Press Release

Western Concessions Private Limited

(Erstwhile H-Energy Gateway Private Limited)

June 05, 2019

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.1290.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE A- (read as ACUITE A minus)** and short term rating of **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.1290.00 Cr. bank facilities of H-Energy Gateway Private Limited. The outlook is 'Stable'.

The rating reflects strong managerial and financial support from Hiranandani Group, favourable demand-supply dynamics of re-gasified liquefied natural gas (RLNG) in India, superior pricing flexibility on account of short/medium term supply contracts with LNG suppliers globally and access to established gas transportation infrastructure. These rating strengths are partly offset by residual project execution risks and expected competitive pressure from renegotiation of gas supply contracts by established players and other upcoming RLNG capacities in the domestic market.

Analytical Approach

Acuité has consolidated business and financial risk profiles of Western Concessions Private Limited (WCPL) (Erstwhile H-Energy Gateway Private Limited), H-Energy Gas Marketing Private Limited (HGMPL) and H-Energy Mideast DMCC (HEMD) hereinafter referred to as the H-Energy Group. The consolidation is driven by common management, common shareholding (WCPL and HGMPL are 100% subsidiaries of H-Energy Global Limited), critical linkage in terms of take-or-pay contracts between the entities and criticality to the energy infrastructure venture of Hiranandani Group. Extent of Consolidation: Full.

About the group

Hiranandani Group is a leading real estate group based out of Mumbai. The group is primarily engaged in real estate and integrated township development with moderate presence in hospitality, entertainment and healthcare sector. It is a closely held group comprising various private limited companies and partnership firms. Hiranandani Group has ventured into the energy infrastructure sector and is setting up a Floating Storage Regasification Unit (FSRU) based LNG storage and regasification facility with 8 MMTPA capacity located on the western coast of India at Jaigarh Port set up by JSW Group (JSW-JPL).

H-Energy Global Limited Mauritius, (HEGL) is the holding company of the energy venture of the group, HEGL is an indirect subsidiary of 'The Solitaire Trust' incorporated in the British Virgin Islands, the beneficiaries of which are the family members of the Hiranandani family, namely Mr. Niranajan Hiranandani, Mrs. Kamal Hiranandani and Mr. Darshan Hiranandani (settlor) and his children.

Western Concessions Private Limited (WCPL), incorporated in 2010, is a subsidiary of HEGL and will be the company holding and managing the operational assets including the lease of FSRU. The project will be implemented in two phases keeping view of the market dynamics. Phase 1 of the project involves setting up a 3 MMTPA –FSRU based LNG storage and regasification facility along with 60 km tie-in pipeline for gas evacuation. The FSRU will be connected to the national grid at Dabhol and therefore will be able to access two national grids i.e. GAIL's Dahej-UranPanvel-Dabhol Pipeline (DUPDL) and Dabhol – Bangalore Pipeline (DBP) via the 60 Km tie-in pipeline. WCPL will have a normal regasification capacity of about 3 MMTPA with a peak send out rate of about 4-5 MMTPA. In the Phase 2 of the project the gas storage capacity will be raised to 8 MMTPA, the phase 2 of the project is in planning stage. The total cost for Phase 1 of the project is expected to be around Rs.1,664 Cr, which is estimated to be funded in Debt to equity ratio of 70:30. The promoters equity contribution stands at Rs.500 Cr of which Rs.336 Cr has already been infused, while disbursements of Rs.707 Cr have already been facilitated by the bank as on May 24, 2019.

H-Energy Gas Marketing Private Limited (HGMPL), is the marketing arm of the group. HGMPL will operate on a back to back demand aggregation model by entering into off-take agreements with gas users and firm agreements with LNG suppliers. The 3 MTPA capacity of WCPL will have an assured offtake by HGMPL, by means of a Terminal Usage Agreement/Regasification Agreement with WCPL, on a fixed revenue basis to insulate WCPL from market risk.

H-Energy Group has also established an LNG trading company in Dubai, H-Energy Mideast DMCC (HEMD), a wholly owned subsidiary of HEGL. HEMD will purchase the LNG cargo from the LNG suppliers and downstream it to HGMPL. If there is no capacity available with HGMPL, then it can trade the excess capacity to other LNG players.

Key Rating Drivers

Strengths

- **Strong financial and managerial support from Hiranandani Group**

WCPL and HGMPL are part of the energy infrastructure business of Hiranandani Group which was established in 1978. Hiranandani Group has an established market position in the real estate and integrated township development industry. The group has a strong presence in Mumbai real estate market for the last four decades and has earned a strong reputation for development of mixed use townships, the reputed projects being Hiranandani Gardens, Powai and Hiranandani Estate, Thane. The financial flexibility of the group is demonstrated by its highly saleable residential and commercial assets.

