

Press Release

Western Concessions Private Limited (Erstwhile H-Energy Gateway Private Limited)

March 17, 2021



Rating Downgraded and outlook revised

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| Total Bank Facilities Rated* | Rs.1290.00 Cr. |
| Long Term Rating | ACUITE BBB+ / Outlook: Negative (Downgraded and outlook revised) |
| Short Term Rating | ACUITE A2(Downgraded) |

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**Acuite BBB+**' (read as **ACUITE BBB+**) from '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating to '**ACUITE A2**' (read as **ACUITE A2**) from '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.1290.00 Cr bank facilities of Western Concessions Private Limited (WCPL). The outlook has been revised to '**Negative**' from '**Stable**'.

The downgrade of the ratings and the revision of outlook to 'Negative' is primarily driven by continued delay in implementation of the ongoing project. The floating storage and regasification unit (FSRU) project has already been delayed for almost 1.5 years for various reasons, including inability to charge up and commission the tie-in pipelines, connection and commissioning of the loading arms. Further, the earlier FSRU contract has been terminated and the liquidation of the Standby Letter of Credit (SBLC) has led to a significant loss; the same, however, was covered by the promoter group through equity infusion. The delivery of the new FSRU [signed with Hoegh LNG Giant Limited (HLNG)] was expected by March but the arrival of the same at the site is yet to be confirmed. The bankers may need to extend the date for commencement of commercial operations (DCCO) beyond April 01, 2021 and approve the increase in the project cost in case of a further delay in completion of the revised project timelines. Acuite believes that the credit quality of the H-Energy Group has deteriorated due to significant uncertainty on the completion and commissioning of the project, delays in envisaged cash flows in the near to medium term.

The ratings nevertheless, continue to be supported by strong managerial and financial support from Hiranandani Group, favorable 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.

The total cost for Phase 1 of the project was estimated to be around Rs.1,664 Cr (excluding the cost overrun), which was estimated to be funded in Debt to equity ratio of 70:30. The project has reported cost and time overrun due to shut down of project site during lockdown period and restrictions on travel & limited workforce for another 3 months. Further, the disruption in FSRU lease rates by Covid-19 provided the opportunity to re-negotiate on the rates, which could aid the operating expenses to go down in future. The company has already incurred project cost of Rs. 2086.60 Cr as on December 31, 2020 as against Rs. 1724.53 Cr incurred as on July 31, 2020 due to fixed costs and rentals for heavy machinery. The total cost of the project is further estimated to escalate by around Rs.200-Rs. 300 Cr, aggregating to Rs.2,200 -2,300 Cr. The promoters of the group have funded the entire cost overrun from their own sources and further expected to provide consistent funding support over and above the scheduled debt component of Rs.1165 Cr to the project. Moreover, the group had been earlier able to get the necessary approval from its lenders to extend the DCCO by 18 months to April 01, 2021 from October 01, 2019. The promoter's infusion in terms of equity and unsecured loans stands at Rs.823.86 Cr, while disbursements of Rs.1135.22 Cr have already been facilitated by the bank as on December 31, 2020. The project has achieved physical progress of 86.47% as on December 31, 2020 as against 85.85% as on March 31, 2020 which remained slow on account of the outbreak of Covid-19 as well as on account of the cancellation of FSRU agreement with previous supplier. WCPL had terminated the previous charter hire agreement with GDF Suez LNG Supply S.A. (now TGPL) and signed new charter hire agreement with Hoegh LNG Giant Limited (HLNG) on November 19, 2020. The order for FSRU has been

already placed and the new FRSU will need to be received at site latest by mid-March 2021 to ensure that the revised COD be achieved as scheduled on April 01, 2021 (though trial operations will not be possible in this scenario). However, the trial runs for the project was earlier expected to start by December 31, 2020.

