

Shapoorji Pallonji Bumi Armada Godavari Private Limited

April 14, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	210.18*	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	210.18 (Rs. Two Hundred Ten Crore and Eighteen Lakhs Only)		

Details of instruments/facilities in Annexure-1

*INR equivalent of USD 28.8 mn; 1 USD = Rs. 72.98 as on Feb 01, 2021

Detailed Rationale & Key Rating Drivers

The rating assigned to the long term non fund-based bank facilities of Shapoorji Pallonji Bumi Armada Godavari Pvt. Ltd. (SPBAG) derives strength from the experienced promoters - Shapoorji Pallonji Oil and Gas Private Limited -SPOGPL (rated CARE BBB (CE), under credit watch with developing implications) with ultimate promoter Shapoorji Pallonji and Company Pvt Ltd (rated CARE BBB/A3+; under credit watch with developing implications) and Bumi Armada Berhad, Malaysia (ultimate co-sponsor). The robust structure of the Floating Production Storage and Offloading (FPSO) lease contract entered between the charter company Oil and Natural Gas Corporation Ltd (ONGC) (rated CARE AAA, Stable/A1+) and SPBAG provides a fixed charter revenue which imparts steady revenue visibility along-with strong termination clauses. Robust operational track record of sponsors in similar operations and nature of arrangements, achievement of financial closure of subsidiary Armada 98/2 Pte Ltd. (rated CARE BBB-, Stable) and satisfactory contract terms are other credit positives. CARE also notes that Armada 98/2 in turn has entered into a Bare boat charter agreement with SPBAG with back-to-back structural clauses. The company continues to remain exposed to implementation risk as the FPSO construction has been impacted due to late receipt of RUI (Rely Upon Information) from ONGC and Covid-19 impact leading to shift in FPSO mobilization date from November 03, 2021 to May 03, 2022.

On time mobilisation of FPSO within budgeted cost without any levy of damages by ONGC due to implementation delays is a key rating sensitivity. Timely receipt of lease rentals as per the lease agreement from vessel charterer (ONGC) is also essential.

Rating Sensitivities

Positive Factors

- Timely commissioning of project within envisaged costs
- Consistent operations of the project along with timely payment of lease rental from vessel charterer (ONGC).

Negative Factors

- Unprecedented delay in commissioning of the project with significant time over run and cost overrun
- Delay in equity infusion from promoters
- Non-satisfactory operational performance post commissioning
- Adverse variation in the credit profile of Sponsors

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong track-record: Both the Sponsor groups i.e., BAB Group and SP Group are reputed and experienced business groups in Malaysia and India respectively. SP Group is a large business conglomerate with business interests in energy, construction, real estate, Infrastructure, engineering etc.

Bumi Armada Berhad was incorporated in Malaysia 1995 and is listed on Bursa Malaysia Securities Berhad. Principal activities of BAB are investment holding and provision of management services, while its subsidiaries are involved in FPO and Offshore Marine Services (OMS) asset ownership providing OMS, FPO operations, FPO construction management, and engineering and maintenance services to the offshore oil and gas companies. The BAB group is currently the one of the largest FPSO player in terms of operating units globally. SP Oil & Gas Pvt. Ltd. is a 100% subsidiary of Shapoorji Pallonji and Company Pvt Ltd. (SPCPL), is engaged in the business of services for offshore and onshore Oil & Gas Exploration. Its business focus is on FPSO Projects, FSRUs, FSU/FPU and all other related activities. In the past, both the Sponsor groups have partnered together for delivery of two FPSO vessels for ONGC which is reflective of their execution experience in FPSO segment. Nonetheless any significant variation in the credit profile of the sponsor group is a key rating monitorable.

Robust operational track record of Sponsors

Under the FPSO Lease Contract, SPBAG is responsible for the Operations and Maintenance of the FPSO. All the operating FPSOs of SP/BAB JV have met their contractual uptime performance requirements since their respective commencement of operations. Further, SPOGL and BAB have already demonstrated their strong operational capabilities in the successful operation of the FPSO Armada Sterling I and Armada Sterling II in D1 field and C7 field of ONGC respectively. Both the FPSOs have been operating satisfactorily without any downtime since past 6 years. The construction of both FPSOs was completed in 2 years without any delay or cost overrun.

Reputable and Creditworthy Counterparty with low payment risk

ONGC is India's largest crude oil and natural gas producer, with a strong reputation. ONGC is a Maharatna PSU, with the GoI holdings of 64.25% stake in the company as on March 31, 2019. ONGC is India's largest E&P player and is present across the hydrocarbon value chain. The company undertakes exploration and production activities in 20 countries through its wholly-owned subsidiary ONGC Videsh Limited (OVL). Also, it has integrated downstream activities in India with two subsidiaries viz. Mangalore Refinery & Petrochemicals Ltd and Hindustan Petroleum Corporation Limited (HPCL) with combined capacity of over 31 million metric tonnes per annum (MMTPA) refinery and extensive network of over 15,000 retail outlets.

