November 25, 2022

TM International Logistics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund-Based Limits – Cash Credit	7.50	4.00	[ICRA]AA (Stable); reaffirmed
Short Term – Non Fund-Based Facilities	17.50	2.50	[ICRA]A1+ reaffirmed
Unallocated Limits	-	18.50	[ICRA]AA (Stable)/[ICRA]A1+; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the strong parentage of TM International Logistics Limited (TMILL)[1], being a joint venture company of Tata Steel Limited (TSL; rated [ICRA] A1+), NYK Holding (Europe) B.V. and IQ Martrade Group of Germany. The ratings also consider TMILL's established position as an integrated logistics provider and its strong operational linkage with the parent, TSL. TMILL has a healthy financial risk profile, evident from its strong capital structure owing to its debt-free status, healthy debt coverage indicators and sizeable free cash and liquid investments.

The company's operating income improved by ~36% in FY2022 and is expected to improve further in FY2023 owing to increased revenue contribution from railways and shipping. Further, the performance of the shipping operations under its wholly-owned subsidiary, International Shipping and Logistics FZE (ISL), has been improving in recent fiscals because of favourable charter rates and long-term contracts by the company for the transport of cargo. The company has added a new ship in FY2022 which has also supported the profitability of this segment. However, the railway segment has low margins owing to the nature of the business. The profitability is expected to improve, going forward, with the increase in the scale of operations and improved focus on higher margin businesses. ICRA expects the revenue growth of the company to sustain at a healthy level given its untapped potential as a logistics provider for TSL and its sectoral diversification efforts.

The ratings are constrained by the vulnerability of the profitability of port operations to cargo volumes and mix. The margins in the railway business remain low. Further, the shipping business under ISL remains susceptible to the movements in global charter rates. The ratings further remain constrained by the relatively high sectoral concentration with high exposure to the iron and steel industry and TSL contributing a fair share to the company's revenues on a consolidated basis.

The ratings also remain under pressure because of TMILL's limited pricing flexibility in port operations, particularly for operations at berth #13 at the Haldia Dock Complex (HDC), as the pricing is governed by the Tariff Authority for Major Ports (TAMP) and now by the Kolkata Port. Also, as HDC is one of the major revenue drivers, the performance of the port operation depends on the traffic at the port, which in turn depends on continuous dredging activities, given its low draft, to maintain navigability at the port.

The Stable outlook on the long-term rating reflects ICRA's opinion that TMILL will continue to benefit from its status as an integrated logistics service provider to TSL and other Tata Group entities as well as its strong financial flexibility, which will enable it to explore opportunities for further growth.

[1] Consolidated operations across domestic and overseas subsidiaries

Key rating drivers and their description

Credit strengths

Diversified operations of the group – TMILL has a diversified revenue base within the Group with cash flows generated from various services provided by multiple entities at diverse geographies.

Integrated logistics service provider – TMILL's logistics business is integrated, consisting of ship chartering business, customs clearance, maritime logistics services, warehousing and freight forwarding. Thus, the company is able to provide a one-stop logistics solution to its customers, which is a credit positive.

Strong financial risk profile and debt-free status of the consolidated entity – TMILL has a strong financial risk profile, indicated by its strong capital structure owing to its debt-free status, healthy debt coverage indicators and steady annual cash accruals from business operations. High unencumbered cash and liquid investments of ~Rs. 465 crore on a consolidated basis, as on March 31, 2022, provides substantial financial flexibility.

Strong parentage as a 51% subsidiary of TSL with expected benefits from its expansion plans – TMILL is a 51% subsidiary of TSL, which generates a sizeable share of the company's revenues. Hence, the company is likely to benefit from the higher logistics requirements from TSL's expansion plans, given that TMILL currently drives only a portion of TSL's logistics requirements.

Credit challenges

Low business margins from railway business – TMILL is one of the first and largest private rail operators in India, operating rakes under the Special Freight Train Operator (SFTO) and the General Purpose Wagon (GPW) schemes of the Indian Railways, with the segment witnessing healthy YoY growth over the years. The margins are low owing to the nature of the business. The company has taken rakes on lease and has sizeable lease payment obligations. The utilisation of rakes remains key as the lease obligations are fixed. While the SFTO segment was profitable, the profitability of the GPW segment was subdued because of the lower utilisation of rakes and fewer number of trips due to the higher turnaround period, impacting the overall profitability. Further, TMILL is also eligible for a rebate on achieving a prescribed volume level as per the long-term tariff contract with the Indian Railways.

