August 08, 2019

Sical Logistics Limited (SLL): Ratings downgraded to [ICRA]BB+(Negative)/A4+ from [ICRA] BBB+@/[ICRA]A2 @

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	100.00	100.00	[ICRA]BB+ (Negative); downgraded from [ICRA] BBB+ @ and removed from Rating Watch with Negative Implications
Long term – Cash Credit	300.00	300.00	[ICRA]BB+ (Negative); downgraded from [ICRA] BBB+ @ and removed from Rating Watch with Negative Implications
Long term – Term Loans Outstanding	526.01	526.01	[ICRA]BB+ (Negative); downgraded from [ICRA] BBB+ @ and removed from Rating Watch with Negative Implications
Long term – Unallocated	6.53	6.53	[ICRA]BB+ (Negative); downgraded from [ICRA] BBB+ @ and removed from Rating Watch with Negative Implications
Short term Fund based facilities	29.50	29.50	[ICRA]A4+; downgraded from [ICRA] A2 @ and removed from Rating Watch with Negative Implications
Short term – Non-fund-based facilities	383.00	383.00	[ICRA]A4+; downgraded from [ICRA] A2 @ and removed from Rating Watch with Negative Implications
Total	**1345.04**	**1345.04**	

@ - Under rating watch with negative implications

Rationale

The rating revision considers the heightened refinancing risks for CDEL group companies, following the developments due to unexpected demise of the group's promoter – Mr. V G Siddhartha. The ratings of SLL had considered the significant financial flexibility arising from being part of the Coffee Day Group and tangible support received from the group in the form of unsecured loans. Coffee Day Group currently holds 55.18% stake in SLL through its group entities – Tanglin Retail Realty Developments Private Limited (50.19%) and Giri Vidyuth (India) Ltd (4.99%). Till FY2019, the promoters had infused ~Rs. 281 crore of unsecured loans towards various debt repayments and capital expenditure requirements and additional support from the promoter group was expected to continue if the cash flows from SLL were inadequate to meet its debt servicing and capex requirements. However, the financial flexibility of the group has weakened significantly following the aforementioned development and subsequent steep decline in share prices of the listed entities of the group including SLL, since a large portion of group loans was backed by personal guarantee of promoter and pledge of listed and unlisted group entities. Further, ICRA also takes note the statements in the purported letter from Mr. V.G. Siddhartha relating to financial transactions outside the knowledge of senior management, auditors and the Board and while the authenticity of the letter is unverified, the Board has decided to investigate the matter and the outcome of the same will be monitored.

The ratings continue to remain constrained by the moderate financial risk profile of the company characterised by weak capitalisation and coverage indicators on account of significant debt levels and considerable interest costs further impacted by weaker than expected operational performance of the company. ICRA also takes note of the considerable debt repayment obligations scheduled at the consolidated level; necessitating refinancing of debt. ICRA had earlier taken note of the considerable capex requirements towards the Mine Development and Operation (MDO) projects in the near to medium term for setting up the infrastructure and procurement of mining equipment which would entail additional debt at consolidated level. Further continued support of SLL in the form of equity commitments and corporate guarantees extended to its subsidiaries and related group entities also puts further stress on the credit profile of SLL. However, ICRA notes that post the recent development, some of the aforementioned capex may not be undertaken and the group companies (including SLL) are also looking at deleveraging through asset sale. The timeliness and quantum of deleveraging at group level as well as SLL level remains a rating sensitivity factor.

Sical Iron Ore Terminals Limited (SIOTL), a subsidiary of SLL, had witnessed considerable delays in commencement of Terminal operations for over close to 7 years due to variety of reasons including ban on iron ore movement, delays in rebidding process for conversion into coal terminal and for receipt of environmental clearance. This led to considerable project cost overruns leading to increased funding support from SLL over the years. However, the conversion work commenced in the last fiscal and is expected to achieve COD over the next 12 months. The project is largely funded by Rs. 500.0 crore sanctioned facility (used for both capex and repayments of some old loans) and is repayable over a 20-year period. Traction on the conversion project and replacement of older loans with longer duration loan is favorable for the consolidated entity. ICRA, however, takes note of the significant revenue share payable (~52%) to Kamarajar Port which can stress the debt servicing capability of SIOTL once it commences operations; hence, speedy ramp up of cargo handled after COD will be a key rating sensitivity.

