Press Release

Swan Energy Limited

October 30, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 120.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of **'ACUITE BBB (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 120.00 crore bank facilities of Swan Energy Limited. The outlook is **'Stable'.**

Swan Energy Limited (SEL) was incorporated in the year 1909 as Swan Mills Limited by J.P. Goenka Group and taken over by Dave and Merchant families in 1992. SEL was originally in the textile business with mills located at Sewri & Kurla. The textile business was discontinued in 2002. SEL re-entered in textile business in 2011 by setting up a new plant at Ahmedabad, Gujarat for fabric processing with an annual capacity of 1 Lakh meter per day. Later SEL converted these existing land parcel units previously used for the textile business in real estate projects.

SEL completed a residential complex (Ashoka Garden) in Sewri and a commercial IT Park (Peninsula Techno Park) in Kurla by successfully monetizing its mill land bank. Currently SEL has given out the unsold flats (15 flats (19,390 sq.ft.)) in Ashoka garden on rent and is receiving around 9.10 lakh/ month as rentals. It entered into an agreement with Peninsula Land Limited (PLL) to develop and sell the Mumbai-based properties for which PLL received 22% of the gross sale proceeds.

SEL set up two wholly-owned subsidiaries; Cardinal Energy and Infrastructure Private Limited (CEIPL) and Pegasus Ventures Private Limited (PVPL) in FY08 and FY13, respectively. CEIPL and PVPL focus on development of commercial properties and residential properties respectively.

SEL through its subsidiaries, Swan LNG Pvt. Ltd. and Triumph Offshore Pvt. Ltd. is setting up a Floating Storage and Regasification Unit (FSRU) project in Jafrabad, Gujarat with a regasification capacity of 5MMTPA of LNG. The said project is expected to be commissioned by April 2020 at a cost of Rs. 6,027 crore. The Project is based on a business model of 'Tolling terminal' and 4.5 MMTPA (out of 5 MMTPA) throughput capacity has been booked on 'Use or Pay' basis for a period of 20 years by state / central PSU companies viz. GSPCL (1.5 MMTPA), IOCL (1 MMTPA), BPCL (1 MMTPA) and ONGC (1 MMTPA).

Analytical Approach

For arriving at its rating, Acuité has combined the business and financial risk profile of SEL by factoring in support to its subsidiaries

Key Rating Drivers

Strengths

- **Experienced management**
  The company was promoted by Mr. Navinbhai Dave and Mr. Nikhil Merchant who took over management from J. P Goenka in 1992. The promoters have more than two decades of experience in the textile industry and have successfully completed real estate projects in Mumbai by monetizing their existing land assets. SEL through its subsidiary CEIPL has developed real estate projects in Bangalore and Hyderabad whereas the other subsidiary PVPL has land bank in Mangalore, Mysore

and Chennai which it intends to develop in near future. SEL has also ventured into the energy sector through its subsidiaries, Swan LNG Pvt. Ltd. and Triumph Offshore Pvt. Ltd. by setting up an FSRU project at Jafrabad, Gujarat. The promoters are ably assisted by an experienced second line of management.

- **Healthy financial risk profile**

  SEL has a healthy financial risk profile marked by moderate net worth, low gearing and healthy debt protection measures. SEL's net worth is moderate at around Rs.961.78 crore as on March 31, 2018. The net worth has improved significantly from Rs.439.56crore as on March 31, 2016 on account of accretion to reserves, sale of land parcels during FY2018 and issue of equity shares on preferential basis for Rs 450 crore. Acuité believes that the net worth of the company will remain moderate backed by its healthy revenue growth and stable operating margins leading to accretion to reserves. The company has followed a moderately aggressive financial policy in the past, with its peak gearing estimated at around 0.42 times as on March 31, 2017. The gearing of the company, however, has declined to around 0.17 times as on March 31, 2018. The TOL/TNW ratio however is low at around 0.73 times as on March 31, 2018.Interest coverage stood at 5.20 times and NCA/TD stood at 0.47 times in FY2018. Acuité believes that the debt protection metrics will remain healthy on account of revenue visibility and stable operating margins over the medium term. SEL's liquidity is estimated to be adequate, marked by unencumbered cash and bank balances of ~Rs.100.00 crore as on September, 2018.

