Press Release

Swan Energy Limited

July 22, 2022

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.00	-	ACUITE A3 | Downgraded
Bank Loan Ratings	60.00	ACUITE BBB- | Stable | Downgraded	-
Total Outstanding Quantum (Rs. Cr)	95.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has downgraded its long-term rating to **'ACUITE BBB-' (read as ACUITE Triple B minus)** from **'ACUITE BBB' (read as ACUITE Triple B)** and short-term rating to **'ACUITE A3' (read as ACUITE A Three)** from **'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'.

Rationale for downgrade

The rating downgrade takes into account the substantial decline in contribution from the textile segment, the segment contributed ~42 percent in FY2022 against 85 percent and 89 percent in FY2021 and FY2020 respectively. Overall, revenue from textile declined to Rs. 170.97 Cr. in FY2022 against Rs. 214.75 Cr in FY2021. Additionally, the LNG project has been further delayed by 11 months to March 2023 from earlier March 2022, any further delays would adversely impact overall financial risk profile, since SEL has issued corporate guarantees of ~Rs. 3,300 Cr towards the project against aggregate net worth of Rs. 1,280 Cr as on March 31, 2022. In addition, overall financial flexibility remains restricted given SEL's plan of acquiring Veritas (India) Limited for a total consideration of Rs. 260.00 Cr and Reliance Naval and Engineering Limited, which could require additional loans from related parties/bank lines.

About the Company

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 360 Lakh meter per annum. 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 (12 flats (15,315 sq.ft.)) in Ashoka garden on rent and is receiving around 9 lakh/ month as rentals. 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 by the long standing relationship with its existing customers and suppliers and demonstrated record of developing real estate projects.
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.

- **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. 1280.15 crore as on March 31, 2022 and Rs.960.81 Cr as on March 31, 2021. The increase in net worth is on account of converting unsecured loan of ~Rs. 300 Cr from promoter and non-promoter group into equity in FY2022 in order to reduce the overall debt from Rs. 314.24 Cr as on March 31, 2021 to Rs. 108.83 Cr as on March 31, 2022. The equity shares were issued at a price of Rs. 162 (incl. Rs. 161 securities premium) 1,06,68,000 shares were issued to its promoter group and 90,12,000 shares were issued to non promoter company Malberry Infrastructure Private Limited and Montego Reality Private Limited. The company continues to follow a conservative financial policy, with its peak gearing estimated at around 0.42 times as on March 31, 2017. The gearing of the company, however, as on March 31, 2022 improved to around 0.09 times. The interest coverage ratio (ICR) and debt coverage ratio (DSCR) in FY2022 stood at 1.62 times and 1.50 times against 1.59 times and 1.45 times in the previous year respectively.
Additionally, SEL has demonstrated propensity for unrelated diversification by investing into development of LNG terminal which is almost 6 times of the company's current net worth. Also, the company is in the process of acquiring stake in Veritas India Limited in order to further explore the petrochemical business at a value of ~Rs. 260 Cr. Further, SEL along with Hazel Mercantile Limited (HML) has submitted a resolution plan to acquire Reliance Navel

and Engineering Limited from NCLT through Hazel Infra Limited. SEL owns 74% stake in Hazel Infra Limited (HIL) and the rest shall be held by HML.
Acuite believes that the lower than expected growth in the textile segment and the future acquisition and their means of funding may negatively impact the overall financial risk profile and coverage indicators of the company going forward.

• 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 idustrial 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. 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 and 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

• Growth in textile segment expected to be moderate over the medium term; to be driven by continuous upgradation in it s existing facility and movement in realizations:
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. Howbeit, at present, there are no on-going or upcoming real estate projects undertaken under SEL resulting in no major income from this segment except the inventory developed. SEL has a total installed capacity of processing 360 lakh meters of fabric per annum. The revenue from the textile segment in last 2 years ending FY2022 have comparatively been lower than the historical levels wherein revenue was in the range of Rs.315-330 Cr. In FY2022 the average utilization stood at 72 percent against 60 percent in FY2021. Despite high capacity utilization the aggregate revenue earned reduced to Rs. 170 Cr against Rs. 214 Cr in FY2021. The reduction in revenue is attributable to reduced realization per meter to Rs. 82.27 in FY2022 against Rs. 134.22 in the previous year. Further, the company on account of Covid 19 turned towards job work and reduced its overall purchases and inventory, as a result the revenue of the company from the textile segment substantially dropped in Q1 of FY2022, and FY2021. Additionally, the job work margins are lower compared to overall purchase, processing and sales. The operating margins for FY2022 from textile segment reduced to 3% against 5% in earlier years.
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 realizations. The company has on an average been incurring ~Rs. 10-12 Cr towards routine capital capex.
However, the company in FY2022 earned Rs. 409.75 Cr against Rs. 252.59 Cr in FY2021. About 50% of the total revenue was earned through trading of petrochemicals undertaken by the company in FY2022. SEL supplies Mixed Xylenes, Base oil and Naptha.

- **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, 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 noncumulative, 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 March 31, 2022 was at Rs.3547.42 Cr (Rs.1883.33 Cr against SLPL's debt, Rs.1513.79 Cr against TOPL's debt, Rs.75.30 Cr against CEIPL debt). 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.110.73 Cr as on March 31, 2022 against Rs.17.93 Cr as on March 31, 2021. 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.

- **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, then delayed to March, 2022 as financial closure was achieved in mid-2020. Presently, the project commissioning has been further delayed by 11 months to March 2023, any further delay would substantially impact the over financial risk profile of SEL considering the guarantees issued by it.
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 ~67% physical completion as of March 2022, while the FSRU under TOPL was completed and delivered to TOPL in September 2020. In April 2021, Company entered into Time Chartered Party Agreement with M/s. TEMA LNG, a Ghana based company to deploy FSRU on charter hire for 270 days. 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.

Rating Sensitivities

- Limited capacity expansion for textile segment would result into moderate revenue growth over the medium term; any sharp fall in realizations or output to lead in lower-than-expected revenue in future.

- Debt funded expansion adversely impacting the financial risk profile and liquidity.
- Further delay in execution of LNG project leading to significant cost overrun having impact on overall financial risk profile of the sponsor company (SEL).

Material covenants

None.

Liquidity Position: Adequate

SEL's liquidity is adequate, marked by moderate bank limit utilization, adequate net cash accruals against its nil debt obligations, through FY2019-21.The repayment obligations for FY2023 is Rs.12.00 Cr against NCA of 9.29 Cr. The average fund-based working capital utilization stood between 80 percent for the past 10 months ended June 2022. The company has maintained low unencumbered cash and bank balances over the last three years ending March 31, 2022. The current ratio stood at around 1.29-1.80 times over the last 3 years ending March 31, 2022. Acuité believes that SEL's liquidity will remain adequate over the medium term considering the timely and consistent support from promoters.
However, considering SEL's planned acquisitions liquidity constraints are expected in the absence of timely funding support.

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.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	409.75	252.59
PAT	Rs. Cr.	3.29	0.88
PAT Margin	(%)	0.80	0.35
Total Debt/Tangible Net Worth	Times	0.09	0.33
PBDIT/Interest	Times	1.62	1.59

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-52.htm
• Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
• Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm
• Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
23 Apr 2021	Letter of Credit	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB | Stable (Reaffirmed)
	Letter of Credit	Short Term	8.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB | Stable (Reaffirmed)
	Cash Credit	Long Term	37.00	ACUITE BBB | Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB | Stable (Reaffirmed)
	Letter of Credit	Short Term	18.50	ACUITE A3+ (Reaffirmed)
22 Jan 2020	Letter of Credit	Short Term	8.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	37.00	ACUITE BBB | Stable (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB | Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Withdrawn)
	Cash Credit	Long Term	4.00	ACUITE BBB | Stable (Reaffirmed)
	Letter of Credit	Short Term	18.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB | Stable (Reaffirmed)
30 Oct 2018	Cash Credit	Long Term	13.00	ACUITE BBB | Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	2.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB | Stable (Assigned)
	Cash Credit	Long Term	37.00	ACUITE BBB | Stable (Assigned)
	Letter of Credit	Short Term	6.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	18.50	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	8.50	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BBB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- | Stable | Downgraded (from ACUITE BBB)
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB- | Stable | Downgraded (from ACUITE BBB)
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- | Stable | Downgraded (from ACUITE BBB)
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE BBB- | Stable | Downgraded (from ACUITE BBB)
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	18.50	ACUITE A3 | Downgraded (from ACUITE A3+)
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 | Downgraded (from ACUITE A3+)
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 | Downgraded (from ACUITE A3+)
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A3 | Downgraded (from ACUITE A3+)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A3 | Downgraded (from ACUITE A3+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.