Press Release
Swan Energy Limited
October 17, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE BBB- | Reaffirmed | Rating Watch with Developing Implications	-
Bank Loan Ratings	35.00	-	ACUITE A3 | Reaffirmed | Rating Watch with Developing Implications
Total Outstanding Quantum (Rs. Cr)	95.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'ACUITE BBB-' (read as ACUITE Triple B minus)** and short-term rating of **'ACUITE A3' (read as ACUITE A Three)** on the Rs. 95.00 Cr bank facilities of Swan Energy Limited (SEL). The rating is placed under **"Rating watch with Developing Implications".**

Rationale for rating action

The rating reaffirmation takes into account the well-established track record of operations of the company for more than a decade in the textile industry. The business operations of the company are supported by well experienced promoters in respective industries. The rating also factors in the improvement in standalone revenues of the company which recorded 33.89% YoY growth and stood at Rs. 547.23 Cr. in FY23 as against Rs.408.72 Cr. in FY22 and Rs.252.59 Cr. in FY21. SEL currently owns and operates a textile processing unit at Ahmedabad, Gujarat with total capacity of 360 lakh meters. After significant deterioration, in the contribution from textile business from textile segment witnessed stable growth from 84.71% in FY21 to 41.67% in FY22 and 44.60% in FY23. The company also reported standalone revenues of Rs.113.58 Cr. in Q1FY24 and the contribution from textile segment again improved to 50.21% during the same period. Despite improvement in revenues, the overall standalone profitability margins of the company witnessed deterioration over the years majorly led by lower margins coming in from the trading business due to price variations of the traded goods. The EBITDA margin of the company stood at 5.10% in FY23 as against 6.76% in FY22 and 8.42% in FY21. Furthermore, EBITDA margin further declined to 4.62% in Q1FY24. The company reported absolute PAT of Rs.3.64 Cr. in FY23 as against Rs.3.18 Cr. in FY22. The rating further draws comfort from the healthy financial risk profile and adequate liquidity position of the company. The above-mentioned strengths are however partially offset by SEL's substantial exposure to group companies way of equity infusion, issue of preference shares, corporate guarantees, shortfall undertaking and unsecured loans.

Acuité has also taken a note of the delays associated with LNG project which was originally scheduled to be completed by March 2022 is now expected to be completed by March 24. The delay as majorly on account of Cyclone impact which occurred in May 2022 in Gujarat. However, as per the management there is no cost overrun as such for the delay. Furthermore, TOPL (Triumph Offshore Private Limited) which is a subsidiary of SEL had entered into lease agreement with Swan LNG Pvt Ltd (SLPL) for chartering of vessel (FSRU) for a period of 20 years in the LNG terminal. Till the completion of the terminal, TOPL has entered into a Heads of Agreement Term Sheet dated 31 December 2022 with BOTAS Trading IC Headquarters Jersey Ankara Main Branch, based in Turkey ("BOTAS") for chartering of the FSRU on Bare boat basis (no expenses for maintaining the vessel), for a period of at least 304 days, starting from 02 January 2023 at the rate of USD2,50,000 per day (~Rs. 2 Cr. per day). The completion of the LNG project as per the revised timeline will going to remain a key rating sensitivity going ahead.

Acuité has also placed the rating on watch with developing implications as the company is under process of infusion of funds to the tune of Rs.1435.50 Cr. by way of preferential allotment to Gcap Inab Pte Ltd. (Non Promoter) with a price of Rs.495/ share and upto 2,90,00,000 shares. The funds is expected to be received by end of October, 2023 and will be utilised towards making upfront payment towards Reliance Naval and Engineering Ltd (RNEL) as per NCLT order. As per the resolution plan approved by the NCLT, SEL was to make an upfront payment of Rs 293 crore to the lenders of RNEL by March 23, 2023 however; SEL extended the deadline to July 23, 2023. Furthermore, the company again failed to arrange funds for making the upfront payment within the extended deadline. SEL again approached the NCLT Ahmedabad to seek second extension, which ended on September 14. The NCLT bench on October 5 directed the company to make the payment as proposed in the resolution plan, before it could consider its application for a third extension. After NCLT's order, Swan Energy released Rs 50 Cr. on October 09, 2023, towards the proposed resolution plan and the next hearing is scheduled in November 2023. The company is expected to make the balance payment before the hearing date from the funds coming in from the preferential allotment. Acuité takes consideration of these key updates and the rating watch will be resolved on successful closure of the transaction as per the scheduled timelines.

