risk of time and cost overruns, the company has awarded plant facilities contracts to renowned contractors on LSTK basis. Out of 138.33 acres of land required for the project, 137.73 acres have been acquired, and sale deeds have been executed by Simar Port Private Limited (SPPL).

While the mechanical completion of project is expected in current fiscal prior to SCOD of April 1, 2023, the progress of breakwater construction by Simar Ports Private Limited (SPPL) and pipeline connectivity undertaken by Gujarat State Petronet Limited (GSPL) has been slower than expected, which could lead to extension of SCOD and the developments will be monitored. Nonetheless, the contracts have been awarded for the pipeline project by GSPL in September 2022. The commencement of project without major cost and time overruns is a key monitorable.

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

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 of the project and related ancillary projects (Gas pipeline and breakwater construction) without any major time/cost overruns and stabilization of operations may lead to improvement in ratings.

Negative factors: Downward pressure on HPLNG's ratings could arise if (i) the credit profile of HPCL weakens, or (ii) the linkage between HPCL and HPLNG weakens, or (iii) there are significant delays in commissioning or material cost overruns

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Policy on Withdrawal of Credit Ratings
Parent/Group Support	HPLNG shares a common name with HPCL([ICRA]AAA (Stable)/[ICRA]A1+) and is strategically important project for the group, which in ICRA's opinion, would persuade HPCL to provide financial support to the entity should the need arise.
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	2,33,248	3,49,913
PAT*	10,524	5,836
OPBDIT/OI (%)	6.9%	2.9%
PAT/OI (%)	4.5%	1.7%
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; Amount in Rs crore

**Excluding profit/loss of joint ventures/associates*

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 04 January, 2023 (Rs. crore)	Date & rating in		Date & rating in FY2022			Date & rating in FY2021		Date & rating in FY2020
					Jan 25, 2023	May 27, 2022	Nov 22, 2021	Jun 07, 2021	Apr 08, 2021	Oct 16, 2020	Apr 27, 2020	-
1	Term Loan	Long Term	3000.0	1622.0	[ICRA]AA+ (CE)(Stable) withdrawn and simultaneously [ICRA]AA (Stable) assigned	[ICRA] AA+ (CE) (Stable)	Provisional [ICRA]AA+ (CE) (Stable) assigned; [ICRA]A+ (Stable) Withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Non-fund based	Long Term	(750.0)	-	[ICRA]AA+ (CE)(Stable) withdrawn and	[ICRA]	-	-	-	-	-	-

					simultaneously [ICRA]AA (Stable) assigned	AA+ (CE) (Stable)						
3	**Short term- fund based**	Short Term	800.0	-	**[ICRA]A1+ (CE) withdrawn**	[ICRA] A1+(CE)	[ICRA]A1+ (CE)	Provisional [ICRA]A1+ (CE)	-	-	-	-
4	**Forward cover**	Short Term	(10.0)	-	**[ICRA]A1+ (CE) withdrawn and simultaneously [ICRA]A1+ assigned**	[ICRA] A1+(CE)	Provisional [ICRA]A1+ (CE) assigned	-	-	-	-	-

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: Click Here

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%	Sep 2034	3,000.0	[ICRA]AA+ (CE)(Stable) withdrawn and simultaneously [ICRA]AA (Stable) assigned
NA	Long term: Non-fund based limits#	NA	NA	NA	(750.0)	[ICRA]AA+ (CE)(Stable) withdrawn and simultaneously [ICRA]AA (Stable) assigned
NA	Short term: Fund based-Short term loan	June 2021	NA	June 2022	800.0	[ICRA]A1+(CE) withdrawn
NA	Short term: Forward Cover *	NA	NA	NA	(10.0)	[ICRA]A1+ (CE) withdrawn and simultaneously [ICRA]A1+ assigned

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

Corrigendum:

Document dated January 25, 2023, has been revised with changes as below:

On page 2, under rational summary – language has been suitably modified

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Sai Krishna
+91 44 4596 4300
sai.krishna@icraindia.com

Abhijit Nadkarni
+91 70 4530 9908
abhijit.nadkarni@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches