

December 31, 2020

## Sical Multimodal and Rail Transport Limited (SMART):Ratings reaffirmed at [ICRA] D/[ICRA]D

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	100.00	72.50	[ICRA] D; Reaffirmed
Long term – Fund based	40.00	40.00	[ICRA] D; Reaffirmed
Long term – Term Loan	60.77	60.77	[ICRA] D; Reaffirmed
Short term – Non-fund based	60.00	60.00	[ICRA] D; Reaffirmed
<b>Total</b>	<b>260.77</b>	<b>233.27</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers the weak financial profile of the group with the ultimate parent – Sical Logistics Limited (SLL, rated [ICRA]D) and several fellow subsidiaries continuing to default on debt servicing due to poor liquidity. SLL has also extended an unconditional and irrevocable corporate guarantee to NCD and Bank facilities of Sical Multimodal and Rail Transport Limited (SMART, the Company). While ICRA notes that SMART is currently regular in debt servicing, its financial profile has moderated in recent years because of revenue decline and moderation in profit margins. The company has stopped operating container trains and has leased out the rakes at modest rentals; at present, it is predominantly involved in CFS operations. The Inland Container Depot (ICD) projects in Chennai and Bangalore (demerged to another subsidiary) have not progressed and are unlikely to be implemented in the medium term. The company had reported losses in FY2020 and while in H1FY2021, the impact of the Covid-19 pandemic has been mitigated by higher ground rental, the segment may be under pressure in the medium term because of subdued cargo growth, competition and impact of Direct Port Delivery (DPD) on CFS profitability.

The company has large repayment obligation of ~Rs. 116.3 crore over the next few years, as against net cash accruals of ~Rs. Rs. 5.0-9.0 crore in the last two years, and hence will need healthy growth in cash accruals or refinancing to meet debt servicing obligations. However, given the weak financial flexibility of the Group, the ability to refinance may be limited. Further, any recovery proceedings initiated against the Group entities by lenders may also have an impact on SMART. ICRA notes that the company opted for moratorium for three months during March to May 2020 under the Covid-19 relief announced by the Reserve Bank of India (RBI) in March 2020. The company has also applied for restructuring of bank loan and NCD repayments with its lenders under the Covid-19 relief announced by the RBI, which if accepted will provide some relief on repayment obligations for next two years. The development on the same will be monitored.

### Key rating drivers

#### Credit Strengths

**Long track record in port logistics** - Established in 2007, SMART has been involved in operating container trains and CFS at Chennai, Vizag and Tuticorin. While, the company is currently not operating the trains and has leased the rakes, it continues to operate the CFS and has healthy market share in the Chennai market.

## Credit challenges

**Weak financial profile and high repayment obligations** – The company’s financial profile has weakened in the last few years due to stoppage of container operations and impact on DPD implementation on CFS margins and volumes. While, the impact of Covid-19 has been partly mitigated in H1FY2021 by high ground rental income, the segment may continue to witness pressure in the medium term due to subdued cargo growth, competition and impact of Direct Port Delivery (DPD) on CFS profitability. The coverage indicators were stretched, with TD/OPDITA of 5.3 and 4.8 in FY2019 and FY2020 and interest coverage of 1.1 and 1.2 in FY2019 and FY2020.

**Weak financial flexibility and liquidity position of the group** – The ultimate holding company of SMART is SLL, which has also extended corporate guarantee to bank facilities and NCD of SMART. SLL in turn is supported by Coffee Day group through oversight and financial support, after takeover of SLL from its erstwhile promoters. However, since the demise of Coffee Day group promoter, Mr. V G Siddhartha, the financial flexibility of the coffee day group, SLL and its subsidiaries have been significantly weakened, which coupled with moderation in financial performance and high repayment obligations have led to significant liquidity pressure. SLL and several of its subsidiaries (except SMART) have been delaying their debt servicing and have been declared NPA by some lenders. Hence, no support is expected from the Group to SMART, which also has high repayment obligations going forward; the problem is exacerbated by the moderate cash accruals in the last two years. Further, any recovery proceedings initiated against the Group entities by lenders may also have an impact on SMART.

## Rating sensitivities

**Positive trigger** - The ratings of SMART could be revised upwards if there is significant improvement in credit and liquidity profile of the Group along with SLL and fellow subsidiaries, which are currently delaying debt servicing and have been classified as NPA by some of the lenders.

