RATING RATIONALE **6 August 2020**

GSPC LNG LTD

Brickwork Ratings assigns ratings for the Bank Loan Facilities aggregating Rs.3528.70 Crs of GSPC LNG Ltd.

Particulars

<table>
<tr><th rowspan="2">Facilities/ Instrument**</th><th colspan="2">Amount (₹ Crs)</th><th rowspan="2">Tenure</th><th colspan="2">Rating*</th></tr>
<tr><th>Previous</th><th>Present</th><th>Previous (----)</th><th>Present</th></tr>
<tr><td>Fund Based – Term Loan</td><td>-</td><td>1910.11</td><td rowspan="2">Long Term</td><td rowspan="2">-</td><td rowspan="2">BWR A- (Stable) Assigned</td></tr>
<tr><td>Fund Based – Term Loan (to be disbursed)</td><td>-</td><td>1618.59</td></tr>
<tr><td>Fund Based – Short Term Loan</td><td>-</td><td>(440.00)^</td><td>Short Term</td><td>-</td><td>BWR A2+ Assigned</td></tr>
<tr><td>Total</td><td>-</td><td>3528.70</td><td colspan="3">INR Three Thousand Five Hundred and Twenty-Eight Crores and Seventy Lacs Only</td></tr>
</table>

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
** Details of bank loan facilities are provided in Annexures-I
^ Short-term loan will be replaced with long-term loan upon the disbursement of the remaining TL.

RATING ACTION / OUTLOOK

The rating assigned, inter alia, factors in the strong parentage with 93.41% equity ownership with GoG (directly and indirectly through Government of Gujarat (GoG) entities) , completed status of the 5.0 MMTPA Liquified Natural Gas (LNG) terminal at Mundra as the project achieved the COD on 01 March 2020, current capacity utilisation of ~1.5-2.0 MMTPA, reserved capacity utilisation of 1.0 MMTPA by GSPC and marketing arrangement of the entire 5.0 MMTPA with GSPC; all approvals being in place for commissioning the LNG terminal, including the landing and shipping declaration from GMB/SEZ Mundra. The rating also factors in, a promoter's equity contribution of Rs.882.63 Crs as of FY20, of which Rs.500 Crs was infused by the Gujarat Maritime Board (GMB) during FY20, continuous funding support from GSFS and improved operational and financial performance, including key credit metrics post achieving the COD. As per Brickwork Ratings (BWR) estimates, revenues for the current year are expected to be in line with Q1 FY21 as the operations of GSPC LNG Ltd. (GLL or the company) are in the stabilisation phase. The company is expected to improve its gas regasification capacity/ plant capacity utilisation, going forward, over two to three years.

The rating also factors in the experience of management including senior GoG representatives and the company's strategic importance to GSPC, continuous support in the form of equity infusion from the State and funding support from GSFS. The project was funded in the ratio of 70:30 of debt and equity; balance loans from banks are expected to be made available to the company after the required equity infusion by its promoters. Currently, it has a dependency on short-term funding to meet its requirements and will be replaced with long-term funding during FY21 after the disbursement of balance sanctioned amount. Furthermore, the GoG through its entities is expected to infuse Rs.292 Crs during FY21.

The company has achieved monthly income of Rs.35-40 Crs during Q1 FY21 and has started generating adequate EBITDA to meet its interest servicing requirements. It is also benefiting from elongated debt repayment spread across 8.75 years and will start repayment from FY22. Overall debt levels stood at Rs.2894.82 Crs as of FY20 (Prov.) and the financials showed an improvement with a DE ratio of 3.99x (Long term debt to equity ratio stood at 2.16x) as of FY20 improved from 7.36x as of FY19 after equity infusion by GMB.

However, the rating is constrained by its ability to improve gas volumes (regasification), given the current scenario of low price and demand; maintaining its operating revenues which is mainly from tolling revenue and depends on capacity utilisation. The capacity utilisation is expected to improve gradually. The rating is also dependent on the signing of agreement of the utilisation of the remaining capacity on a 'take-or-pay' basis and the risk associated with the lower utilisation of the current capacities by GSPC. Lower-than-anticipated demand has resulted in lower volumes during Q1 FY21 for GSPC and which is using GLL's capacity and will result in volatility in revenue and margins for the company. Furthermore, the regulation of natural gas, including city distribution business, is still in the initial stage in India, and hence, there is considerable uncertainty regarding the regulatory norms for natural gas allocation and distribution. Further it is completing additional shore protection work, which is expected to be completed within next one or two years. Earlier, the COD of the project was delayed by two years on account of various factors, including execution delays. However, even after this time overrun, the company is able to complete the project well within the costs, as projected earlier.

