Press Release

Swan Energy Limited

January 22, 2020

Rating Reaffirmed and Withdrawn

Total Bank Facilities Rated*	Rs. 95.00 Cr. (reduced from Rs.120.00 crore)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed and Withdrawn)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE BBB' (read as ACUITE triple B)** and the short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the above mentioned bank facilities of Rs. 95.00 crores (reduced from Rs.120.00 crore) for Swan Energy Limited (SEL). Further, the Acuité has withdrawn the short term rating of **'ACUITE A3 +' (read as ACUITE A three plus)** on the previously rated bank guarantee of Rs.25.00 crores on the request of client and in line with Acuite's policy on withdrawal of ratings. 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 14.17 lakh/ month as rentals. It entered into an agreement with Peninsula Land Limited (PLL) to develop and sell the Mumbai-based properties. The company has set up two wholly-owned subsidiaries; Cardinal Energy and Infrastructure Private Limited (CEIL) and Pegasus Ventures Private Limited (PVPL) in FY2008 and FY2013, respectively. CEIL and PVPL focus on development of commercial properties and residential properties respectively.

SEL through its subsidiaries, Swan LNG Pvt. Ltd. (SLPL) and Triumph Offshore Pvt. Ltd. (TOPL) 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 was expected to be commissioned by April 2020 at a cost of Rs. 6,027 crore. However, the project COD has been extended by another year and is now expected to be completed by March 2021.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). Though, the subsidiaries SLPL and TOPL have achieved partial financial closure with respect to the LNG terminal project, no debt has been drawn till date to fund the construction activity. The group expects the financial closure to be completed latest by March 31, 2020.

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 and establish track record of operations**
SEL 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 well supported by an experienced second line of management. The extensive experience of the promoters is reflected through by long standing relationship with its existing customers and suppliers and demonstrated record of developing real estate projects. The revenues have seen a compound annual growth rate (CAGR) of about 30.09 per cent over the past four years through FY2019 at Rs. 859.73 crores in FY2019. The sale of textile products grew by 3.40 per cent, stood at Rs. 327.12 crore in FY2019 as against Rs 346.85 crore. The company has booked revenue of Rs. 123.91 for six months ending September 2019. Further, SEL has developed two real estate projects in Mumbai at Kurla and Sewri. The company has earned revenue of Rs. 584.49 crores in FY2019 and Rs.153.07 crores in FY2018, respectively.

- **Moderate financial risk profile**
The company has healthy financial risk profile marked by healthy net worth, low gearing and average debt protection measures. SEL's net worth is moderate at around Rs. 961.18 crore as on March 31, 2019. The net worth stood moderate on account of accretion to reserves, sale of land parcels during FY2018 and issue of equity shares on preferential basis for Rs 450.00 crore during FY2018. 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. Interest coverage stood average at 3.22 times and NCA/TD stood at 0.03 times in FY2019. The company has followed a conservative 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 further declined to around 0.18 times as on March 31, 2019. The group however has demonstrated propensity for unrelated diversification by investing into development of LNG terminal which is almost 6 times of the company's current networth. Acuite believes that the financial risk profile of the company is likely to remain moderate on account of funding requirements of the proposed LNG terminal. Acuité believes that the debt protection metrics will remain healthy on account of revenue visibility and stable operating margins over the medium term.

- **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 total gas consumption in India was around 148.02 MMSCMD and share of domestic gas and imported RLNG was about 48 percent & 52 percent respectively. The demand for LNG is slated to increase at a CAGR of 7.00 percent through FY2020. 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 December, 2019 is Rs. 303.86 Crore and USD 224.40 million, which includes Rs. 181.29 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 and the project execution has been delayed which is expected to be completed in FY2021. 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. 303.32 crore and Rs. 373.39 crore respectively as against Rs. 241.77 crore and Rs. 251.01crore respectively as of March 31, 2017. The secured loans in CEIPL stood at Rs. 177.47 crore in FY2019 as against Rs. 189.30 crore in FY2018.

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

- **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 was expected to be commissioned by April 2020 at a cost of Rs. 6,027 crore which is currently running delayed and expected to be completed by March 2021. 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 revised Commercial Operation Date (COD) is expected to be March, 2021. The cost overrun due to delay in project is however been taken care by contingent reserves created for project, equity infusion and additional unsecured loans from promoters. The promoters have brought in equity contribution of Rs.788.00 crores. The port have been 45.00 percent developed and vessel has been completed around 95.00 percent as on December 2019. Further, complete financial closure for the project is yet to be achieved. Acuité believes timely execution of the project on the revised COD backed by timely financial closure will remain a key deliverable.

Rating Sensitivities

- Improvement in the scale of operation while maintaining profitability
- Working capital management and timely financial closure of proposed FSRU project.
- Further delay in Execution of LNG project leading to significant cost overrun having impact on overall financial risk profile of the company.

Any Material Covenant

Not Any

Outlook: Stable

Acuité believes that outlook for SEL will remain Stable marked by its moderate financial risk profile backed by 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 resulting in further delays in completion of the LNG project or higher than expected support from SEL to its subsidiaries.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	860.06	316.52
PAT	Rs. Cr.	2.34	72.74
PAT Margin	(%)	0.27	22.98
Total Debt/Tangible Net Worth	Times	0.18	0.17
PBDIT/Interest	Times	3.22	5.20

Any other information

NA

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
- Real Estate Entities- https://www.acuite.in/view-rating-criteria-63.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
30-Oct-2018	Cash Credit I	Long Term	13.00	ACUITE BBB / Stable (Assigned)
	Cash Credit II	Long Term	6.00	ACUITE BBB / Stable (Assigned)
	Cash Credit III	Long Term	4.00	ACUITE BBB / Stable (Assigned)
	Cash Credit IV	Long Term	37.00	ACUITE BBB / Stable (Assigned)
	Letter of Credit I	Short Term	8.50	ACUITE A3+ (Assigned)
	Letter of Credit II	Short Term	18.50	ACUITE A3+ (Assigned)
	Letter of Credit III	Short Term	2.00	ACUITE A3+ (Assigned)
	Letter of Credit IV	Short Term	6.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (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
Cash Credit I	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB / Stable (Reaffirmed)
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB / Stable (Reaffirmed)
Cash Credit III	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB / Stable (Reaffirmed)
Cash Credit IV	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB / Stable (Reaffirmed)

Letter of Credit I	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A3+ (Reaffirmed)
Letter of Credit II	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE A3+ (Reaffirmed)
Letter of Credit III	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Reaffirmed)
Letter of Credit IV	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Withdrawn)

Contacts

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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.