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).

Standalone (Unsupported) Rating
None

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

Stable business risk profile with established t rack record of operations and experienced management

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 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 by the long standing relationship with its existing customers and suppliers and demonstrated record of developing real estate projects.

The operations of the company witnessed improvement in standalone revenues of the company which recorded 33.89% YoY growth and stood at Rs. 547.23 Cr. in FY23 as against Rs.408.72 Cr. in FY22 and Rs.252.59 Cr. in FY21. SEL currently owns and operates a textile processing unit at Ahmedabad, Gujarat with total capacity of 360 lakh meters. After significant deterioration, in the contribution from textile business from textile segment witnessed stable growth from 84.71% in FY21 to 41.67% in FY22 and 44.60% in FY23. The company also reported standalone revenues of Rs.113.58 Cr. in Q1FY24 and the contribution from textile segment again improved to 50.21% during the same period.

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.

Healthy Financial Risk Profile

The financial risk profile of the company is healthy marked by healthy net worth, low gearing, and moderate debt protection metrics. The tangible net worth of the company stood at Rs. 1281.26 Cr. as on March 31, 2023 as against Rs. 1280.15 Cr. March 31, 2022. The total debt of the company increased and stood at Rs. 280.24 Cr. as on March 31, 2023 as against Rs. 108.83 Cr. same period last year majorly on increase in unsecured loans from related parties. The debt outstanding of the company in FY23 comprises of long-term debt of Rs. 69.52 Cr., short term debt of Rs. 55.40 Cr. and Rs. 155.32 Cr. of unsecured loans. The gearing of the company marginally deteriorated yet remained low at 0.22 times as on March 31, 2023 as against 0.09 times in March 31, 2022. The TOL/TNW stood at 0.37 times as on March 31, 2023 as against 0.26 times March 31, 2022. The debt protection metrics remained moderate with interest coverage ratio of 1.73 times for FY23 as against 1.61 times for FY22. However, the debt service coverage ratio stood at 0.96 times for FY23 as against 1.50 times for FY22.

Furthermore, the SEL has tied up towards capital infusion by way of preferential allotment of Rs.1435.50 Cr. to GCAP INAB PTE Ltd. (Non-promoter) with a price of Rs.495/ share and upto 2,90,00,000 shares which is ~60% premium towards the CMP. The funds from the preferential allotment are likely to be received by end of October 2023 which will be utilised towards acquisition of RINL and other project purposes. The promoter's shareholding is expected to deteriorate from 64% to 57% post issuance of the shares. Acuité believes that post this issuance, the financial risk profile is expected to continue remain healthy with expected improvement in networth.

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 158.2 MMSCMD and share of domestic gas and imported RLNG was about 45 percent & 55 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

Continuous deterioration in profitability margins despite improvement in revenues
The standalone revenues of the company have witnessed growth of 47% CAGR over FY21-23 period. However, despite improvement in revenues, the profitability margins of the company reported continuous deterioration reflected by decline in EBITDA margin to 5.10% in FY23 as against 6.76% in FY22 and 8.42% in FY21. The EBITDA margin further declined to 4.62% in Q1FY24. Similarly, the PAT margins of the company also witnessed a decline to 0.66% in FY23 as against 0.78% in FY22. The decline in margins was majorly on account increase in contribution from the low margin trading business and volatility in prices of goods traded.

Acuité believes that any improvement in the profitability margins will remain a key monitorable over the medium term.