The outlook for the company remained Stable owing to the achievement of the COD, start of production and capacity utilisation with adequate volumes, EBITDA margins, generation of adequate cash accruals to meet interest servicing obligations and an improved liquidity profile, along with continuous equity infusion by promoters. However, capacity utilisation is expected to remain at moderate levels during FY21 due to the low demand scenario on account of the current lockdown of industrial and commercial establishments due to COVID-19 during Q1 FY21, along with the dependency on the GoG towards funding support, although it has reduced significantly, and the current regulatory environment. The company's ability to improve revenues and profitability, and its capital structure given the current scenario for the oil and gas sector remains key rating sensitivities.

KEY RATING DRIVERS

Credit Strengths:

Completed status of project and improved scale of operations: GLL completed a green field project of a 5.0 MMTPA LNG terminal at Mundra after achieving the COD on 1 March 2020. The LNG terminal has a capacity of 5.0 MMTPA which is expandable up to 20.0 MMTPA. The facilities created consist of two LNG storage tanks of 1,60,000 m^3 each, regasification facilities having five open rack vaporizers and an LNG jetty capable of receiving LNG vessels of sizes ranging from 75,000 m^3 to 260,000 m^3. The terminal also has a facility for LNG truck loading. It has a reserved capacity of 1.0 MMTPA for GSPC and marketing arrangement of the entire 5.0 MMTPA with GSPC Capacity of up to ~1.5-2.0 MMTPA is being utilised as on date. Furthermore, it has all approvals in place for commissioning the LNG terminal, including the landing and shipping declaration from GMB/SEZ Mundra. Furthermore, the low gas price scenario is expected to increase demand mainly from power generation and fertiliser companies, which will result in better capacity utilisation. Going forward, this is expected to continue during FY21 as capacity utilisation is expected to increase further.

Parent support and liquidity position: The company is 93.41% owned by the GoG (Directly/Indirectly) and gets timely support in the form of equity infusion and funding. The company started generating adequate EBITDA to fund its interest servicing and debt repayment will start from FY22 onwards. The promoters have infused equity of Rs.882.63 Crs as of FY20, of which Rs.500 Crs was infused by Gujarat Maritime Board (GMB) during FY20. It is expected that the promoters will infuse further Rs.292 Crs during FY21 to meet lenders' equity requirement. The company is professionally managed and supported by an experienced team in the energy sector. The company has completed execution of such a large project without any cost overrun despite a delay of about two years.

Locational advantage:
The LNG terminal has been set up by the company at the Mundra port, which is already an operational port and has good connectivity and infrastructure and is operated by APSEZ. Furthermore, GSPL's gas pipeline network, which connects its state-wide grid till Anjar, has been extended up to GLL's Mundra LNG terminal. This is expected to improve gas demand for GSPC, as the said pipeline is connected across most parts of Gujarat.

Improved financial risk profile:
It has achieved operating revenues for its first year of operation to Rs.53.80 Crs in FY20 (Prov.) with EBITDA of Rs.38.62 Crs during FY20. Furthermore, it has generated cash accruals of Rs.13.94 Crs after the repayment of interest obligations. Total debt stood at Rs.2894.82 Crs as of FY20 with a net-worth of Rs.725.08 Crs and DE ratio of 3.99x (Long term debt to equity ratio stood at 2.16x). Going forward, it is expected to improve, as the company has started generating revenues of Rs.35-40 Crs per on a monthly basis with an EBITDA of ~Rs.25-27 Crs Further infusion of equity during FY21 is expected to improve its financial profile.

Financial flexibility:
GSPC's financial flexibility remained high and can be seen from the low-cost availability of the fund to the company. Furthermore, GSFS has provided long-term funds of Rs.590 Crs at a very low cost, thereby reducing its dependency on high-cost short-term funds to meet its funding requirements.

Growth prospects and outlook of gas trading business:
As per PNGRB, for India, share of the gas sector is aimed at 15% of the overall energy sector by 2030 from the current level of 6.2%. It is expected to drive the country's gas consumption to 115 bcm (billion cubic meters) by 2020 with a CAGR of 7.2%. Furthermore, Gujarat accounts for ~32% of the total gas consumption in India, wherein almost ~84% of its area is covered under the city gas distribution network (CGD). Of the total demand for gas consumption built-up in Gujarat of 146 MMSCMD for FY20 (Prov.), 101 MMSCMD was produced domestically/ supplied and the balance 45 MMSCMD was imported, of which GSPC's share stood at 12.87%.