  Acuité believes that SEL's liquidity will remain adequate in the absence of any major debt funded capital expenditure, its healthy cash accruals vis-à-vis its moderate incremental working capital requirements.

- **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 Naphtha 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.

  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.

Weaknesses

- **Substantial exposure to group companies**

  SEL's contingent liabilities (including corporate guarantees given to lenders of its subsidiaries) as on 30th September, 2018 is Rs. 320.91 Crore and USD 224.40 million, which includes Rs. 198.34.00 crore worth of corporate guarantees on behalf of CEIPL, Rs 50.00 crore on behalf of PVPL, Rs. 72.57 crore on behalf of SLPL and USD 224.40 MN on behalf of TOPL. The total cost of the LNG project is estimated at about Rs. 6,027 crore. SEL has an equity commitment of Rs. 493.00 crore as promoter contribution in Swan LNG Private Limited and an equity commitment Rs. 512.00 crore as promoter contribution in TOPL. No financial closure has been achieved for the LNG project. The Company at subsidiary level has significant amount of short term unsecured loans. As of March 31, 2018 short term loans for CEIPL and PVPL stood at Rs. 241.77 crore and Rs. 251.01 crore respectively as against Rs. 242.30 crore and Rs. 128.15 crore respectively as of March 31, 2017. The secured loans in CEIPL stood at Rs. 189.29 crore in FY2018 as against Rs. 203.40 crore in FY2017.

The ability of Swan LNG Private Limited to achieve financial closure along with timely execution of FSRU project and the ability of other subsidiaries to successfully manage their real estate operations would remain the key rating sensitivities

- **Implementation risk associated with the project**

SEL through its subsidiaries, Swan LNG Pvt. Ltd. and Triumph Offshore Pvt. Ltd. is setting up a Floating Storage and Regasification Unit (FSRU) project in Jafrabad, Gujarat with a regasification capacity of 5MMTPA of LNG. The said project is expected to be commissioned by April 2020 at a cost of Rs. 6,027 crore. The Project is based on a business model of 'Tolling terminal' and 4.5 MMTPA (out of 5 MMTPA) throughput capacity has been booked on 'Use or Pay' basis for a period of 20 years by state / central PSU companies viz. GSPCL (1.5 MMTPA), IOCL (1 MMTPA), BPCL (1 MMTPA) and ONGC (1 MMTPA). The Commercial Operation Date (COD) is expected to be April, 2020.

Outlook: Stable

Acuité believes that SEL will maintain its moderate financial risk profile over the medium term on account of its established track record, experienced management. The outlook may be revised to 'Positive' in case of a substantial and sustained growth in revenues and operating profitability. Conversely, the outlook may be revised to 'Negative' in case of significant delays in achieving financial closure or delays in completion of the LNG project or higher than expected support from SEL to its subsidiaries.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	316.52	330.81	317.26
EBITDA	Rs. Cr.	13.23	18.70	17.08
PAT	Rs. Cr.	72.74	1.67	0.59
EBITDA Margin	(%)	4.18	5.65	5.38
PAT Margin	(%)	22.98	0.51	0.18
ROCE	(%)	12.98	3.17	2.39
Total Debt/Tangible Net Worth	Times	0.17	0.42	0.30
PBDIT/Interest	Times	5.20	1.59	1.45
Total Debt/PBDIT	Times	1.37	7.55	6.84
Gross Current Assets (Days)	Days	1,540	1,069	992

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
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-14.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit I	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB / Stable
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB / Stable
Cash Credit III	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB / Stable
Cash Credit IV	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB / Stable
Letter of Credit I	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A3+
Letter of Credit II	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE A3+
Letter of Credit III	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+
Letter of Credit IV	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Amogh Kharkar Analyst - Rating Operations Tel: 022-49294043 amogh.kharkar@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.