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 2 years to March 2024 on account of cyclone impact on Gujarat in May 2022. Acuité believes that 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 ~81% physical completion as of date, 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. Till the completion of the terminal, TOPL has also entered into a Heads of Agreement Term Sheet dated 31 December 2022 with BOTAS Trading IC Headquarters Jersey Ankara Main Branch, based in Turkey ("BOTAS") for chartering of the FSRU on Bare boat basis (no expenses for maintaining the vessel), for a period of at least 304 days, starting from 02 January 2023 at the rate of USD2,50,000 per day (~Rs. 2 Cr. per day). However, the financial closure for the project is already completed resulting into low funding risk and majority of the land required for commissioning is already acquired too, leaving moderate risk w.r.t. land acquisition. Acuité believes timely commencement of the project within revised timeline will remain a key monitorable.

Working capital intensive nature of operations
The operations of the company are working capital intensive in nature marked by GCA days which improved yet remained high at 282 days in FY23 compared against 405 days for FY22. The receivable days stood at 136 days in FY23 as against 193 days for FY22. The inventory levels of the company stood at 74 days during the same period compared against 83 days for FY22. The creditor days of the company stood at 141 days for FY23 compared against 221 days for FY22. However, the average bank limit utilisation by the company remained moderate at 86.38% for fund based facilities and 7.04% for non-fund-based facilities for in FY23.

Rating Sensitivities

- Improvement in standalone profitability margins
- Infusion of funds and timely upfront payment as per NCLT order
- Any further delay in commencement of LNG project by its subsidiaries

All Covenants

Not Applicable

Liquidity Position
Adequate

SEL's liquidity is adequate, marked by moderate bank limit utilization, liquid investment as bank deposits despite inadequate net cash accruals against its matured debt obligations. The company generated net cash accruals of Rs.11.62 Cr. in FY23 against repayment obligations of Rs.12.71 Cr. during the same period. The company's liquidity was supported by liquid bank deposits to the tune of Rs.8.30 Cr. as on 31 March 2023 as against Rs.9.48 Cr. same period last year. the average bank limit utilisation by the company remained moderate at 86.38% for fund-based facilities and 7.04% for non-fund-based facilities in last one year ended Sep' 2023. The liquidity position of the company is expected to further to be supported by the infusion of funds through preferential issuance in FY24. Acuité believes that SEL's liquidity is expected to improve over the near term on account of preferential share allotment of Rs.1435 Cr by October 2023.

Outlook:

Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	547.23	408.72
PAT	Rs. Cr.	3.64	3.18
PAT Margin	(%)	0.66	0.78
Total Debt/Tangible Net Worth	Times	0.22	0.09
PBDIT/Interest	Times	1.73	1.61

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul 2022	Letter of Credit	Short Term	6.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Proposed Bank Facility	Short Term	6.50	ACUITE A3 (Downgraded from ACUITE A3+)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Letter of Credit	Short Term	18.50	ACUITE A3 (Downgraded from ACUITE A3+)
	Cash Credit	Long Term	37.00	ACUITE BBB- | Stable (Downgraded from ACUITE BBB | Stable)
	Cash Credit	Short Term	13.00	ACUITE BBB- (Downgraded from ACUITE A3+)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Cash Credit	Long Term	4.00	ACUITE BBB- | Stable (Downgraded from ACUITE BBB | Stable)
	Cash Credit	Long Term	6.00	ACUITE BBB- | Stable (Downgraded from ACUITE BBB | Stable)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	13.00	ACUITE BBB- | Reaffirmed | Rating Watch with Developing Implications
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB- | Reaffirmed | Rating Watch with Developing Implications
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BBB- | Reaffirmed | Rating Watch with Developing Implications
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	37.00	ACUITE BBB- | Reaffirmed | Rating Watch with Developing Implications
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE A3 | Reaffirmed | Rating Watch with Developing Implications
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A3 | Reaffirmed | Rating Watch with Developing Implications
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A3 | Reaffirmed | Rating Watch with Developing Implications
Not Applicable	Not Applicable	Proposed Short Term	Not Applicable	Not Applicable	Not Applicable	Simple	8.50	ACUITE A3 | Reaffirmed | Rating

		Bank Facility						Watch with Developing Implications

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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.