Press Release

Swan Energy Limited

April 23, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its 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. 95.00 Cr bank facilities of Swan Energy Limited (SEL). The outlook remains **'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 the 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 (14 flats (17,985 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 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

Acuité has considered the standalone business and financial risk profile of SEL to arrive at this rating. For arriving at its rating, Acuité has factored in the support extended 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 the management from J. P Goenka in 1992. The promoters have more than 2 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 which grew at a compound annual growth rate

(CAGR) of about 30.09 per cent over the past four years through FY2019 at Rs. 859.73 Cr in FY2019; was down by 64.32 percent in FY2020 due to high base effect (SEL has developed two real estate projects in Mumbai at Kurla and sold Goa land and earned revenue of Rs. 584.49 Cr in FY2019 and Rs.153.07 Cr in FY2018, respectively). The textile segment continued to contribute significantly at 88 percent in FY2020; 93 percent in 9MFY2021. Acuité believes that SEL's operations will continue to derive comfort from its experienced management and established track record in different verticals like textiles and real estate over the medium term.

- **Growth in textile segment expected to be moderate over the medium term; to be driven by continuous upgradation in its existing facility and movement in realisations**
  Textiles has predominantly been the core business at SEL level (holding company) with its significant contribution in total revenue and profitability. Apparently, with promoter's interests in other verticals like real estate and LNG, income from real estate has also been a part of total revenue in the past financial years until FY2019. Howbeit, at present there are no on-going or upcoming projects undertaken under SEL resulting in no major income from this segment except the inventory developed.
  SEL with its installed capacity of processing 1 lakh meters of fabric per day, remains fully utilized in the peak season i.e. H2 of every fiscal and at an average of 60-65 percent in the non-peak season (H1 of every fiscal). On an average, the aggregate capacity utilization levels stand at 75-80 percent in every financial year; thereby, indicating limited capacity available to generate sufficient volume growth over the medium term. To overcome the capacity constraints, SEL has been regularly incurring a routine capex for upgradation in its existing facility to yield better output. It presently has capital work-in-progress of ~Rs.8-9 Cr for the textile segment which is likely to get capitalize and start yielding results FY2022 onwards. Despite the impact of Covid-19 on H1FY2021 performance, wherein SEL reported revenue de-growth of 20.5 percent at Rs.93.4 Cr (Rs.117.17 Cr in H1FY2020), SEL managed to achieve Rs.175.42 Cr of revenue in 9MFY2021 vis-à-vis Rs.195.00 Cr in 9MFY2020 (de-growth of 10.5 percent). The revenue in last 2 years ending FY2021 have comparatively been lower than the historical levels wherein revenue was in the range of Rs.315-330 Cr. This is by reason of declining fabric realisations. The realization per meter has been Y-o-Y declining from a peak of Rs.142/meter in FY2019 on an average basis to Rs.121.2/meter in FY2020 and Rs.83.4/meter in Q3FY2021. The impact on realisations were witnessed across the textile value chain from cotton to readymade garments during the period FY2020 to H1FY2021. Howbeit, the whopping fall in realisations was negated to some extent by stable improvement in fabric sales volumes. The Fabric sales volume which was around 230 lakh meters per annum in FY2019; increased to 258.1 lakh meters per annum and ~193 lakh meters per annum in 9MFY2021.
  The profit before interest and tax (PBIT) for textile segment deteriorated to Rs.4.43 Cr in 9MFY2021 compared to Rs.10.88 Cr in 9MFY2020 on account of lower operating level margins. Lower operating margins is an outcome of lower revenue vis-à-vis high fixed overhead costs in H1FY2021 due to Covid-19 impact. The PBIT is expected to improve further in Q4FY2021 yet remain Y-o-Y lower in FY2021.
  Acuité believes that growth in textile segment will be driven by enhanced capacity utilization levels by incurring routine capex for upgradation of its machineries yielding higher output. The growth will be further susceptible to the movement in the fabric realisations.

- **Moderate financial risk profile**
  The company has moderate financial risk profile marked by healthy capital structure albeit moderate debt protection measures. SEL's net worth is healthy at around Rs. 962.37 crore as on March 31, 2020 and Rs.954.94 Cr as on September 30, 2020. The marginal erosion in the networth was on account of net loss of Rs.4.98 Cr reported in 6MFY2021. The net worth stood healthy on account of moderate accretion to reserves, sale of land parcels and issue of equity shares on preferential basis for Rs 450.00 Cr during FY2018. Acuité believes that the net worth of the company will remain healthy backed by its moderate revenue growth and stable operating margins leading to accretion to reserves. Interest coverage stood moderate at 1.82 times and NCA/TD stood at 0.03 times in FY2020. 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 improved to around 0.31 times as on March 31, 2020 and remained at same levels as on September 30, 2020. 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 already made in the proposed LNG terminal in past. Acuité believes that the debt protection metrics will further remain moderate on account of moderate revenue visibility and stable operating margins expected over the medium term.

- **Favourable domestic demand-supply dynamics of re-gasified liquefied natural gas (RLNG) entailing low demand risk w.r.t. the energy projects at subsidiary level**
  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 7.00-8.00 percent through FY2020-21. 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 45-50 MMTPA for FY2021 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 25-30.00 MMTPA of capacity is under proposed and planning stages, they are unlikely to come on stream by FY2025. Acuité believes that SEL's subsidiaries hold low demand/offtake risk given the huge demand-supply gap in the RLNG industry.

