ICRA

January 09, 2017

Sical Logistics Limited

Instrument	Amount	Rating Action
	In Rs Crore	
Long term: Cash Credit	212.50	[ICRA]BBB+ (Stable); reaffirmed
Long term: Term Loans	376.89 (enhanced from Rs. 178.89)	[ICRA]BBB+ (Stable); reaffirmed/assigned
Long term: Proposed Facilities	15.74	[ICRA]BBB+ (Stable); reaffirmed
Long term: Non Convertible Debentures	100.00	[ICRA]BBB+ (Stable); outstanding
Long term: Non Convertible Debentures	100.00	[ICRA]BBB+ (Stable); withdrawn
Short term: Non fund based facilities	182.50	[ICRA]A2; reaffirmed

* Instrument Details are provided in Annexure I

Rating Action

ICRA has reaffirmed the rating to the Rs 605.13 crore (enhanced from Rs 407.13 crore) long term bank facilities of Sical Logistics Limited ('SLL'/the Company) at [ICRA]BBB+ (pronounced as ICRA triple B plus)[1]. The outlook on the rating is Stable. ICRA has also reaffirmed the rating to the Rs 182.5 crore non fund based bank facilities of SLL at [ICRA]A2 (pronounced ICRA A two). ICRA has also withdrawn the rating of [ICRA]BBB+ to the Rs 100.0 crore[2] Non Convertible Debenture (NCD) issuance of SLL as there are no amounts outstanding.

ICRA also has an outstanding rating of [ICRA]BBB+ on the Rs 100.0 crore Non Convertible Debenture (NCD) issuance of SLL.

Rationale

The reaffirmation of the ratings reflects the continued financial support from the promoters (Coffee Day Group) and ICRA's expectation of an improvement in the standalone credit profile of the Company owing to the increasing contribution from some high margin business divisions and the overall increase in the debt maturity following refinancing of SIOTL borrowings with longer tenor debt. Following the acquisition of a majority stake in FY 2012, the Coffee Day Group (of which, Coffee Day Enterprises Limited (CDEL) is the Holding Company) has been actively reorganising the various activities of Sical and its subsidiaries and has provided financial support for refinance at lower rates. Till FY 2016, the promoter infused Rs 170 crore of unsecured loans towards various debt repayment and capital expenditure requirements. The funding support from the Group has largely followed from the successful IPO of CDEL which has resulted in lower debt and healthy liquidity at the Group level.

The ratings also take into consideration the recent receipt of Kamarajar Port Limited's Letter of Award for the handling of coal in Sical Iron Ore Terminal Limited's (SIOTL)[3] Ennore terminal. Following this, SIOTL is expected to commence conversion works (entailing further capex) to handle coal in the 12 MTPA terminal shortly. The management has also refinanced the SIOTL debt with longer duration debt (Rs 500 crore sanction for repayment of old debt and for conversion capex; repayable over a 20 year period) which has substantially brought down the near term debt service commitments of SLL group. Even though risks remain with respect to the SIOTL's profitable operations, especially considering the high revenue share payable to the port, there is now clear visibility of revenues from the terminal in contrast to the impasse witnessed since 2011.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in / other ICRA Rating publications

[2] 100 lakh = 1 crore = 10 million

[3] Rating Rationales of other Group entities, namely Sical Iron ore Terminals Limited and Sical Multimodal and Rail Terminal Limited, are available on ICRA's website www.icra.in

The ratings also consider the company's established presence as an integrated logistics player in segments like port handling, trucking, warehousing and role as shipping and custom agency. Moreover, the ratings factor in the commencement of the new contracts entered into with various clients; the key ones being the contract from NLC Tamilnadu Power Limited for integrated movement of coal from Paradip to Tuticorin, and the surface mining contracts from Mahanadi Coalfields Limited (MCL). These contracts are expected to yield annual revenues upwards of ~Rs 500 crore and the company expects healthy profitability from these new segments based on the experience till date.

The ratings, however, are constrained by the moderate financial profile of the company, with limited accruals and large financial support extended to its group entities (in the form of equity and corporate guarantees) over the last few years in various projects; with the return on some of the key projects being lower than envisaged. As discussed earlier, Sical Iron Ore Terminals Limited has been a non-starter for close to six years. Although the operational performance of the container rail business of Sical Multimodal and Rail Terminal Limited (SMART) has seen a decline in volumes in the recent past, the container freight station division has been posting healthy profits year on year and is expected to support the debt service commitments of the subsidiary[4]. On the standalone front, the loss of TANGEDCO Coal Berth 2 volumes in Ennore Port, Chennai port cargo and the lack of any major orders for the dredger have resulted in revenue stagnation; nevertheless, the margins have improved following improved contribution from the nascent surface mining and integrated logistics divisions. The company has significant loan repayment obligations and capex requirements (for SIOTL, surface mining and container rail segments) in the medium term; ICRA expects the support from the parent company to continue if the standalone cash flows are inadequate to meet the same.

The conversion of Ennore terminal at budgeted capex levels without cost or time overruns; and, the execution of the large NLC / mining contracts at targeted profitability levels would be the key rating sensitivities going forward.