Profitability of port operations exposed to volume and cargo mix and limited pricing flexibility in this segment – The draft at HDC is relatively low. The Haldia Dock Complex (HDC) is a riverine port, which requires consistent dredging to maintain draft, impacting the volumes handled as well as the profitability of the port operations. The volumes are also impacted by growing competition from other berths at HDC and other ports. Further, the profitability of the port operations also depend on the cargo mix being handled. However, the risks are partly mitigated by HDC's status as the preferred port for TSL due to its low overall logistics cost (total cost of transportation between plant and port) and the continued efforts by HDC and the Government to undertake dredging activities to maintain the draft levels. TMILL has limited pricing flexibility in its port operations at berth #13 at Haldia Port as the pricing is limited by the regulations of the Tariff Authority of Major Ports (TAMP) and now by the Kolkata Port.

Sensitivity of business performance of standalone entity to health of the iron and steel industry – The performance of the port operations and railway business remains exposed to the health of the domestic iron and steel industry. This is because a large chunk of the cargo handled by the company is in the form of coking coal, limestone and iron ore for this industry.

Shipping operation segment's performance remains exposed to global charter rates – Although the revenue and profitability of International Shipping and Logistics FZE, TMILL's largest revenue generator, has improved in recent fiscals, its performance remains vulnerable to global charter rates. The company has also invested in an additional vessel at a cost of around Rs. 90 crore in FY2022, which is yielding high revenue and margins. Further, its asset-light model and ability to partially pass on the rental hikes to its customers provide some comfort.

Liquidity position: Strong

TMILL's liquidity profile is strong with steady cash accruals from business, debt-free status and strong free cash & liquid investments of ~Rs. 465 crore as on March 31, 2022. The company has moderate capex plans in the near term which would be funded through internal accruals and existing cash balances. Further, TMILL's strong parentage provides significant financial flexibility.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to significantly increase its scale of operations and profitability with increased sectoral diversification.

Negative factors – The ratings may be downgraded if the revenue or profitability declines on a sustained basis. A substantial decline in operational linkages with its key client, Tata Steel Limited, or any larger-than-expected capex plan weakening the liquidity will be the other triggers for a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TMILL. As on March 31, 2022, the company had two subsidiaries and two step-down subsidiaries, which are all enlisted in Annexure-2.

About the company

TM International Logistics Limited (TMILL), a joint venture between Tata Steel, NYK Holding (Europe) B.V. and IQ Martrade, Germany, was incorporated in 2002. TMILL operates berth 12 (now berth 13) at Haldia Port on a BOT basis and runs shore handling activities, primarily at the Haldia and Paradip ports, backed by custom clearance and maritime logistics services. In addition, it is involved in railway freight services under the SFTO and GPW – IS of the Indian Railways. The TMILL Group floated two wholly-owned subsidiaries to offer one-stop solutions for logistics services in port and terminal handling, maritime shipping, ship agency, custom clearance and freight forwarding. One of its subsidiaries, International Shipping and Logistics FZE (ISL), based in Jebel Ali, the UAE, specialises in the ship operating business involving diverse dry break bulk and bulk cargoes such as urea, rock phosphate, sugar, cement, clinker, wheat, limestone, steel and projects. The other subsidiary, TKM Global Logistics Limited (TKM), is involved in freight forwarding activities through its offices in India, Germany and China, as well as its associated agency network worldwide.

Key financial indicators (audited)

TMILL Consolidated	FY2021	FY2022
Operating income	1233.1	1673.0
PAT	34.2	66.3
OPBDIT/OI	10.1%	10.7%
PAT/OI	2.8%	4.0%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	1.9	1.1
Interest coverage (times)	6.8	10.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ^The financial statements of FY2021 and FY2022 are based on Ind AS 116. Operating lease liabilities have been included while calculating debt as per Ind AS-116 in calculation of these ratios; interest cost is notional due to IND AS 116 and PPP model service concession agreement; the company is debt free.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019
					Nov 25, 2022	June 29, 2021	March 06, 2020	Feb 15, 2019	Mar 09, 2018
1	**Fund Based Limits – Cash Credit**	Long Term	4.00	-	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**			
2	**Non Fund-Based Facilities**	Short Term	2.50	-	**[ICRA]A1+**	**[ICRA]A1+**			
3	**Issuer Rating**	Long Term	-	-	**-**	**[ICRA]AA (Stable); Withdrawn**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**
4	**Unallocated Limits**	Long Term/Short Term	18.50	-	**[ICRA]AA(Stable)/[ICRA]A1+**				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term Fund Based Limits – Cash Credit	Simple
Short Term – Non Fund-Based Facilities	Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	4.00	[ICRA]AA (Stable)
NA	**Non Fund Based Facilities**	NA	NA	NA	2.50	[ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	18.50	[ICRA]AA(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	TMILL Ownership	Consolidation Approach
TM international Logistics Limited	100.00% (rated entity)	Full Consolidation
International Shipping Logistics FZE, Dubai	100.00%	Full Consolidation
TKM Global Logistics Limited	100.00%	Full Consolidation
TKM Global Gmbh	100.00%	Full Consolidation
TKM Global China Limited	100.00%	Full Consolidation

Source: TMILL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (TMILL) and its subsidiaries while assigning the ratings.

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