The promoters of WCPL have already infused a total of Rs.336 Cr. By the means of equity and unsecured loans as on May 24, 2019, as against their total contribution of Rs.500 Cr. towards the project. Acuité while arriving at the rating has factored additional funding support from the promoters in case there is a cost overrun in completing the aforementioned project.

Mr. Darshan Hiranandani (son of Mr. Niranjan Hiranandani) is the managing director of WCPL and oversees the operations of the energy infrastructure (gas transportation) of the Group. He has been instrumental in the conceptualization of the current project and is actively involved in contract negotiations with LNG suppliers and end-users. Mr. Niranjan Hiranandani oversees the general and overall progress of the project. Mr. Darshan Hiranandani, is further supported by qualified key management personnel, some of whom have long experience in the oil and gas sector having served on the board of Indian Oil majors like GAIL (India) Limited, Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL).

Acuité believes that the foray into energy infrastructure is part of the diversification strategy of the Hiranandani Group and WCPL, being an integral part of that strategy, will be strongly supported by the promoters. Nevertheless, the timely infusion of funds by the promoters in their personal capacity or through Hiranandani Group companies, prior to achieving COD and during the regular course of operations of the LNG terminal will remain a key rating sensitivity factor.

- **Favourable domestic demand-supply dynamics of re-gasified liquefied natural gas (RLNG)**

Gas is currently used in India for both domestic and industrial consumption. The major industrial consumers of gas are Fertilizers, Refineries and Petrochemicals and Power Generation. There are other industries like glass and ceramics, pharma units who also prefer to utilize gas as it is a more efficient and cleaner fuel. However, these industries are largely dependent on Naptha and Fuel Oil (FO) due to lack of transmission and storage capacity for LNG. The offtake from the domestic segment is expected to grow steadily with the expansion of the city gas distribution (CGD) network in India. The demand for import of natural gas is expected to increase significantly over the medium term on account of these above demand drivers as also a decline in the production of natural gas from domestic reserves. The imports have increased at a CAGR of 12.1 percent over the last 9 years through 2017-18 and the demand for LNG is slated to increase at a CAGR of 7 percent through FY20.

Demand and Supply (in MMTPA)	FY'16	FY'17	FY'20	CAGR FY'17-20
Potential Demand	81	94	116	7%
Supply	29	32	46	9%
Gap	51	63	71	6%

Source: Petronet LNG annual report; Acuité estimates

The existing LNG infrastructure currently caters to only 31.6 MMTPA which is inadequate considering the large needs for RLNG. Though there has been a proposed increase in the capacity, the projected capacity of 45.6 MMTPA for FY'20 is still likely to remain insufficient for bridging the gas demand supply gap and hence there is a need for further investments in RLNG capacity. While an additional 27.0 MMTPA of capacity is under proposed and planning stages, they are unlikely to come on stream by FY'25.

Acuité believes that H-Energy group is well placed to harness the advantage of a demand supply gap over the medium term on account of its early mover advantage and the longer gestation period for the additional capacity to come on stream.

- **Superior pricing flexibility on account of short/medium term supply contracts with LNG suppliers**

Historically, the LNG contracts were mostly long term for more than 10 years and while the existing gas suppliers have tied-up long term LNG at higher prices, this is expected to render them uncompetitive as compared to new contracts offered by suppliers. In the past few years, world over the LNG contracts tenors and volumes have drastically reduced; indicating a shift towards customer preference for short/spot contracts.

HGMPL intends to operate on a demand aggregation model, i.e. it shall enter into off take agreement with gas users and accordingly will enter into agreements with LNG suppliers on back to back basis thereby isolating HGMPL from any commodity price risks. HGMPL will essentially pool the gas demand as most gas customers do not have the large demand and hence are unable to source LNG on their own. HGMPL's proposed business model is to sell what it buys on back to back basis based on same LNG price index. The company also is not expected to be dependent on any one supplier for sourcing it gas requirements. HGMPL can offer tailor made contracts (3 months to 3 years, with a choice of volumes needed for instance) to its customer owing to current excess LNG supply in the global market and strategically located LNG regasification unit at Jaigarh port. HGMPL's LNG sourcing cost is estimated to be highly competitive as compared to its peers which will provide enough flexibility to HGMPL to aggressively price R-LNG and secure contracts from potential customers.

- **Cost competitiveness and Connectivity to the National Gas Grid**

The project cost of FSRU per MMTPA regasification capacity is significantly lower than land based terminals (on account of lease model and inherent lower cost of FSRU technology). A land based regasification unit is estimated to cost around Rs.840 Cr per MMTPA as compared to FSRU based projects, which cost around Rs.540 Cr per MMTPA, and therefore FSRU offer a much quicker turnaround compared to land based terminals, and this leads to lower risk of cost escalation as the construction period is short, competitive project costs on account of lower IDC and G&A costs. FSRU terminals however have a higher operating expenditure as compared to land based terminal.

