

September 12, 2019

Sical Logistics Limited (SLL):: ICRA revises rating for Non-Convertible Debenture issues from existing rating of [(ICRA)B+ to (ICRA)D]

ICRA Limited ("ICRA") has revised its rating on the Non-Convertible Debenture issues from existing rating ICRA) B+ to (ICRA) D of Sical Logistics Limited (SLL).

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
ICRA	Non-Convertible Debentures	ICRA) B+	(ICRA) D

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This is for your information and records.

For IDBI Trusteeship Services Limited

Sd/-

Authorized Signatory



September 10, 2019

Sical Logistics Limited (SLL): Ratings downgraded to [ICRA] D/D

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] D; downgraded from [ICRA] B+ (Negative)
Long term – Cash Credit	300.00	300.00	[ICRA] D; downgraded from [ICRA] B+ (Negative)
Long term – Term Loans Outstanding	526.01	526.01	[ICRA] D; downgraded from [ICRA] B+ (Negative)
Long term – Unallocated	6.53	6.53	[ICRA] D; downgraded from [ICRA] B+ (Negative)
Short term Fund based facilities	29.50	29.50	[ICRA] D; downgraded from [ICRA] A4
Short term – Non-fund-based facilities	383.00	383.00	[ICRA] D; downgraded from [ICRA] A4
Total	1345.04	1345.04	

@ - Under rating watch with negative implications

Material Event

Sical Logistics Limited (SLL) has delays in debt servicing on its term loans due for the month of August 2019. The company had sought for deferment of payment, which is yet to be received.

Impact of the Material Event

ICRA has downgraded the long-term rating assigned to Rs 932.54 crore fund-based facilities of SLL to [ICRA]D (pronounced as ICRA D) from [ICRA]B+ (Negative) (pronounced ICRA B plus) and also downgraded the short-term rating assigned to Rs. 412.50 crore fund-based/non-fund-based facilities to [ICRA]D (pronounced as ICRA D) from [ICRA]A4 (pronounced ICRA A four). The rating action follows the delays in debt servicing of term loans within the due date.

Rationale

The rating downgrade takes into account the delays in debt servicing of term loans by SLL. The delays have been on account of weakened liquidity position post the unexpected demise of the group's promoter – Mr. V. G. Siddhartha, due to reduced financial flexibility and enhanced refinancing risks, with some of the lenders to the group also delaying the disbursement of loan installments. ICRA notes that Sical group has high repayment obligations in the near to medium term and is expected to continue to face liquidity pressure and has requested the lenders for rescheduling of loan repayments, with inclusion of short term moratorium, which if agreed upon may provide some respite on the liquidity front. ICRA also notes that both SLL and parent Coffee Day group is looking at deleveraging by raising funds through asset sales, which may include the parent's stake sale in SLL. The developments on this front will be key monitorable.

The company's financial risk profile is 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 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. However, given the deterioration in liquidity profile, some of the above-mentioned capex may not materialise. 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.

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 loan instalments by lenders 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 sensitivity factor.

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.

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: Poor

SLL's liquidity profile is poor as reflected by delays in debt servicing

Rating Sensitivities

Positive triggers – Regularisation of debt servicing on a sustained basis (more than three months), following improvement in liquidity profile of the group.

Negative triggers – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<u>Corporate Credit Rating Methodology</u>
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	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years				
				Date & Rating		Date & Rating in FY2019	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	26-Sep 2017
				10-Sep 2019	19-August 2019		30-July 2019	14-Feb 2019			
1	NCD	Long 100.00	100.00	[ICRA]D	[ICRA]B+	(Negative)	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+
2	Cash Credit	Long 300.00	300.00	[ICRA]D	[ICRA]B+	(Negative)	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+
3	Term Loans	Long 526.01	526.01	[ICRA]D	[ICRA]B+	(Negative)	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+
4	Long term Unallocated	Long 6.53	6.53	[ICRA]D	[ICRA]B+	(Negative)	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+	[ICRA]BBB+
5	Bank Guarantee	Short 383.00	NA	[ICRA]D	[ICRA]A4	(Negative)	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
6	Fund based	Short 29.50	NA	[ICRA]D	[ICRA]A4	(Negative)	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

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]D
NA	Term Loan 2	Jun-2017	10.00%	Jun-2025	11.60	[ICRA]D
NA	Term Loan 3	Feb-2016	10.40%	Mar-2022	48.85	[ICRA]D
NA	Term Loan 4	Jun-2017	10.00%	Jun-2025	84.38	[ICRA]D
NA	Term Loan 5	Mar-2017	9.52%	Jul-2023	40.36	[ICRA]D
NA	Term Loan 6	Mar-2017	9.72%	Feb-2022	18.95	[ICRA]D
NA	Term Loan 7	Jun-2017	10.00%	Jun-2025	91.49	[ICRA]D
NA	Term Loan 8	Jun-2017	10.00%	Jun-2025	62.95	[ICRA]D
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]D
NA	Unallocated	NA	NA	NA	6.53	[ICRA]D
NA	Non fund based	NA	NA	NA	383.00	[ICRA]D
NA	Short Term Loan 1	Aug-2017	12.00%	Aug-2018	24.50	[ICRA]D
NA	Short Term Loan 2	Sep-2017	9.72%	Sep-2018	5.00	[ICRA]D

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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