Weaknesses

- **Substantial exposure to group companies**
  SEL has substantial exposure to its subsidiaries and other group companies by way of equity infusion, issue of preference shares, corporate guarantees, shortfall undertaking and unsecured loans. SEL and other shareholders has infused the entire equity requirement of Rs.787 Cr in SLPL and Rs.535 Cr in TOPL for the LNG project worth ~6,000 Cr. Furthermore, Swan Energy Limited (SEL) – the key promoter (63% stake in SLPL and 51% in TOPL), has infused an additional Rs.130 Cr in SLPL and Rs.111 Cr in TOPL in the form of non-cumulative, non-convertible redeemable preference shares to meet additional project expenses. SEL has provided support to the project in the form of corporate guarantees for the project debt applicable till one year from the actual commercial operations date (COD) or till the satisfactory review of conditions by the lender, whichever is later. The corporate guarantees outstanding as on December 31, 2020 was at Rs.1,788.30 Cr (Rs.390.18 Cr against SLPL's debt, Rs.1,186.88 Cr against TOPL's debt, Rs.37.5 Cr against PVPL's debt and Rs.173.74 Cr against CEIPL's debt) compared to Rs.1.979.63 as on September 30, 2020. The exposure towards contingent liabilities w.r.t. corporate guarantees is expected to increase over the near term as and when the entire debt of ~Rs.5,000 Cr is drawn down at subsidiary level. SEL has even provided an undertaking to the LNG project lenders to fund cost overruns, and any shortfall in debt servicing and debt service reserve account (DSRA) from its own sources. Additionally, with respect to SLPL's debt, SEL, through its subsidiaries, has mortgaged identified land parcels and provided a non-disposal undertaking on certain properties till achievement of the COD. In addition to above, are the unsecured loans and advances extended to its subsidiaries of Rs.14.97 Cr as on September 30, 2020 against Rs.248.92 Cr as on March 31, 2020. Acuite believes that SEL will remain exposed to risk subjected to the LNG project until timely achievement of the COD. These aforementioned risks related to its substantial exposure to its group companies are mitigated to an extent as SEL has already infused in excess of its committed equity portion into the project and financial closure being achieved in September 2020.

- **Moderate Implementation risk associated with the LNG 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 has witnessed delays in the past due to non-achievement of financial closure. The project, initially expected to be commissioned by April 2020 will now commissioned in March, 2022 as financial closure was achieved in mid-2020. Howbeit, the company taking a conservative approach and funded proposed cost overruns of around Rs.240 Cr for interest during construction (IDC) through preference shares issued to promoters. The funding of IDC for Rs.240 Cr was through monetization of real estate asset, unsecured loans and internal funding.
  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). With the achievement of the financial closure, the completion and delivery of the FSRU, the overall project is progressing as per the revised timelines. Furthermore, the final payment of the FSRU has been made. The main project

contracts under SLPL are lumpsum-based contracts, possessing a low forex exposure and provision of 5 percent contingency in project cost, leads to low cost overrun risks. SLPL has achieved ~57% physical completion as of January 2021, while the FSRU under TOPL was completed and delivered to TOPL in September 2020. Financial closure has been achieved resulting in low funding risk too. Majority of the land required for commissioning is already acquired too, leaving moderate risk w.r.t. land acquisition. Acuité believes timely execution of the project and achievement of the revised COD will remain a key monitorable.

Liquidity Position: Adequate
SEL's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its nil debt obligations, moderate current ratio and low unencumbered cash and bank balance. SEL has generated net cash accruals of Rs.9.51Cr in FY2020. The company is expected to generate adequate NCAs in the range of Rs.5.00-10.00 Cr against nil debt obligations over the medium term. The average fund-based working capital utilization stood between 71.4 percent for the past 12 months ended March 2021. The company has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2020. The current ratio stood low at around 1.10-1.80 times over the last 3 years ending March 31, 2020. Acuité believes that SEL's liquidity will remain adequate over the medium term.

Rating Sensitivities

- Limited capacity expansion to result in moderate revenue growth over the medium term; any sharp fall in realisations or output to lead in lower-than-expected revenue in future.
- High debt-funded capital expenditure in the near to medium term.
- 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 sponsor company (SEL).

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 COD resulting in further delays in completion of the LNG project or higher than expected support from SEL to its subsidiaries or lower-than-expected revenue or profitability leads to deterioration in the financial risk profile and liquidity of the company.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	306.84	860.06
PAT	Rs. Cr.	4.13	2.34
PAT Margin	(%)	1.35	0.27
Total Debt/Tangible Net Worth	Times	0.31	0.18
PBDIT/Interest	Times	1.82	3.22

On standalone basis, for 9MFY2021, SEL has reported a net loss of Rs.4.24 Cr on total operating income (TOI) of Rs.188.53 Cr against net profit (PAT) of Rs.3.33 Cr on total operating income (TOI) of Rs.213.44 Cr for 9MFY2020.

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

Any other information
None

Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
  Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.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/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
22-Jan-2020	Cash Credit I	Long Term	13.00	ACUITE BBB / Stable (Reaffirmed)
	Cash Credit II	Long Term	6.00	ACUITE BBB / Stable (Reaffirmed)
	Cash Credit III	Long Term	4.00	ACUITE BBB / Stable (Reaffirmed)
	Cash Credit IV	Long Term	37.00	ACUITE BBB / Stable (Reaffirmed)
	Letter of Credit I	Short Term	8.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit II	Short Term	18.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit III	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit IV	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Withdrawn)
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	Maturity Date Amount (Rs. Cr)	Recommended Rating
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)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Neha Agarwal Senior Analyst - Rating Operations Tel: 040-4004 2327 neha.agarwal@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

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