Key Rating Drivers

Credit Strengths

- Established player in the Integrated logistics solutions business with presence in areas of port handling, transportation and shipping services especially in South India
- Commencement of relatively high margin surface mining/ integrated logistics activities
- Tangible support in the form of fund infusion of Rs 170 crore from the promoter – Coffee Day Group; further support can be expected considering the improved financial profile post IPO
- Successful refinance of the SIOTL project debt with a longer tenor debt providing liquidity relief

Credit Weakness

- SIOTL's terminal continues to remain idle resulting in substantial debt servicing burden at the Group level; Letter of award received recently for conversion of the terminal to handle coal imports and further capex upwards of Rs 170 crore required for conversion works
- High revenue share of 52% payable to Ennore port post commencement of operations in SIOTL could stress the project's cash flows necessitating continued support from SLL
- Financial support in the form of equity commitments and corporate guarantees extended to subsidiaries and related group entities
- Significant capex proposed for the standalone operations and subsidiaries; debt-funding of the same is likely to adversely impact the capital structure

[4] Rating Rationales of other Group entities, namely Sical Iron ore Terminals Limited and Sical Multimodal and Rail Terminal Limited, are available on ICRA's website www.icra.in

Description of key rating drivers highlighted above:
SLL's standalone operational performance has remained stagnant over the recent years due to the discontinuation of stevedoring operations at Chennai port and in Coal Berth 2 terminal of Kamarajar Port. The company has also been focusing only on select trucking contracts with clients considering the modest profitability of the business. Nevertheless, the company continues to have a significant presence in these traditional business segments and this has helped in executing newer contracts like integrated coal movement for NLC Limited and cold chain logistics.

The company has also been executing surface mining contracts since FY 2015 and has reported healthy operating profitability from this segment. In FY 2016 and H1 FY 2017, the company won further contract mining & overburden removal contracts from Mahanadi Coalfields Limited and has recently won a large Mine Development Contract in West Bengal. ICRA expects these contracts to drive the profitability going forward; however, these contracts also necessitate sizeable capital expenditure for procurement of machinery and hence would impact the capital structure of the company.

SLL's consolidated financial profile has been adversely impacted in the past few years due to the debt-funded capital expenditure at key subsidiaries – SMART and SIOTL. The Group continues to incur capex for setting up ICDs for the container rail business; however, the CFS division has been generating substantial cash accruals and this is expected to take care of the funding requirements of SMART. As regards the Ennore iron ore terminal of SIOTL, the SLL Group has been infusing funds to service the debt obligations pending the commissioning of the terminal. However, the company had finally received the approval to convert the terminal into a coal handling terminal (entailing further capex) in 2016 and has recently refinanced the existing debt with a longer tenor debt. This has reduced the near term debt service commitments of the Group significantly; however, the project returns would be contingent on the operational performance of the terminal in the face of high competition among private terminals and the large revenue share payable to Kamarajar Port.

Following the takeover of SLL from the erstwhile promoters, the Coffee Day Group has been supporting the business through operational oversight and financial support. Following the successful IPO of the flagship entity of the Group – Coffee Day Enterprises Limited – the Group has infused Rs 170 crore as unsecured loans to SLL, for meeting the various funding requirements of the businesses, and has also aided in refinancing the borrowings at favourable rates.

Analytical approach:
Links to applicable criteria
Corporate Credit Rating – A Note on Methodology
<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

About the Company
Incorporated in 1955, Sical Logistics (formerly South India Corporation (Agencies) Limited) is into the business of multi-modal logistics for bulk and containerized cargo port terminals, port handling, trucking and warehousing, surface mining, ship agency, container freight stations (CFSs), customhouse agency and offshore supply logistics. On a standalone basis, SLL operates under three divisions (Bulk, Container and offshore), while the consolidated books reflect investments, mainly in infrastructure, made through subsidiaries over the last few years.

SLL was promoted by Mr. M.A. Chidambaram Chettiar to provide ship and custom agency services apart from the core activity of trading. Over the years, SLL entered into port handling, container terminal operations (through JV) and logistics. In 2005, SLL hived-off non-core activities and increased its focus on logistics business. Tanglin Retail Reality Developments (P) Limited (part of the Coffee Day Group) picked up 10% stake initially in November 2010 before raising the stake to 54.2%. Currently, Tanglin is the major shareholder in the company with 52.8% stake. Coffee Day Group has a diversified portfolio of companies which have presence in owning and managing coffee plantations, coffee exports, retailing of coffee, vending machines and cafes.
For FY 2016 SLL, on a standalone basis, reported Profit after Tax (PAT) of Rs 18.5 crore on an operating income of Rs 591.1 crore. SLL, on a consolidated basis, reported a PAT of Rs 14.2 crore on an operating income of Rs 835.2 crore in FY 2016. For H1 FY 2017 SLL, on a standalone basis, reported a PAT of Rs 20.1 crore on an operating income of Rs 324.5 crore. SLL, on a consolidated basis, reported a PAT of Rs 14.1 crore on an operating income of Rs 412.3 crore in H1 FY 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				January 2017	July 2016	August 2015	February 2014
1	Cash Credit	Long Term	212.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long Term	376.89	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	15.74	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
4	Bank Guarantee	Short Term	182.50	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3
5	Non-Convertible Debentures	Long Term	100.00	Withdrawn	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	212.50	[ICRA]BBB+ (Stable)
Term Loans	-			376.89	[ICRA]BBB+ (Stable)
Unallocated	-	-	-	15.74	[ICRA]BBB+ (Stable)
Bank Guarantee	-	-	-	182.50	[ICRA]A2
Non-Convertible Debentures	June 2016	11.0%	June 2021	100.00	[ICRA]BBB+ (Stable)

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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