IDBI Trusteeship Services Ltd
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IDBI trustee

February 18, 2019

Sical Logistics Limited: CARE revises rating for Non-Convertible Debenture issues from existing rating of [ICRA]BBB+ (Stable) to [ICRA]BBB+ (Negative)

Credit Analysis & Research Limited ("CARE") has revised its rating on the Non-Convertible Debenture issues **from existing rating ([ICRA]BBB+ (Stable) to [ICRA]BBB+ (Negative)** of Sical Logistics Limited.

Credit Rating Agency	Type of Credit Rating	Existing Rating/Outlook	Revised Rating/Outlook
CARE	Non-Convertible Debentures	([ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)

Please find attached herewith the Press Release from CARE for perusal and record.

This is for your information and records.

For IDBI Trusteeship Services Limited

Sd/-

IDBI Trusteeship Services Ltd. ITSL

Authorized Signatory

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Sical Logistics Limited

February 14, 2019

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+; Reaffirmed Outlook revised to Negative from Stable
Long term – Cash Credit	300.00	300.00	[ICRA]BBB+; Reaffirmed Outlook revised to Negative from Stable
Long term – Term Loans Outstanding	432.54	432.54	[ICRA]BBB+; Reaffirmed Outlook revised to Negative from Stable
Long term – Unallocated	100.00	100.00	[ICRA]BBB+; Reaffirmed Outlook revised to Negative from Stable
Short term Fund based facilities	29.50	29.50	[ICRA]A2; Reaffirmed
Short term – Non-fund based facilities	383.00	383.00	[ICRA]A2; Reaffirmed
Total	**1345.04**	**1345.04**	

*Instrument details are provided in Annexure-1

Rationale

The revision in long term rating outlook takes into consideration the weakening of SLL's operating margins during 9m FY2019 mainly on account of significant operating expenses incurred during the period in the mining segment (on account of pre-bid expenses) and also lower margins from recently commenced mining projects which are in ramp-up phase. This is expected to constrain the cash generation in FY 2019 and, given SLL's sizeable repayment obligations, stress the debt coverage metrics.

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 projected operational performance of the company. ICRA also takes note of the considerable debt repayment obligations scheduled at the consolidated level; the regular refinancing of debt mitigates this risk to an extent. The ratings also take 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. 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.

The ratings, however, favourably factor 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 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.

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 tranches 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 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 FY2018, the promoters had infused ~Rs. 190 crore of unsecured loans towards various debt repayments and capital expenditure requirements; additional infusion is budgeted in the current financial year to meet the shortfall created by the lower margins. 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: Negative

The Negative outlook reflects the increasing pressure on capitalisation and coverage indicators on account of weak operating performance amid considerable scheduled debt repayments and interest costs. The ratings may be downgraded if the cash accruals of the standalone business divisions further decline, commencement of SIOTL project gets delayed and if higher than anticipated capex is incurred towards mining projects. The outlook may be revised to Stable if the margins and cash accruals witness considerable growth resulting in improved capitalisation and coverage indicators of the company.

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 FY2018, 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 – During FY2018, higher fuel charges and increased taxation post-GST implementation in Mining segment impacted the overall operating margins of the company even as the revenues witnessed healthy growth (~30% YoY growth). Revenue growth (~33% YoY growth) has continued during 9m FY2019; however, the margins witnessed decline on account of considerable bid preparation expenses and lower margins from recently commenced mining projects.

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 which were further impacted by weakening profitability. 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.

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. However the successful track record of refinancing in the last few years mitigates this risk to some extent.

Drawdown of longer tenure project loan for SIOTL project helps reduce the dependence on SLL. The liquidity position of the company is further supported from the financial flexibility arising from being part of Coffee Day Group and also from the Group support through infusion of funds in the form of unsecured loans as and when required.

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 December 31, 2018 the company has 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.

During 9m FY2019, on a provisional basis, at consolidated level, the company reported a net profit of Rs. 12.10 crore on an operating income of Rs. 1098.49 crore, as compared to a net profit of Rs. 26.27 crore on an operating income of Rs. 822.18 crore during 9m FY2018.

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:

		Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years				
					Date & Rating		Date & Rating in FY2018			Date & Rating in FY2017	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Feb 2019	Sep 2018	Nov 2017	Sep 2017	Aug 2017	Jan 2017	Jul 2016
1	NCD	Long Term	100.00	100.00	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (&)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	Term Loans	Long Term	432.54	432.54	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (&)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
3	Long term Unallocated	Long Term	100.00	-	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (&)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
4	Cash Credit	Long Term	300.00	NA	**[ICRA]BBB+ (Negative)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (&)**	**[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**	**[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+(Negative)
NA	Term Loan 1	Mar-2014	11.55%	Oct-2022	93.75	[ICRA]BBB+(Negative)
NA	Term Loan 2	Jun-2013	10.85%	Jan-2018	55.06	[ICRA]BBB+(Negative)
NA	Term Loan 3	Feb-2016	10.40%	Mar-2022	210.00	[ICRA]BBB+(Negative)
NA	Term Loan 4	Jun-2017	10.00%	Jun-2025	4.13	[ICRA]BBB+(Negative)
NA	Term Loan 5	Mar-2017	9.52%	Jul-2023	55.00	[ICRA]BBB+(Negative)
NA	Term Loan 6	Mar-2017	9.72%	Feb-2022	14.60	[ICRA]BBB+(Negative)
NA	Cash Credit	NA	NA	NA	300.00	[ICRA]BBB+(Negative)
NA	Unallocated	NA	NA	NA	100.00	[ICRA]BBB+(Negative)
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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Norsea Offshore India Limited	100.00%	Company has consolidated the subsidiaries/step down subsidiaries using full consolidation/proportionate consolidation and used equity method for JVs
Sical Adams Offshore Limited	100.00%	
Sical Mining Limited	100.00%	
Sical Iron Ore Terminals (Mangalore) Limited	100.00%	
Bergen Offshore Logistics Pte Limited	100.00%	
Sical Saumya Mining Limited	65.00%	
Sical Iron Ore Terminals Limited	63.00%	
PATCHEMS Pvt Ltd	68.00%	
PNX Logistics Pvt Ltd	60.00%	
Develecto Mining Limited	51.00%	
Sical Infra Assets Limited	53.60%	
Sical Multimodal and Rail Transport Limited	100.00%	
Sical Bangalore Logistics Park Limited	100.00%	
Norsea Global Offshore Pte Ltd	100.00%	
PSA Sical Terminals Limited	37.50%	
Sical Sattva Rail Terminals Private Limited	50.00%	

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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