Swan Energy Limited

April 19, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term fund-based – CC	60	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE BB+(Double B Plus)**
Short term non-fund-based - LC/BG	60	**CARE A4 (A Four)**	**Revised from CARE A4+ (A Four Plus)**
Total	**120 (Rupees One Hundred and Twenty Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings for the bank facilities of Swan Energy Limited (SEL) factors in the decline in PBILDT margins over last three years, deterioration in overall gearing; marked by high utilization of working capital limits, deterioration in debt coverage indicators and continued delay in receipt of requisite approvals and thereby delay in realization of receivables related to the Kurla commercial project. The rating continues to factor in risks on back of significant exposure of the company to its subsidiaries in real estate development as well as diversification into non-core project (Floating Storage and Regasification Unit (FSRU)) being executed by its subsidiary Swan LNG Ltd. (SLNG) along with substantial funding support to be required for the FSRU project and with debt yet to be tied-up for the same.

The ratings, however, continue to positively factor in the promoters' experience, consistent growth in textile business and past track record in executing real estate projects, presence of off take agreement for 4.5 MMTPA out of 5 MMTPA of output for the proposed FSRU project with joint venture partners such as Gujarat State Petroleum Corporation Limited and EXMAR Marine NV, Belgium. The ratings also favorably factors in receipt of requisite shareholder approvals for raising of equity capital for funding of FSRU project through preferential allotment; and part sale and part lease out of the commercial office space at Gachibowli, Hyderabad (under SEL's subsidiary).

The ability of the company to realise the revenue from the completed projects, mobilisation of funds for the FSRU project under SLNG, with timely execution 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 Weaknesses

PBILDT margins continued to remain on a declining trend over last three years: The PBILDT margins have remained on a declining trend, which has declined from a level of 12.87% in FY14 to about 10.34% in FY15 and to about 8.86% in FY16. The decline was on account of lower realization for textile prducts.

Deterioration in overall gearing ; utilisation continued to remain high: The overall gearing further deteriorated to 1.90x as on March 31, 2016 as against a 1.64x as on March 31, 2015. The average fund based utilisation for the past twelve months ended January 2017 remained high at 97.77%.

Deterioration in debt coverage indicators: On account of lower GCA coupled with increase in debt in FY16, the TDGCA deteriorated to 75.48x in FY16 (PY: 51.60x).

Continued delay in realisation of receivables related to Kurla Projects: SEL is yet to receive balance recieveables of Rs.137 crore which is subject to receipt of occupancy certificate(OC).There has been

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

continuous delay in recipt of OC in the past. SEL expects to receive the Occupancy Certificate (OC) for Peninsula Techno Park building by early part of FY18.

Significant exposure to subsidiary companies; As on March 31, 2016, SEL on a consolidated basis had total debt of Rs.816.94 crore as against a total debt of Rs.705.69 crore as on March 31, 2015, with debt of subsidiaries and unsecured loans to external partes accounting for about 85% of the total debt outstanding as on March 31, 2016. Further, SEL in process of implementing FSRU project. The total cost of the project is estimated at about Rs.3,779 crore (Rs.3,856 crore estimated at the time of last rating) in which SEL holds 51%, it would need to bring in 51% or Rs.1,927 crore (debt of Rs.1,349 crore and equity of Rs.578 crore). As on date SEL has invested an amount of Rs.70 crore as equity in the project. The debt for this project is yet to be tied-up.

Key Rating Strengths

Promter experience: 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.The group is promoted by Mr Navinbhai Dave & Mr Nikhil Merchant, who have a vast experience of over 2.5 decades in textile and over decade of experience in to real estate development.

Strong growth in textile business: On the back drop of improvement in utilization levels coupled with improvement in realization for the textile products, the revenue from the textile division grew at a CAGR of 47.35% during FY12-FY16.

Presence of offtake agreement FSRU for 4.5 MMTPA out of total 5 MMTPA output as well as execution of investment agreement with 2i capital; The presence of offtake agreement for 90% of the total estimated output on use or pay basis for a period of 20 years reduces the sales risk to that extent. Further, SEL has received share holders approval on March 27, 2016 for execution of investment agreement for issue 2,30,77,000 equity shares face value Rs.1 each to 2i Capital PCC at a price of Rs.195 per share(Face Value = Rs.1 and Premium Rs.194) amounting to Rs. 450 crore by way of preferential allotment, thus reducing the funding risk to that extent. Although, the funding risk (Equity) for the FSRU project stand reduced given the large size of the project as well as no prior experience of the management (SEL) the company is exposed to project risk.

Cash flow arrisgin out of sale of 50% area of Gachibwli project by CEIPL and lease of entire area to MIIPL by CEIPL:

In November 2016, CEIPL has sold 50% of the total area i.e., 2.92 lsf of Gachibowli Project (Hyderabad) to MIPL in November 2016 for a total sum of Rs.112.60 crore and also CEIPL along with MIPL has leased the entire area admeasuring 5.84 lsf at Rs.40 per sq. ft. to Mahataa Information India Private Limited (MIIPL), an Indian subsidiary/arm of Google in November 2016.

Analytical approach:
Consolidated

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
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. Later in the year 2008, name was changed to Swan Energy Limited (SEL). SEL was originally in textile business, and the company's mills were located at Sewri & Kurla, Mumbai, but same had been 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 close down of textile unit in 2002, SEL had large area of mill land available. As a strategic move & considering their prime location in the Mumbai city, company planned to convert these into lucrative real estate projects.

SEL ventured into property development in 2004. SEL has 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.
Apart from real estate, SEL has conceptualized and is developing India's first "Floating Storage and Regasification Unit (FSRU) project in Jafrabad, Gujarat, for regasification of imported LNG. In 2013, Swan formed a special purpose vehicle (SPV), Swan LNG Ltd. (SLL), to house the upcoming Greenfield terminal.

Also, SEL set up two wholly-owned subsidiaries; Cardinal Energy and Infrastructure Private Limited (CEIPL) and Pegasus Ventures Private Limited (PVPL) in FY08 and FY13, respectively. CEIPL and PVPL focus on development of commercial properties and residential properties.

SEL reported a net loss of 0.19 crore on a total operating income of 333.29 crore in FY16 as against a PAT of Rs.3.02 crore on a total operating income of Rs.316.44 crore in FY15.

Status of non-cooperation with previous CRA:
Not Applicable
Any other information:
Not Applicable

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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
Non-fund-based-Short Term	-	-	-	60.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	60.00	CARE BB; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
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+ (22-Apr-16)	1)CARE A4+ (07-Apr-15)	-
3.	Fund-based - LT-Cash Credit	LT	60.00	CARE BB; Stable	-	1)CARE BB+ (22-Apr-16)	1)CARE BB+ (07-Apr-15)	-

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