Credit Risks:

Low Debt coverage indicators and weak capital structure:
Despite the equity infusion during FY20, its debt to equity ratio remained high of 3.99x as of FY20 as the company has just completed implementing its manufacturing facilities and has a relatively low net-worth of Rs.725.08 Crs. Furthermore, the project DSCR is expected to remain at around 1.20x during the initial 4-5 years and is expected to improve after the utilisation improves to ~4.0 MMTPA.

Delays in achieving COD: The company achieved its COD with a delay of ~two years; due to delay in project execution and various other factors, which resulted in a time overrun. However, the cost of the project was well within estimates. Additionally, lenders have restricted the drawdown of the full amount due to a delay in security creation and its perfection. This has increased the company's dependency on short-term funds to meet its funding requirements. Since the company has now achieved its COD, it is expected that the lenders will disburse the remaining amount, which can be utilised towards repaying short funds during the current year that were raised earlier to complete the project.

Tolling model and its agreement with GSPC:
Currently, the company has executed a capacity reservation agreement with GSPC for commissioning cargo and thereafter for first regular cargo with GSPC. GLL has also received commitment from GSPC for use and marketing of entire 5.0 MMTPA capacity as well as capacity reservation of 1.0 MMTPA on firm basis and rest of the capacity on best endeavour basis in Mundra LNG terminal. At present, GSPC is utilizing a capacity of up to 1.5-2 MMTPA, which GSPC has shifted from the Hazira and Dahej LNG terminals. The company works on the Tolling Model, wherein GLL provides regasification services and collects service charges from customers for the use of its facility. Therefore, it reduces the risk of an adverse movement of gas pricing and foreign exchange rate fluctuations.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA
For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale). BWR has taken a standalone view on the Company's operational and financial performance, GoG's equity contribution and support, completed status of the project, COD being achieved, reserved capacity and marketing arrangement with GSPC, and improved capacity utilisation while arriving at the rating.

RATING SENSITIVITIES
Going forward, the focus on increasing capacity utilisation, ensuring adequate build-up of terminal capacity as projected and maintaining EBITDA margins while reducing its debt position will be key monitorables and sensitivities for the company.

Positive: The outlook may be revised to Positive if the terminal capacity utilisation and regasification improve substantially, along with an improvement in EBITDA margins and a substantial improvement in the company's financial profile and debt servicing metrics.

Negative: The outlook may be revised to Negative if the company fails to utilise its current capacity at optimum levels, delays in new capacity build-up due to low utilisation, low revenue generation from LNG terminal services, and no improvement in debt coverage metrics.

LIQUIDITY: Adequate
The company's cash and cash equivalents were at Rs.15.78 Crs as of FY20 (Prov.), with a low-cost short-term funding of Rs.590 Crs from GSFS and short-term loan of Rs.440 Crs from banks. The company's liquidity remains adequate, with cash accruals generation of Rs.13.94 Crs after the repayment of interest obligations as of FY20. Furthermore, term loans from banks have a tenor of 8.75 years after the construction period of 5.25 years, and its repayments will start from FY22, of which the majority of the repayments will start FY24 onwards.

COMPANY PROFILE
GSPC LNG Ltd. (GLL) is a joint venture company of the Government of Gujarat and its undertakings, including Gujarat State Petroleum Corporation Ltd. and Adani Enterprises Ltd. The company was incorporated for the purpose of developing a Greenfield 5.0 MMTPA LNG receiving, storage and regasification terminal at Mundra in Gujarat. The project is to augment natural gas supply by importing LNG to meet growing demand for energy in the state of Gujarat and India. The LNG terminal will have an initial capacity of 5.0 MMTPA expandable to 20.0 MMTPA.

The GoG with its entities had a 93.41% shareholding in the company as of FY20, of which GMB holds (56.65%) post the infusion of Rs.500 Crs during FY20, along with 31.50% directly held by GoG. The rest is with other entities. AEL held 5.46%, followed by GIPC at 1.13% as of FY20. The project was initially expected to achieve COD by April 2018. However, the COD was delayed by one year initially and was later achieved on 01 March 2020.

