ICRA

November 09, 2017

Sical Logistics Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term: Cash Credit	250.00	[ICRA]BBB+ (Stable); reaffirmed; rating watch with developing implications removed
Long-term: Term Loans Outstanding	362.00 (revised from 313.00)	[ICRA]BBB+ (Stable); reaffirmed; rating watch with developing implications removed
Long-term: Proposed Facilities	6.08 (revised from 55.08)	[ICRA]BBB+ (Stable); reaffirmed; rating watch with developing implications removed
Long-term: Non-Convertible Debenture	100.00	[ICRA]BBB+ (Stable); reaffirmed; rating watch with developing implications removed
Short-term: Non-fund Based Facilities	243.00	[ICRA]A2; reaffirmed; rating watch with developing implications removed
Total	**961.08**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has removed the rating watch with developing implications and reaffirmed the ratings of [ICRA]BBB+ (pronounced ICRA triple B plus) and [ICRA]A2 (pronounced ICRA A two) on the Rs 861.08 crore bank facilities and Rs 100.00 crore Non-Convertible Debenture (NCD) programme of Sical Logistics Limited (‘SLL’ / ‘the company’)[1]. The outlook on the long-term rating is Stable.

Rationale

ICRA had placed the ratings of Sical Logistics Limited on watch with developing implications in September 2017 due to the then ongoing IT search operations in the offices of Coffee Day Group. However, there have been no further updates regarding the IT search; and, the management has clarified that only Survey operations were conducted in the offices of SLL. Hence ICRA has now removed the rating watch and has reaffirmed the ratings. ICRA will continue to monitor the outcome of the search in the Coffee Day offices and its impact, if any, on the credit profile of SLL.

The reaffirmation of the ratings reflects the continued financial support from the promoters (Coffee Day Group) and a tangible improvement in the standalone credit profile of the company owing to the increasing contribution from some high margin business divisions, the overall increase in the debt maturity following refinancing of Sical Iron Ore Terminals Limited (SIOTL) borrowings with longer tenor debt, as well as the company’s continued efforts to refinance other borrowings in favour of longer tenure loans.

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

The Coffee Day Group (of which, Coffee Day Enterprises Limited, or CDEL, is the holding company) acquired majority stake in SLL in FY 2012. Till FY2017, the promoter has infused Rs. 170 crore of unsecured loans towards various debt repayment and capital expenditure requirements. The financial flexibility of the Group remains high with sizeable accumulated reserves, strong investment portfolio and healthy liquidity.

The ratings also take into consideration the recent receipt of Environmental Clearance for Sical Iron Ore Terminal Limited's (SIOTL)[2] 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 a 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 the SLL Group. Even though risks remain with respect to 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.

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 also consider the sustainable improvement in profitability due to change in revenue mix due to increasing revenues from highly profitable business segments like mining and integrated logistics.
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. SIOTL 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 stagnation in revenues 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[2]. On the standalone front, higher revenues flowing in from mining and integrated logistics has helped the company post substantial growth in revenues; moreover, the margins have also improved following improved contribution from mining and integrated logistics divisions. Nevertheless, due to higher capital expenditure for the mining segment—SLL has procured most of the requisite machinery for the contracts—the standalone debt level of the company has increased.

The company has significant loan repayment obligations and capex requirements (for SIOTL, 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 the Ennore terminal at budgeted capex levels without cost or time over-runs; and the sustainable execution of the large NLC / mining contracts at targeted profitability levels would be the key rating sensitivities, going forward.

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[2] *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.*

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 southern India** – Incorporated in 1955, the company has significant presence in South Indian ports like those at Kamarajar, Chennai, Tuticorin and Visakhapatnam for handling various port operations. The company also has established its presence in transportation, shipping and container rail operations. This enables it to be a multi-modal integrated logistics player.
- **Sustainable improvement in profitability due to relatively high margin mining/integrated logistics activities** – The company has registered sustainable improvement in profitability margins due to increased revenue contribution from more profitable segments like mining and integrated logistics. ICRA expects these business segments to drive profitability, going forward.
- **Tangible support from the promoter, Coffee Day Group -** Following the takeover of SLL from its erstwhile promoters, the Coffee Day Group has been supporting the business through oversight and financial support. Till date, Coffee Day Enterprises Limited has infused Rs. 170 crore as unsecured loans to SLL, for meeting the various funding requirements of the businesses. SLL has also been able to refinance the borrowings at favourable rates. SLL expects similar support from its promoter as and when the need arises, given the comfortable liquidity position enjoyed by the Group.