A lower cost per MMTPA capacity allows the project to be have a lower debt servicing cost burden, which leads to a quicker breakeven as compared to a land based terminal. WCPL's capital cost is significantly competitive vis-à-vis similar capacity projects given the configuration of Jaigarh port, the leasing model for the highly capital intensive FSRU asset and proximity of the regasification point to the national gas grid.

H-Energy terminal is strategically located at Jaigarh (60 km distance from Dabhol) and therefore is in close proximity to two cross-country pipelines – DUPL and DBPL are interconnected to each other. Through this connectivity at Dabhol, H-Energy will be able to access western, northern and southern gas markets. This assumes importance because connectivity to gas grid/adequate pipeline network is critical for high utilization levels.

Weaknesses

- **Implementation risk associated with the project**

WCPL is in the process of setting up the FSRU based LNG storage and regassification facility on western coast of India at Jaigarh Port. The group is venturing into such a type of project for the first time and hence there is limited track record of execution of such large energy infrastructure projects. The group has however entered into contracts with various reputed and experienced organisations like JSW-JPL for port operations, Engie (erstwhile GDF Suez) for FSRU operations and Engineers India Limited (EIL) for EPCM (onshore facilities, tie-in pipeline for evacuation along with necessary utilities, civil structures and other ancillary and support infrastructure), EIL oversees the Engineering, procurement and overall project management, which partially mitigates the execution risk to an extent. A critical monitorable is the group's ability to enter into supply contracts with its focus customers; while HGMPL is currently establishing the marketing channels and is in advance stages of negotiations with players in the fertilizer industry, refinery and petrochemical industry, pharma industry etc., the group's ability to convert them into firm LNG supply contracts closer to the commercial date of operations will be a key rating sensitivity factor. The Commercial Operation Date (COD) is expected to be October 01, 2019.

- **Competitive pressure from contract renegotiations by existing players and new capacity additions**

The Indian gas industry is currently dominated by Petronet LNG Limited and GAIL (India) Limited who have established presence in the market. These industry majors along with other players such as Swan Energy, Royal Dutch Shell are collectively coming up with new capacities which can intensify the competition over the long term.

The existing players are also renegotiating their existing long term gas supply contracts, for instance, Petronet LNG has already renegotiated its contract with RasGas and Exxon Mobil. The ability of the group to realise and sustain the current competitive pricing spread and scale up the business gradually will remain a key rating sensitivity.

Liquidity position
GGPL's liquidity position is enhanced by its association with Hiranandani Group. The total cost of project is expected to be around Rs.1664 Cr. Which will be funded by equity of Rs.500 Cr and rest through bank debt. The COD is expected to be October 01, 2019. Acuité believes that timely completion of the project and commencement of operations will remain key rating sensitivity factor.

Outlook: Stable
Acuité believes HGMPL will maintain a stable credit profile over the medium term on back of financial support from Hiranandani Group and the project's competitive advantage vis-à-vis that of others' over the medium term. The outlook may be revised to 'Positive' if WCPL commissions the project in time and also exhibits higher than expected volume throughput and revenues on a consolidated basis. Conversely, the outlook may be revised to 'Negative' if there is any delay in commissioning of the project leading to cost overruns.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	0.00	0.00	0.00
EBITDA	Rs. Cr.	0.00	0.00	0.00
PAT	Rs. Cr.	0.00	0.00	0.00
EBITDA Margin	(%)	0.00	0.00	0.00
PAT Margin	(%)	0.00	0.00	0.00
ROCE	(%)	0.00	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.00	0.00
PBDIT/Interest	Times	0.00	0.00	0.00
Total Debt/PBDIT	Times	0.00	0.00	0.00
Gross Current Assets (Days)	Days	0.00	0.00	0.00

Note: the commercial operations are yet to commence

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
06-Sep-18	Term Loan	Long Term	215.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	400.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	300.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	250.00	ACUITE A-/Stable (Reaffirmed)
	Bank guarantee	Short Term	35.00	ACUITE A2+ (Assigned)
	Bank guarantee	Short Term	45.00	ACUITE A2+ (Assigned)
	Bank guarantee	Short Term	35.00	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	10.00	ACUITE A2+ (Assigned)
30-Apr-18	Term Loan	Long Term	215.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	400.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	300.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	250.00	ACUITE A-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	215.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A-/Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A2+ (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294052 avadhoot.mane@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294022 rating.desk@acuite.in

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