Analytical Approach

Acuite has consolidated business and financial risk profiles of Western Concessions Private Limited (WCPL) (Erstwhile H-Energy Gateway Private Limited), HE Marketing Pvt. Ltd. (HMPL) [(erstwhile H-Energy Gas Marketing Private Limited (HMPL)] 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 HMPL 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 (revised) 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. Niranjan Hiranandani, Mrs. Kamal Hiranandani and Mr. Darshan Hiranandani (settlor) and his children. Western Concessions Private Limited (WCPL), incorporated in March, 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. HMPL is the marketing arm of the group. HMPL 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 HMPL, 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 HMPL. If there is no capacity available with HMPL, 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 HMPL 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.823.86 Cr. by means of equity and unsecured loans as on December 31, 2020, as against their expected contribution of Rs.500 Cr. towards the project. This additional funding support shows the strong financial position of Hiranandani Group and Acuite while arriving at the rating, has factored additional funding support from the promoters in case there is any further 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). Acuite 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. The project has achieved physical progress of 86.47% as on December 31, 2020 as against 85.85% as on March 31, 2020 which remained slow on account of outbreak of Covid-19 as well as cancellation of FSRU agreement with previous supplier. The trial runs for the project was earlier expected to start by December 30, 2020 which is expected to further delay by couple of months. The project has shown instances of timely infusion of funds by the promoters in their personal capacity or through Hiranandani Group companies and the same is expected further also, prior to achieving COD and during the regular course of operations of the LNG terminal. Thus will remain continue to 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 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. Acuite 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.

HMPL 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 HMPL from any commodity price risks. HMPL 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. HMPL'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 gas requirements. HMPL 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. HMPL's LNG sourcing cost is estimated to be highly competitive as compared to its peers, which will provide enough flexibility to HMPL 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 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 regasification 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, FSRU providers 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 HMPL 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 April 01, 2021.

• 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: Adequate

The liquidity position of the H-Energy Group is enhanced by its association with Hiranandani Group. The promoters have infused Rs.823.86 Cr. as on December 31, 2020 in the form of unsecured loans and equity. While, banks have disbursed Rs. 1135.22 Cr as on December 31, 2020 out of sanctioned debt of Rs.1165.00 Cr. The COD is expected to be April 01, 2021. The first repayment is due on June 30, 2022. Acuite believes that timely completion of the project and commencement of operations within the revised DCCO timelines will remain key rating sensitivity factor.

Rating Sensitivity

- Timely project execution and stabilization of the plants as per revised schedule
- Any dilution of support from the Promoters

Material covenants

None

Outlook: Negative

Acuite has revised the outlook of WCPL and HMPL revised to 'Negative' from 'Stable' on account of expected delay in achieving revised project DCCO timelines i.e. April 01, 2021 leading to cost overrun. Acuite may further downgrade the rating, if there is further escalation of the costs and the company is unable to achieve the DCCO. The outlook may be revised to 'Stable', if H-Energy group commissions the project as on new DCCO, i.e. April 01, 2021 and also exhibits higher than expected volume throughput and revenues on a consolidated basis.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 0.00 | 0.00 |
| PAT | Rs. Cr. | -46.55 | -16.11 |

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|-------|---------------|---------------|
| PAT Margin | (%) | 0.00 | 0.00 |
| Total Debt/Tangible Net Worth | Times | -63.86 | -26125.04 |
| PBDIT/Interest | Times | -0.46 | -0.25 |

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|-------------------------------|
| 31-08-20 | 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+ (Reaffirmed) |
| | Bank guarantee | Short Term | 45.00 | ACUITE A2+ (Reaffirmed) |
| | Bank guarantee | Short Term | 35.00 | ACUITE A2+ (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 10.00 | ACUITE A2+ (Reaffirmed) |
| 05-Jun-19 | 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+ (Reaffirmed) |
| | Bank guarantee | Short Term | 45.00 | ACUITE A2+ (Reaffirmed) |
| | Bank guarantee | Short Term | 35.00 | ACUITE A2+ (Reaffirmed) |
| | Proposed Bank Facility | Short Term | 10.00 | ACUITE A2+ (Reaffirmed) |
| 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) |

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr) | Ratings/Outlook |
|-----------|---------------------------------|------------|-----------------|-------------------------------|
| | 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. Cr.) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|---|
| Term Loan | 30-June-2022 | Not Applicable | 30-June-2032 | 215.00 | ACUITE BBB+/Negative (Downgraded and outlook revised) |
| Term Loan | 30-June-2022 | Not Applicable | 30-June-2032 | 400.00 | ACUITE BBB+/Negative (Downgraded and outlook revised) |
| Term Loan | 30-June-2022 | Not Applicable | 30-June-2032 | 300.00 | ACUITE BBB+/Negative (Downgraded and outlook revised) |
| Term Loan | 30-June-2022 | Not Applicable | 30-June-2032 | 250.00 | ACUITE BBB+/Negative (Downgraded and outlook revised) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE A2 (Downgraded) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 45.00 | ACUITE A2 (Downgraded) |
| Bank guarantee | Not Applicable | Not Applicable | Not Applicable | 35.00 | ACUITE A2 (Downgraded) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE A2 (Downgraded) |

Contacts

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About Acuité Ratings & Research:

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