August 19, 2019

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

Summary of rating action

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

@ - Under rating watch with negative implications

Rationale

The rating revision factors the delays in debt servicing by Norsea Offshore India Pvt Ltd, a subsidiary of Sical Logistics Limited(SLL), to which SLL had extended corporate guarantee and provided an undertaking to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary. However, while the guarantee was not invoked by the lender, SLL did not honour the undertaking due to weak liquidity position at the group level, caused by delays in disbursement of loan instalments by some lenders, post the unexpected demise of SLL's promoter – Mr. V. G. Siddhartha, indicating weakened financial flexibility and enhanced refinancing risks faced by the group. ICRA notes that the consolidated entity has high repayment obligations and any further liquidity stress caused by delays in disbursal of sanctioned facilities will have adverse impact on the debt servicing capability of the Sical group

The ratings remain constrained by the company's moderate financial risk profile, characterised by weak capitalisation and coverage indicators, on account of significant debt levels and considerable interest costs. It is further impacted by SLL's weaker-than-expected operational performance. ICRA 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, over the near to medium term, for setting up the infrastructure and procurement of mining equipment, which would entail additional debt at the consolidated level. Moreover, continued support in the form of equity commitments and corporate guarantees extended to its subsidiaries and related Group entities puts further stress on SLL's credit profile. 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 the Group level, as well as in SLL, remain a rating sensitivity.

Sical Iron Ore Terminals Limited (SIOTL), a subsidiary of SLL, witnessed considerable delays in commencement of terminal operations for over close to seven years due to multiple 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 primarily funded by Rs. 500.0-crore sanctioned facility (used for both capex and repayments of some old loans), repayable over a 20-year period. Even though, traction on the conversion project and replacement of older loans with longer duration loan are favourable for the consolidated entity, any delays in disbursement of loans will have adverse impact on the overall liquidity profile and progress of the project. ICRA, also 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. ICRA notes that delays in disbursement of loans already sanctioned by the lenders due to aforementioned factors could further lead to liquidity pressure and delays in ongoing projects. The ratings may be downgraded further, if there is a significant decline in the 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 into the contents of purported letter written by Mr. V. G. Siddhartha. The ratings might also be downgraded if there is deterioration in performance of SLL (consolidated), delay in commencement of the 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 Group's liquidity position.

Key rating drivers

Credit strengths

Extensive 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. SLL 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 – The SIOTL project, which has been funded hitherto by loans from SLL, had received the initial tranche of project debt in FY2019. Refinancing of the SIOTL debt with project debt with favourable terms including longer tenure is favourable for the liquidity of the consolidated entity. However, due to the uncertainties arising from recent developments, any delays in disbursement of loan sanctioned for the project, will have adverse impact on liquidity profile of SLL group and may result in delays in project execution. Further, the stiff competition 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 the key in determining the extent of further support required by SIOTL from SLL.

Revenue visibility from mining segment – SLL, at present, executes overburden/coal removal contracts for Coal India and its subsidiaries. It also holds two MDO contracts with long project tenures and substantial revenue potential. Robust unexecuted order book position indicates the 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 company's credit profile. ICRA notes that given the recent developments, some of the earlier planned capex in this segment might not be undertaken with the group focused on deleveraging through asset sales.

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 its business through oversight and financial support. Till March 2019, CDEL 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 with increased refinancing risks faced by the Coffee Day Group, following the aforementioned development and steep decline in share prices of Group entities, its ability to provide incremental support has become constrained.

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

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 its liquidity position. While drawdown of longer tenure project loan for the SIOTL project was expected to help the liquidity profile of the consolidated entity, any delays in disbursement of loan by the lenders due to uncertainties arising from the demise of promoter and ongoing investigations will lead to increased liquidity pressure. Further delays in disbursement or stoppage of funding by the lender for the SIOTL project will lead to significant deterioration in liquidity profile of SLL (consolidated). Further, the weakened financial flexibility of the Coffee Day Group also has adverse impact on SLL's liquidity profile as the Group's ability 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 Group The ratings factor in implicit support from Coffee Day Group
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SLL. As on March 31, 2019, the company had 11 subsidiaries, three step-down subsidiaries and two JVs, which are listed in Annexure-2

About the company

Incorporated in 1955, SLL 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%. The Coffee Day Group, at present, holds a total 55.18% shareholding in SLL through its Group entities namely Tanglin (50.19%) and GiriVidyuth (India) Ltd (4.99%). The Coffee Day Group has a diversified portfolio of companies, which have presence in owning and managing coffee plantations, coffee exports and retailing of coffee, vending machines and cafes. It is also involved 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

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

Chronology of Rating History for the Past 3 Years (spans the date columns)

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
NA	Term Loan 1	Mar-2014	11.55%	Oct-2022	167.43	[ICRA]B+(Negative)
NA	Term Loan 2	Jun-2017	10.00%	Jun-2025	11.60	[ICRA]B+(Negative)
NA	Term Loan 3	Feb-2016	10.40%	Mar-2022	48.85	[ICRA]B+(Negative)
NA	Term Loan 4	Jun-2017	10.00%	Jun-2025	84.38	[ICRA]B+(Negative)
NA	Term Loan 5	Mar-2017	9.52%	Jul-2023	40.36	[ICRA]B+(Negative)
NA	Term Loan 6	Mar-2017	9.72%	Feb-2022	18.95	[ICRA]B+(Negative)
NA	Term Loan 7	Jun-2017	10.00%	Jun-2025	91.49	[ICRA]B+(Negative)
NA	Term Loan 8	Jun-2017	10.00%	Jun-2025	62.95	[ICRA]B+(Negative)
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]B+(Negative)
NA	Unallocated	NA	NA	NA	6.53	[ICRA]B+(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
SicalSaumya 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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