ONGC approved an investment of US\$5 billion for the cluster 2 development in March 2016. Accordingly, tender was rolled out for the Charter Hiring of a Floating Production, Storage and Offloading Vessel ("FPSO") to support its NELP Block KG – DWN 98/2 Development Project Cluster II. The detailed scope of the Project includes the Design, Engineering, Construction, Procurement, Installation, Operations and Maintenance of the FPSO.

ONGC has demonstrated strong payment record evident from operations of FPSO Armada Sterling I and Armada Sterling II in D1 field and C7 field.

Satisfactory contractual terms

The FPSO day rate under the FPSO Lease Contract is fixed for 9 years at USD 609,200 per day. Further, the FPSO Lease Contract provides for a clause, whereby ONGC undertakes together with the Lenders to not terminate the Contract, without intimation and discussion with them. The Termination clauses are quite stringent, as the contract cannot be terminated unless a cure period of minimum 90 days is extended in the event of any occurrence of non-performance. Under the FPSO Lease Contract, ONGC shall bear all the field economic risk.

Achievement of Financial closure of subsidiary

As on Apr 08, 2021, the financial closure for Armada 98/2 has been achieved which is crucial for timely commissioning of the project.

Key Rating Weaknesses**Delay in Project Implementation**

The project progress has been impacted due to late receipt of Rely Upon Information from ONGC and Covid-19. As per Lender's Technical Advisor (LTA) Crondall Energy Consultants' report, the project has achieved an overall progress of 53.66% as against originally planned progress of 53.29% till Dec 2020. As per LTA, Baseline 2 schedule was updated (on 26th November 2020) and incorporates the impact of COVID-19, delayed Rely upon Information (RUI) and Company Provided Equipment (CPE). Company had requested ONGC a waiver of Liquidated Damages for 6 months delay attributable to Baseline 2 schedule, and had submitted an Extension of Time Change Order. ONGC has granted extension till 3rd May, 2022 and waived off the liquidated damages for 6 months delay. However, any significant execution delays or damages imposed (if any) shall have impact on revenue visibility and therefore constitute a key rating sensitivity.

Variation in operational expenditure may impact profitability of company

The FPSO day rate under the FPSO Lease Contract is fixed for 9 years at USD 609,200 per day. Any escalation in O&M expenses beyond estimated levels may impact profitability of company as corresponding bareboat charter rates are fixed.

Liquidity: Adequate

Liquidity for SPBAG is expected to be adequate and stable upon timely commissioning of Armada 98/2 project as SPBAG will be entitled to receive charter revenue from ONGC which in turn will result in Bareboat Charter revenue for Armada 98/2 after incurring O&M expenses. The company has nil debt repayments and performance bank guarantee has been issued in favour of ONGC till Jan 01, 2031.

Analytical approach: Standalone while factoring linkages with strong and resourceful promoters

Applicable Criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Infrastructure Sector Ratings](#)
[Financial Ratios – Non-Financial Sector](#)
[Rating Methodology-Notching by factoring linkages in Ratings](#)
[Analysis of Non Fund based limits](#)

About the Company

SPBAG is an Indian company held 70% by SPOGPL (rated CARE BBB (CE); under credit watch with developing implications as on March 10, 2021), a 100% subsidiary of Shapoorji Pallonji and Company Pvt. Ltd (“SPCPL”, rated CARE BBB/CARE A3+; under credit watch with developing implications as on March 05, 2021) and 30% by Bumi Armada Berhad (“BAB”), a Malaysian listed entity. JG Investment Ltd, Cayman Islands, is also one of the shareholders in SPBAG, holding one share of the company. The company has been incorporated to engage in business of chartering, operating and maintenance of ship and vessels in oil and gas sector. However, company is yet to start its commercial operations.

ONGC has entered into a FPSO Lease Contract with SPBAG. The initial firm charter period is for 9 years from the Commencement Date (date of issuance of the Acceptance Certificate which was expected to be in November 2021, now revised to May 2022) with an option to extend the charter period for a further period up to 7 years on a yearly basis.

SPBAG, in turn, has entered into a Bareboat Charter Agreement with Armada 98/2 [rated CARE BBB-, Stable] for the dry lease of the fully converted & mobilized FPSO. Armada 98/2 has subcontracted the Engineering, Procurement and construction (“EPC”) of the vessel into an FPSO to Armada Madura EPC Ltd. (“AMEL”).

Brief Financials: Not Applicable as it is a project stage company

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee	-	-	-	210.18*	CARE BBB-; Stable

*INR equivalent of USD 28.8 mn; 1 USD = Rs. 72.98 as on Feb 01, 2021

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Non-fund-based - LT-Bank Guarantee	LT	210.18	CARE BBB-; Stable	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Non-fund-based - LT-Bank Guarantee	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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