

Sical Logistics Limited

September 07, 2018

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]BBB+(Stable); Reaffirmed
Long term – Cash Credit	250.00	300.00	[ICRA]BBB+(Stable); Reaffirmed
Long term – Term Loans Outstanding	362.00	432.54	[ICRA]BBB+(Stable); Reaffirmed
Long term – Unallocated	6.08	100.00	[ICRA]BBB+(Stable); Reaffirmed
Short term Fund based facilities	0.00	29.50	[ICRA]A2; Reaffirmed
Short term – Non-fund based facilities	243.00	383.00	[ICRA]A2;Reaffirmed
Total	961.08	1345.04	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs. 100.00 non-convertible debenture programme, Rs. 300.00 crore (revised from Rs. 250.00 crore) cash credit facility, Rs. 432.54 crore (revised from Rs. 362.00 crore) term loans outstanding and Rs. 100.00 crore (revised from Rs. 6.08 crore) unallocated limits of Sical Logistics Limited. ICRA has also reaffirmed short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 383.00-crore¹ (revised from Rs. 243.00 crore) non fund based facilities and Rs. 29.50 crore short term fund based facilities of Sical Logistics Limited (SLL or the company)². The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings factors in the established presence of SLL as an integrated multimodal logistics player in areas of port handling, trucking and shipping services in India. ICRA also favourably considers the increasing footprint of SLL in Mining segment and robust execution of overburden/coal removal contracts in the last few years leading to healthy revenues and profitability from the segment. The company currently holds two Mine Development and Operations (MDO) contracts which provides revenue visibility over a longer period of time. However, ICRA takes note of the challenges inherent to such projects like higher gestation periods, land acquisition and approval risks, considerable capex requirement and SLL's limited experience in mine planning which might delay the returns from the projects.

ICRA takes note of the healthy revenue growth recorded during FY2018 aided by higher revenues from Mining and Integrated Logistics contracts and revenue growth in retail logistics segment further fuelled by acquisitions during FY2018. The consolidated profitability has remained moderately healthy in FY2018 notwithstanding the reduction in contribution from mining and integrated logistics segments due to increased fuel costs and washery expenses respectively. The ratings also factor in the y-o-y improvement in the financial performance of subsidiary - Sical Multimodal and Rail Transport Limited (SMART) with the Rail and Container Freight Stations (CFS) divisions generating healthy profit margins during FY2018.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Sical Iron Ore Terminals Limited (SIOTL), a subsidiary of SLL, has 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. ICRA takes comfort from the recent commencement of conversion works of SIOTL project during the current year and is expected to achieve COD within next 12 – 18 months. Also disbursal of initial tranche of project loan (Rs. 500 crore sanction for repayment of old debt and for conversion capex; repayable over a 20-year period) with longer amortisation schedule and back ended repayments would ease the liquidity position of the Group in the near term. 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 traffic handled after COD will be a key rating sensitivity.

ICRA also factors in the significant financial flexibility arising from the being part of the Coffee Day Group and tangible support received from the group in the form of unsecured loans to SLL. Coffee Day Group currently holds 52.83% stake in SLL through its group entity – Tanglin Retail Realty Developments Private Limited. Till FY2018, the promoters had infused ~Rs. 190 crore of unsecured loans towards various debt repayments and capital expenditure requirements.

However, the ratings are 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. ICRA also takes note of the considerable debt repayment obligations scheduled at the consolidated level; the regular refinancing of debt reduces the obligations and mitigates this risk to an extent. The ratings also take note of the considerable capex requirements towards the 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. ICRA also factors in the continued support of SLL in the form of equity commitments and corporate guarantees extended to its subsidiaries and related group entities which puts further stress on the credit profile of SLL. ICRA expects the support from the promoter Group to continue if the cash flows of SLL are inadequate to meet its debt servicing and capex requirements.

Outlook: Stable

ICRA believes Sical Logistics Limited will continue to benefit from its established presence as integrated multimodal logistics player and continue to generate healthy revenue growth in Mining segment. ICRA also believes that SLL would continue to benefit from financial flexibility arising from being part of Coffee Day 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.