Outlook: Negative

The Negative outlook reflects the increased uncertainties post the demise of Mr. V G Siddhartha, which includes constrained financial flexibility and increased refinancing risk for the group including SLL, following steep erosion in share prices of group entities. The ratings may be downgraded further, if there is significant decline in financial performance of the Coffee Day group, significant delays in deleveraging process, imposition of large tax liability or any adverse outcome of the board investigation; or there is deterioration in performance of SLL (consolidated), delay in commencement of SIOTL project or higher than anticipated capex is incurred towards mining projects. The outlook may be revised to Stable, if there is material deleveraging and improvement in the liquidity position of the group.

Key rating drivers

Credit strengths

Long track record and established presence in integrated logistics solutions - 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.

Progress on SIOTL project – SIOTL project, which has been funded hitherto by loans from SLL, has received the initial tranche of project debt during FY2019. Refinancing of the SIOTL debt with project debt with favourable terms including longer tenure is favourable for liquidity of the consolidated entity. Nevertheless, the high competitive intensity among the coal terminals in the east coast and the high revenue share payable to Kamarajar Port are expected to moderate the cash flows at SIOTL. Hence the timely commencement of operations of SIOTL and achievement of healthy utilisation levels at the terminal would remain key in determining the extent of further support required by SIOTL from SLL.

Revenue visibility from the Mining segment – SLL currently executes overburden/coal removal contracts for Coal India and its subsidiaries. SLL also holds two Mine Developer and Operator contracts with long project tenures and substantial revenue potential. Robust unexecuted order book position indicates healthy revenue visibility for the Mining segment. However, the MDO projects typically involve considerable capex, long gestation periods, land acquisition and approval risks which would stress the credit profile of the company.

Credit challenges

Weakened financial flexibility of the 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 March 2019, Coffee Day Enterprises Limited has infused ~Rs. 281 crore as unsecured loans to SLL (increased from Rs. 189.95 crore as on March 31, 2018), for meeting the various funding requirements of the businesses. However, given the unexpected demise of the group's promoter and weakened financial flexibility and increased refinancing risks faced by the Coffee Day group, following the aforementioned development and steep decline in share prices of group entities; the ability of the group to provide incremental support has become constrained.

Financial risk profile characterised by weak capitalisation and coverage indicators – During FY2019, SLL (consolidated) witnessed healthy revenue growth, driven by growth in revenue from mining segment but witnessed moderation in profit margin which was on account of lower than expected margin from the mining project and high bid preparation expenses. The company continued to register subdued profit margin during Q1 FY2020. The capital structure and coverage indicators also remained subdued with gearing of 2.1 times as on March 31, 2019 and DSCR and interest coverage of 0.5 times and 2.5 times during FY2019 respectively. Also, significant scheduled annual debt repayments in the range of Rs. 250 – Rs. 300 crore p.a in the next three fiscals amid limited cash accruals might entail refinancing risks for the company.

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. Moreover, the company's continued support in the form of equity commitments and advances towards its subsidiaries is a credit concern.

Liquidity Position:

The company remains exposed to refinancing risks given considerable scheduled debt repayments and capex requirements in relation to the expected cash accruals. Further the weakening of operating cash flows puts additional pressure on the liquidity position of the company. While, drawdown of longer tenure project loan for SIOTL project helps the liquidity profile of consolidated entity, the weakened financial flexibility of the Coffee Day group will have adverse impact on liquidity profile of SLL as the ability of the group to provide support in the form of unsecured loans in case of need is constrained by the recent developments.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology]()
Parent/Group Support	Parent/Group Company: Coffee Day Enterprises Limited/ Coffee Day Group The ratings factor in implicit support from Coffee Day Enterprises Limited
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sical Logistics Limited. As on March 31, 2019 the company had 11 subsidiaries, 3 step down subsidiaries and 2 JVs, which are listed in Annexure-2

About the company:

Incorporated in 1955, Sical Logistics Limited is involved in the business of Mining, multi-modal logistics for bulk and containerised cargo port terminals, port handling, trucking and warehousing, ship agency, customhouse agency, offshore supply logistics and retail logistics. On a consolidated basis, SLL has investments in infrastructure including a port terminal, container freight stations, container rail and a dredger.