**Negative triggers** – Not applicable

## Liquidity position: Stretched

The company witnessed positive cash flow from operations in last two years, although there had been moderation with revenue and margin decline. The impact of the pandemic on the current year performance will be partly offset by higher ground rental income in the first half. Nonetheless, the company has high repayment obligation of Rs. 30.7 crore in FY2021 and ~Rs. 48.5 crore in FY2022, while the net cash accruals were modest in the last two years. As the financial flexibility of the Group is significantly weakened, the company’s ability to refinance is to be explored, although the liquidity profile is partly supported by unutilised working capital limits. The liquidity profile is stretched, and the company will need healthy improvement in financial performance to meet its repayment obligations. ICRA notes that the company has opted for moratorium for three months during March to May 2020 and has also applied for restructuring of bank loan and NCD repayments with its lenders, which if accepted will provide some relief on repayment obligations for next two years. Nevertheless, the company is regular in servicing debt obligations to the lenders. The development on the same will be monitored

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation / Standalone	Ratings are based on standalone financial statements of the issuer and considers the weakened credit and liquidity profile of the group (ultimate parent – Sical Logistics Limited and fellow subsidiaries).

## About the company

Incorporated in May 2007, SMART is a container rail freight operator with a category I license to operate container trains on all routes of the Indian Railways (IR). SMART is a 100% subsidiary of Sical Infra Assets Limited (SIAL), which is in turn held by SLL. It commenced commercial operations in March 2008 with one leased rake. At present, it has leased six rakes to domestic container cargo handlers. In July 2012, the company got sanction and approval for a scheme of amalgamation with its associate concern Sical Distriparks Limited (SDL) and a 100% subsidiary, Sical Hambuja Logistics Private Limited (Hambuja), vide a High Court of Madras order. Post this merger, SMART had two operational segments – container rail operations and CFS operations; however, the company is currently not operating the container trains.

## Key financial indicators (audited)

SMART	FY2019	FY2020
Operating Income (Rs. crore)	141.7	109.3
PAT (Rs. crore)	0.1	-4.4
OPBDIT/OI (%)	19.8%	22.8%
RoCE (%)	6.5%	5.7%
Total Debt/TNW (times)	1.0	0.9
Total Debt/OPBDIT (times)	5.6	5.8
Interest Coverage (times)	1.3	1.0

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for last three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years								
		Type	Amount Rated	Amount Outstanding	Rating 31-Dec-20	FY2020				FY2019		FY2018		
						10-Sep-19	19-Aug-19	08 Aug 19	30-Jul-19	22-Feb-19	07-Sep-18	09-Nov-17	26-Sep-17	22-Aug-17
1	NCD	Long Term	72.50	72.50	[ICRA]D	[ICRA]D	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB+ (SO) @	[ICRA] BBB+(SO) (Negative)	[ICRA]BBB+ (SO)(Stable)	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO) (&)	[ICRA]BBB+ (SO) (Stable)
2	Term Loan	Long Term	60.77	60.77	[ICRA]D	[ICRA]D	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB+ (SO) @	[ICRA] BBB+ (SO) (Negative)	[ICRA]BBB+ (SO)(Stable)	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO) (&)	[ICRA]BBB+(SO) (Stable)
3	Fund based	Long Term	40.00	NA	[ICRA]D	[ICRA]D	[ICRA]B+ (SO) (Negative)	[ICRA]BB+ (SO) (Negative)	[ICRA]BBB+ (SO) @	[ICRA] BBB+ (SO) (Negative)	[ICRA]BBB+ (SO)(Stable)	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO) (&)	[ICRA]BBB+(SO) (Stable)
4	Non fund based	Short term	60.00	NA	[ICRA]D	[ICRA]D	[ICRA]A4 (SO)	[ICRA]A4+ (SO)	[ICRA]A2 (SO) @	[ICRA]A2 (SO)	[ICRA]A2 (SO)	[ICRA]A2 (SO)	[ICRA]A2 (SO) (&)	[ICRA]A2 (SO)

### 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](http://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
INE183X07049	NCD	31/03/2017	11.00%	31/03/2021	7.50	[ICRA]D
INE183X07056	NCD	31/03/2017	11.00%	31/03/2022	30.00	[ICRA]D
INE183X07064	NCD	31/03/2017	11.00%	31/03/2023	35.00	[ICRA]D
NA	Term Loan	Mar-2015	11.40%	Dec-2022	60.77	[ICRA]D
NA	Fund based	NA	NA	NA	40.00	[ICRA]D
NA	Non fund based	NA	NA	NA	60.00	[ICRA]D

Source: SMART

### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

## ANALYST CONTACTS

**K. Ravichandran**

+91 44 4596 4301

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Sai Krishna**

+91 44 4596 4304

[sai.krishna@icraindia.com](mailto:sai.krishna@icraindia.com)

**Krithi Gugan K**

+91 44 45964340

[krithi.gugan@icraindia.com](mailto:krithi.gugan@icraindia.com)

**Satish Kumar S**

+91 44 45964342

[satish.s@icraindia.com](mailto:satish.s@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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) 2556 0194/ 6606 9999

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