KEY FINANCIAL INDICATORS (in INR Crs)

On a standalone basis, GLL has achieved operating revenues from its first year of operation to Rs.53.80 Crs in FY20 (Prov.) with EBITDA of Rs.38.62 Crs during FY20. Furthermore, it has generated cash accruals of Rs.13.94 Crs after the repayment of interest obligations. Total debt stood at Rs.2894.82 Crs as of FY20 with the net-worth at Rs.725.08 Crs and DE ratio of 3.99x (Long term debt to equity ratio stood at 2.16x). Furthermore, it has achieved revenues of Rs.111.84 Crs with an EBITDA of Rs.82.77 Crs during Q1 FY21.

FINANCIAL INDICATORS – ISSUER

Key Parameters	Units	FY19	FY20
Result Type		**Audited**	**Provisional**
Operating Income	Rs. Crs	-	53.80
EBITDA	Rs. Crs	-68.10	38.63
PAT	Rs. Crs	-43.47	-137.57
Tangible Net-worth	Rs. Crs	312.64	725.08
D: E Ratio	Times	7.36	3.99
Current Ratio	Times	0.01	0.04

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

The terms of the sanction of loans from all banks and financial institutions include standard covenants normally stipulated for such facilities by banks/FIs. The term loans from banks are secured by first pari-passu charge on all intangible and tangible assets, CWIP, operating cash flow, book debts, and other movables of the company. Most of the term loans have a tenor of ~14 years (door-to-door) including 5.25 years of construction period and 8.75 years of repayment period.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]:

S. No.	Instrument	Current Rating			Rating History					
					2019		2018		2017	
	NCD/ Bank Loan	Type (Long Term / Short Term)	Amount Outstanding (₹ Crs)	Rating	Date Rating Date	Rating	Date	Rating	Date	Rating
1.	**FB - TL**	Long Term	1910.11	**BWR A- (Stable) Assigned**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
2.	**FB – TL (To be disbursed)**	Long Term	1618.59	**BWR A- (Stable) Assigned**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
3.	**FB – STL**	Short Term	(440.00)^	**BWR A2+ Assigned**	**NA**	**NA**	**NA**	**NA**	**NA**	**NA**
	Total		**3528.70**	**INR Three Thousand Five Hundred and Twenty-Eight Crores and Seventy Lacs Only**						

^ Short term loan will be replaced with Long term loan debt upon disbursement of rest of the TL.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Infrastructure Sector**

Analytical Contacts	Investor and Media Relations
Vipula Sharma Director - Ratings B: +91 80 4040 9940 vipula.s@brickworkratings.com **Mukesh Mahor** Senior Manager - Ratings B: +91 80 4040 9940 Ext :333 Mukesh.m@brickworkratings.com	 **Liena Thakur** Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com
1-860-425-2742	

GSPL LNG Ltd. (GLL)

ANNEXURE I
Details of Bank Facilities rated by BWR (As on 30th Jun 2020)

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)			Short Term (₹ Cr)	Total (₹ Cr)
			Term Loan (sanctioned)	TL (O/s)	TL (Yet to be disbursed)	LC/BG	
1.	Bank of India (Lead Bank)	Bank Loan	728.70	422.61	306.09	-	728.70
2.	Union Bank of India	Bank Loan	350.00	210.00	140.00	-	350.00
3.	OBC	Bank Loan	250.00	137.50	112.50	-	250.00
4.	Punjab and Sind Bank	Bank Loan	150.00	45.00	105.00	-	150.00
5.	Exim Bank	Bank Loan	500.00	275.00	225.00	-	500.00
6.	Indian Bank	Bank Loan	450.00	247.50	202.50	-	450.00
7.	PNB	Bank Loan	350.00	297.50	52.50	-	350.00
8.	Allahabad Bank	Bank Loan	250.00	125.00	125.00	-	250.00

9.	Corporation Bank	Bank Loan	200.00	60.00	140.00	-	200.00
10.	South Indian Bank	Bank Loan	200.00	60.00	140.00	-	200.00
11.	United Bank of India	Bank Loan	100.00	30.00	70.00	-	100.00
TOTAL			**3528.70**	**1910.11**	**1618.59**	**-**	**3528.70**

^ ^ Short term loan of Rs.440 Crs sanctioned by Union Bank of India will be replaced with Long term loan debt upon disbursement of rest of the TL.

Total INR Three Thousand Five Hundred and Twenty-Eight Crores and Seventy Lacs only.