

## Swan Energy Limited

April 5, 2018

### Ratings

Facility	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities – Fund Based	60.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook Stable)
Short Term Bank Facilities – Non-Fund Based	60.00	CARE A4+ (A Four Plus)	Revised from CARE A4 (A Four)
<b>Total</b>	<b>120.00</b> (Rs. One hundred twenty Crore Only)		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities of Swan Energy Limited (SEL) factors in successful equity dilution to part fund the equity requirement of FSRU project, receipt of OC for Kurla commercial property providing visibility for receipt of pending sale proceeds and monetisation of the land parcel in Goa.

The rating continues to factor in risks on back of significant exposure of the company to its subsidiaries in real estate sector as well as diversification into non-core FSRU project being executed by its subsidiary Swan LNG Pvt. Ltd. (SLPL) and Triumph Offshore Pvt. Ltd. (TOPL, pending financial closure for the FSRU project and high working capital utilisation. Further, the ratings are also constrained by high debt levels in subsidiaries.

The ratings continue to positively factor in the promoters' experience in textile and real estate business and presence of regasification agreement and experienced joint venture partners for FSRU project.

The ability of the company to achieve financial closure along with timely execution of FSRU project and the ability of other subsidiaries to successfully manage their real estate operations thereby reducing their future dependence on SEL for funding support would remain the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced Promoters:** The group is promoted by Mr Navinbhai Dave & Mr Nikhil Merchant. SEL, the flagship company of the group was earlier primarily into textile business. Later, the group ventured into property development in 2004. The group has successfully completed development of a residential complex in Sewri, Mumbai and a commercial IT Park in Kurla, Mumbai, by monetizing its own land bank (erstwhile textile mill). These projects were undertaken in association with Peninsula Land Ltd. (PLL) as joint development partner. Furthermore, the group now has presence into real estate sector through two companies, Cardinal Energy and Infrastructure Private Limited (CEIPL) and Pegasus Ventures Private Limited (PVPL) with a portfolio of commercial and residential real estate projects and in the energy sector through its subsidiaries SLPL and TOPL. The group is managed by a team of experienced professionals.

**Receivables from Kurla project to be realised; Monetisation of land parcels:** SEL during Q4FY18 has received the complete OC for the Tower D (final tower) of its Kurla project. With receipt of OC, the company can hand over the possession of the tower and receive the balance Rs. 136 crore. The company in H2FY18, sold off a land parcel in Goa for Rs. 115 crore. According to the company the liquidity generated from monetisation of assets would be first utilised to honour SEL's equity commitments for its FSRU project, if required or will be used repay debt.

**Stability in textile business:** The textile business grew by 2.86% during FY17 to Rs. 325.49 crore. The revenue growth was aided by improvement in realisations by 5.81%. The segment reported PBIT margin of 6.83%. For 9MFY18, the company has reported PBIT margin of 6.33% on total income of Rs. 230.31 crore.

#### Key Rating Weakness

**Significant exposure to subsidiaries:** SEL's exposure to its subsidiaries (including corporate guarantees given to lenders of subsidiaries) increased to Rs. 644.93 crore as of March 31, 2017 as against Rs. 603.32 crore as of March 31, 2016.

SEL is also implementing its FSRU project through two subsidiaries. The total cost of the project is estimated at about Rs. 6,027 crore. The project is proposed to be financed through senior debt: sub debt: equity of 70:20:10 i.e. debt of Rs. 4,822 crore of debt and balance of equity. As of January 31, 2018, SEL has invested an amount of Rs. 478.95 crore as promoter contribution in the project. The company has partially achieved debt tie up of Rs. 1,500 crore for this project.

**High working capital intensity:** SEL's debt service indicators deteriorated in FY17 on account of incremental debt drawn to fund the operations and working capital requirements. The standalone debt as on March 31, 2017 stood at Rs. 185.85 crore as against Rs. 131.00 crore as of March 31, 2016. The company's fund-based working capital limits continue to remain almost fully utilised for the last 12 month ended January 2018.

**High Debt levels in subsidiary companies:** The Company at subsidiary level has significant amount of short term unsecured loans. As of March 31, 2017 unsecured loans from other parties for CEIPL and PVPL stood at Rs. 242.31 crore and Rs. 128.16 crore respectively as against Rs. 228.93 crore and Rs. 78.90 crore respectively as of March 31, 2016.

**Analytical approach:** Standalone. Factoring the support to subsidiaries

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios - Non-Financial sector](#)

[Criteria for Short Term Instruments](#)

#### 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, originally in textile business, mills were located at Sewri & Kurla, Mumbai but same was discontinued in 2002 due to the downturn of the Indian textile industry particularly in Mumbai. 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 31.2 million meters. After closure of Mumbai textile units in 2002, SEL had large area of land available. As a strategic move & considering their prime location in the Mumbai city, company planned to convert all premises into lucrative real estate projects.

SEL ventured into property development in 2004. 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. 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 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 combined cost of Rs. 6,027 crore.

Also, SEL set up two wholly-owned subsidiaries; CEIPL and PVPL in FY08 and FY13, respectively. CEIPL and PVPL focus on development of commercial properties and residential properties respectively.

(Rs. crore)

Brief Financials	FY16 (A)	FY17 (A)
Total operating income	318.63	335.57
PBILDT	18.46	23.51
PAT	0.59	1.68
Overall gearing (times)	0.30	0.42
Interest coverage (times)	1.40	1.52

A: Audited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BB+; Stable
Non-fund-based-Short Term	-	-	-	60.00	CARE A4+

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (22-Apr-16)	1)CARE BB+ (07-Apr-15)
2.	Non-fund-based-Short Term	ST	60.00	CARE A4+	-	1)CARE A4 (19-Apr-17)	1)CARE A4+ (22-Apr-16)	1)CARE A4+ (07-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	60.00	CARE BB+; Stable	-	1)CARE BB; Stable (19-Apr-17)	1)CARE BB+ (22-Apr-16)	1)CARE BB+ (07-Apr-15)

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