Credit weaknesses

- **SIOTL's terminal continues to remain idle resulting in substantial debt servicing burden at the Group level –** SLL has been infusing funds into SIOTL to service the debt obligations pending the commissioning of terminal. The conversion works are expected to commence shortly as the terminal has received the environmental clearance recently. However, the project returns would be contingent upon the operational performance of the terminal in the face of high competition among private terminals and the large revenue share payable to the Kamarajar Port.
- **Significant capex proposed for the standalone operations and subsidiaries; debt-funding of the same is likely to adversely impact the capital structure -** Mining necessitates sizeable capital expenditure for procurement of machinery. SLL has already incurred substantial capex in FY2017 and also expects to incur significant capital expenditure—for standalone operations, especially mining, as well as for subsidiaries—in the current fiscal too. Debt-funded capital expenditure is expected to further impact the capital structure. However, increasing cash accruals are expected to moderate the impact to a certain extent.
- **Financial support in the form of equity/advances and corporate guarantees extended to subsidiaries and related group entities –** SLL has extended sizeable corporate guarantees to its subsidiaries and related group entities. Though moderated in FY2017, the corporate guarantees extended to subsidiaries and related group entities still remain sizeable. Moreover the company's continued support in the form of equity commitments and advances towards its subsidiaries is a credit concern.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:
Incorporated in 1955, Sical Logistics Limited (formerly South India Corporation (Agencies) Limited) is involved in the business of multi-modal logistics for bulk and containerised cargo port terminals, port handling, trucking and warehousing, 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 shippping and custom agency services apart from its core activity of trading. Over the years, SLL began entering areas like port handling, container terminal operations (through JV) and logistics. In 2005, SLL hived-off its non-core activities and increased its focus on the 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 who have a presence in owning and managing coffee plantations, coffee exports, and retailing of coffee, vending machines and cafes.

For FY2017, on a standalone basis, SLL reported Profit after Tax (PAT) of Rs. 45.5 crore on an operating income (OI) of Rs. 739.6 crore as against PAT of Rs. 24.3 crore on an OI of Rs. 590.8 crore in FY2016

For H1FY2018, on a consolidated basis, SLL provisionally reported PAT of Rs. 19.3 crore on an OI of Rs. 492.7 crore as against PAT of Rs. 13.3 crore on an OI of Rs. 421.2 crore in H1FY2017

Key Financial Indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	777.4	922.0
PAT (Rs. crore)	18.4	39.3
OPBDIT/ OI (%)	13.1%	16.2%
RoCE (%)	7.6%	9.7%
Total Debt/ TNW+MI (times)	1.81	2.09
Total Debt/ OPBDIT (times)	11.49	9.55
Interest coverage (times)	1.80	2.55
NWC/ OI (%)	35.3%	40.2%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S.No	Name of Instrument	Current Rating (FY 2018)					Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating			Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2014
				November 2017	September 2017	August 2017	December 2016	August 2015	February 2014
1	Cash Credit	Long Term	250.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long Term	362.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA] BBB+ (Stable)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	6.08	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)
4	Bank Guarantee	Short Term	243.00	[ICRA]A2	[ICRA]A2(&)	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3
5	Non - Convertible Debenture	Long Term	100.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[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

Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	250.00	[ICRA]BBB+ (Stable)
-	Term Loans	-	-	Feb 2022	19.00	[ICRA]BBB+ (Stable)
-	Term Loans	-	-	Feb 2021	214.00	[ICRA]BBB+ (Stable)
-	Term Loans	-	-	Feb 2022	67.00	[ICRA]BBB+ (Stable)
-	Term Loans	-	-	Jan 2022	50.00	[ICRA]BBB+ (Stable)
-	Term Loans	-	-	July 2023	12.00	[ICRA]BBB+ (Stable)
-	Unallocated	-	-	-	6.08	[ICRA]BBB+ (Stable)
-	Bank Guarantee	-	-	-	243.0	[ICRA]A2
INE075B07027	Non-Convertible Debenture	June 2016	11.0%	June 2021	100.0	[ICRA]BBB+ (Stable)

Source: Sical Logistics Limited

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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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