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. 190 crore as unsecured loans to SLL (~Rs. 20 crore during FY2018), 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.

Sanction of project debt of Rs. 500 crore towards SIOTL – SIOTL project, which has been funded hitherto by loans from SLL, has received the initial tranche of project debt during the current year. Refinancing of the SIOTL debt with project debt with favourable terms including longer tenure and back ended repayments would reduce the near-term debt servicing commitments thereby easing the liquidity position of the Group. 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.

Healthy 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

Financial risk profile characterised by weak capitalisation and coverage indicators – SLL witnessed healthy revenue growth of ~30% on consolidated level during FY2018. However, higher taxation costs post GST implementation in Mining segment and one-time expenses incurred in Integrated Logistics segment led to some moderation in operating profitability of the company during FY2018. Nevertheless the OPM continued to remain healthy at 14.4% during FY2018 as against 16.2% during FY2017.

SLL's financial risk profile continued to remain stressed due to weak coverage and capitalisation indicators on account of substantial debt levels and considerable interest payments. Also significant scheduled annual debt repayments amid limited cash accruals might entail refinancing risks for the company.

Considerable capex requirements might entail additional debt intake – SLL expects to incur considerable capex towards the MDO projects in Mining segment and ICD (Inland Container Depots) projects at SMART which might entail additional debt requirement.

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.

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 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 Realty 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 and also in leasing of commercial space, financial services, hospitality services and others.

During Q1FY2019, on a provisional basis, at consolidated level, the company reported a net profit of Rs. 3.38 crore on an operating income of Rs. 323.51 crore, as compared to a net profit of Rs. 11.8 crore on an operating income of Rs. 244.76 crore during Q1FY2018.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	922.0	1194.2
PAT (Rs. crore)	39.3	34.1
OPBDIT/OI (%)	16.2%	14.4%
RoCE (%)	9.8%	8.5%
Total Debt/TNW (times)	2.1	2.1
Total Debt/OPBDIT (times)	9.5	8.8
Interest coverage (times)	2.5	2.8

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 (FY2019)			Date & Rating in FY2018				Date & Rating in FY2017		Date & Rating in FY2016
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Sep 2018	Nov 2017	Sep 2017	Aug 2017	Jan 2017	Jul 2016	Aug 2015
1	NCD	Long Term	100.00	100.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loans	Long Term	432.54	432.54	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Long term Unallocated	Long Term	100.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Cash Credit	Long Term	300.00	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (&)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
5	Bank Guarantee	Short Term	383.00	NA	[ICRA]A2	[ICRA]A2	[ICRA]A2(&)	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
6	Fund based	Short Term	29.50	NA	[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]BBB+(Stable)
NA	Term Loan 1	Mar-2014	11.55%	Oct-2022	93.75	[ICRA]BBB+(Stable)
NA	Term Loan 2	Jun-2013	10.85%	Jan-2018	55.06	[ICRA]BBB+(Stable)
NA	Term Loan 3	Feb-2016	10.40%	Mar-2022	210.00	[ICRA]BBB+(Stable)
NA	Term Loan 4	Jun-2017	10.00%	Jun-2025	4.13	[ICRA]BBB+(Stable)
NA	Term Loan 5	Mar-2017	9.52%	Jul-2023	55.00	[ICRA]BBB+(Stable)
NA	Term Loan 6	Mar-2017	9.72%	Feb-2022	14.60	[ICRA]BBB+(Stable)
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]BBB+(Stable)
NA	Unallocated	NA	NA	NA	100.00	[ICRA]BBB+(Stable)
NA	Non fund based	NA	NA	NA	383.00	[ICRA]A2
NA	Short Term Loan 1	Aug-2017	12.00%	Aug-2018	24.50	[ICRA]A2
NA	Short Term Loan 2	Sep-2017	9.72%	Sep-2018	5.00	[ICRA]A2

Source: Sical Logistics Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Raghunath T

+91 44 4596 4304

raghunath.t@icraindia.com

Vuda Anurag Naveen Theja

+91 44 4297 4335

vuda.theja@icraindia.com

Sai Krishna

+91 44 4596 4304

sai.krishna@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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