SLL was promoted by Mr. M.A. Chidambaram Chettiar to provide shipping 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. In the recent years SLL entered Mining by executing coal/overburden removal contracts for Coal India subsidiaries which rapidly grew into one of the major revenue contributors of the company. 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%. Coffee Day Group currently holds a total 55.18% shareholding in SLL through its group entities namely Tanglin (50.19%) and Giri Vidyuth (India) Ltd (4.99%). 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 and also in leasing of commercial space, financial services, hospitality services and others.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	1194.2	1524.9
PAT (Rs. crore)	30.4	24.0
OPBDIT/OI (%)	14.4%	11.3%
RoCE (%)	8.5%	7.5%
Total Debt/TNW (times)	2.1	2.1
Total Debt/OPBDIT (times)	8.8	9.8
Interest coverage (times)	2.8	2.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

					Chronology of Rating History for the Past 3 Years						
		Current Rating (FY2020)									
					Date & Rating		Date & Rating in FY2019		Date & Rating in FY2018		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	August 2019	July 2019	Feb 2019	Sep 2018	Nov 2017	Sep 2017	Aug 2017
1	NCD	Long Term	100.00	100.00	[ICRA]BB+ (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	300.00	300.00	[ICRA]BB+ (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)
3	Term Loans	Long Term	526.01	526.01	[ICRA]BB+ (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)
4	Long term Unallocated	Long Term	6.53	6.53	[ICRA]BB+ (Negative)	[ICRA]BBB+ @	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)
5	Bank Guarantee	Short Term	383.00	NA	[ICRA]A4+	[ICRA]A2 @	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2(&)	[ICRA]A2
6	Fund based	Short Term	29.50	NA	[ICRA]A4+	[ICRA]A2 @	[ICRA]A2	[ICRA]A2			

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE075B07027	NCD	June 2016	11.00%	June 2021	100.00	[ICRA]BB+(Negative)
NA	Term Loan 1	Mar-2014	11.55%	Oct-2022	93.75	[ICRA]BB+(Negative)
NA	Term Loan 2	Jun-2013	10.85%	Jan-2018	55.06	[ICRA]BB+(Negative)
NA	Term Loan 3	Feb-2016	10.40%	Mar-2022	210.00	[ICRA]BB+(Negative)
NA	Term Loan 4	Jun-2017	10.00%	Jun-2025	4.13	[ICRA]BB+(Negative)
NA	Term Loan 5	Mar-2017	9.52%	Jul-2023	55.00	[ICRA]BB+(Negative)
NA	Term Loan 6	Mar-2017	9.72%	Feb-2022	14.60	[ICRA]BB+(Negative)
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]BB+(Negative)
NA	Unallocated	NA	NA	NA	6.53	[ICRA]BB+(Negative)
NA	Non fund based	NA	NA	NA	383.00	[ICRA]A4+
NA	Short Term Loan 1	Aug-2017	12.00%	Aug-2018	24.50	[ICRA]A4+
NA	Short Term Loan 2	Sep-2017	9.72%	Sep-2018	5.00	[ICRA]A4+

Source: Sical Logistics Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Norsea Offshore India Limited	100.00%	Full consolidation
Sical Adams Offshore Limited	100.00%	Full consolidation
Sical Mining Limited	100.00%	Full consolidation
Sical Iron Ore Terminals (Mangalore) Limited	100.00%	Full consolidation
Bergen Offshore Logistics Pte Limited	100.00%	Full consolidation
Sical Saumya Mining Limited	65.00%	Full consolidation
Sical Iron Ore Terminals Limited	63.00%	Full consolidation
PATCHEMS Pvt Ltd	68.00%	Full consolidation
PNX Logistics Pvt Ltd	60.00%	Full consolidation
Develecto Mining Limited	51.00%	Full consolidation
Sical Infra Assets Limited	53.60%	Full consolidation
Sical Multimodal and Rail Transport Limited	100.00%	Full consolidation
Sical Bangalore Logistics Park Limited	100.00%	Full consolidation
Norsea Global Offshore Pte Ltd	100.00%	Full consolidation
PSA Sical Terminals Limited	37.50%	Equity method
Sical Sattva Rail Terminals Private Limited	50.00%	Equity method

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