

Chettinad Logistics Private Limited

February 20, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|------------------------------------|--------------------------|---------------|
| Long Term Bank Facilities | 120.00 | CARE A; Stable | Reaffirmed |
| Long Term / Short Term Bank Facilities | 1,000.00 (Enhanced from 630.00) | CARE A; Stable / CARE A1 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has taken a combined view of Chettinad Logistics Private Limited (CLPL) and its group company, South India Corpn Private Limited (SICPL), while assessing the credit risk profile as both these entities are in a similar line of business and operate under the same management.

The ratings assigned to the bank facilities of CLPL and SICPL continue to factor-in the benefits derived from being part of the Chettinad group, long operational track record of the companies, long-standing relationship with its clients and comfortable capital structure. The rating also factors in improvement in TOI and profitability margin in FY22 and H1 FY23.

The ratings are constrained by significant dependence of the company on a few clients for major part of the revenue, exposure to the group companies by way of loans and advances, scope for strengthening the management information systems (MIS), which is essential for continuous and close monitoring of the financial and operational performance of the company and lack of depth in organisational structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the total operating income (TOI) to above ₹2,000 crore along with diversification in the customer base on a sustained basis.

Negative factors

- Any deterioration in the capital structure with overall gearing above 0.50x on a sustained basis.

Analytical approach: Combined Approach

CARE Ratings has taken a combined view of SICPL and CLPL since both the companies are into similar line of operations and under the same management with common resources.

Key strengths

Part of the Chettinad group

CLPL is part of the south India-based Chettinad group. The group was originally promoted by Dr Rajah Sir Annamalai Chettiar and has almost a 90-year track record of operations. The group has interests in diverse areas, including cement, health, education, engineering, etc.

The major company of the group is Chettinad Cement Corporation Limited (CCCL, rated 'CARE AA+; Stable/ CARE A1+').

Experience of the promoters and synergy of operations between group companies

SICPL has a long track record of operations extending for almost nine decades in providing end to-end logistics solution for coal handling. SICPL has been involved in the movement/handling of coal with presence across major coal handling ports like Vizag, Haldia and Paradip. Since both CLPL and SICPL are engaged in the similar line of business and controlled by the same management, there is high level of synergy of operations between the two companies. Currently, CLPL business operations include coal trading (mainly for its group company, Chettinad Cement Corporation Ltd) and coal handling for various power generating companies like Andhra Pradesh Power Development Company Ltd, NTPC, etc., and stevedoring operations. Though SICPL discontinued its business operations, given the pre-qualifications, the company would be in a position to bid for large-size contracts and business operations may resume in the future.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable financial risk profile characterised by low gearing levels

SICPL and CLPL have no external term debt and avail only working capital borrowings. SICPL has only BG which expires in August 2023. CLPL's working capital has increased from ₹84.26 crores in March 31, 2021 to ₹170.84 crore in March 31, 2022 due to increase in scale of operations coupled with spike in coal prices. On a combined level total debt (consist of working capital borrowing & lease liability) has increased from ₹86.21 crore in March 31, 2021 to ₹172.29 crore in March 31, 2022. CLPL majorly utilises non-fund limits as the company has to extend Letter of Credit (LC) to its supplier in coal trading business and also executes performance guarantees for generation companies (GENCOs) for coal handling. The outstanding NFB limits of SICPL were bank guarantees issued to Tamilnadu Generation and Distribution Corporation (TANGEDCO) and Karnataka Power Corporation Ltd (KPCL). The capital structure is comfortable even though slight moderation in overall gearing from 0.07x as on March 31, 2021 to 0.13x as on March 31, 2022. As on March 31, 2022, the combined cash and bank balance stood at ₹ 645.81 crores. If the same is adjusted, the company is net debt free.

Improvement in the TOI and Profitability Margins in FY22 & H1 FY23

Since May 2021 there was an increase in global coal prices coupled with coal shortage resulted in higher sales realization of coal. As a result, coal trading grew from ₹ 559 crores in FY21 to ₹981 crore in FY22. Since coal trading are index linked contracts the profitability margins of the company remained intact. On the combined Level, TOI grew from ₹1,100 crore in FY21 to ₹1,593 crore in FY22. The PBILDT Margin stood at 6.23% for FY22 as against 5.22% in FY21. During H1FY23, CLPL reported a total income of ₹1,080 crore.

Key weaknesses

High dependence of revenue on few clients

CLPL's revenues are from top four clients, namely, Chettinad Cement Corporation Private Limited, Andhra Pradesh Power development Corporation, NTPC Limited (National Thermal Power Corporation Limited) and Tamil Nadu Cements Corporation Limited (TANDEM). These clients collectively account for 76.5% of sales in FY22 and 72.1% in H1FY23. Of the total sales, about 56.6% of sales is to Chettinad cements and its subsidiaries. SICPL has pending litigation with TANGEDCO for about ₹330 crore receivables, pending in NCLT.

Exposure to group companies

On the combined level, the exposure to group companies by ways of loan, investments, trade receivables has increased from ₹ 564.85 crore as on March 31, 2021 to ₹ 670.78 crores as on March 31, 2022. It is to be noted that around 84% of the investment exposure is towards Chettinad Cement Corporation Limited (CCCL – rated 'CARE AA+; Stable/CARE A1+').

Prospects

SICPL/CLPL's successful execution of the contracts in the past underscores the expertise which the company has developed in these areas. This, along with the management's experience in understanding the costs involved especially the expertise in imported coal and long-term relationship, has ensured the continuation of the contracts in the past. It is to be noted that the competition for new contracts has increased and this in turn has affected the profitability margin. Notwithstanding the long operational track record of the company, the prospects of the company will continue to be governed by the ability of the company to retain its business from the existing clients through periodic renewal of contracts, diversify its revenue stream by entering into contracts with new clients and improve operating efficiency to increase profitability margins.

Liquidity: Strong

On the combined basis, the company has strong cash accruals against Nil scheduled repayment obligations. The average utilization for fund – based facilities is around 65% for last 11 months ended on November 30, 2022. The Non-fund-based utilization is around 22.65 % as on December 31, 2022. The unutilized bank lines are adequate to meet its incremental working capital limits. On combined level, the operating cycle continues to remain comfortable at 32 days during FY22 (PY: 34 days) , they receive a credit period of around 55 days from its creditors and provide credit period of 35 days to its clients. Both the entities do not have any outstanding term debt. Besides, both SICPL and CLPL has huge cash and bank balances in its books. As on March 31, 2022, the combined cash and bank balances is ₹645.81crore (of which margin money is about ₹26.58 crore).

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Service Sector Companies](#)

About the company and industry

Industry Classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|----------|--------------------|-----------------------------|
| Services | Services | Transport Services | Logistics Solution Provider |

Chettinad Logistics Private Ltd (CLPL) incorporated in December 1999, is a part of the south India-based Chettinad group. As on March 2019, Chettinad Holdings Private Limited held 77% of the stake of the company and the rest is held by the promoter, Geetha Muthiah. CLPL presently has two business divisions, namely, Clearing & Forward (C&F)/Stevedoring division and Coal Trading Division. CLPL's Lorry Division has been demerged from its business and merged with Marvel Cements Private Limited along with four other companies. The C&F operations of the company mainly comprise handling movement of coal for private and public sector companies. This division holds valid license for Stevedoring works at some of the major ports, CHA License for operations in all ports of the country and also operates an Inland Container Depot (ICD) at Coimbatore. The coal trading division is engaged in the trading of imported coal. CLPL was engaged in coal trading since 2002 which was discontinued for some time. Since FY12, CLPL has started trading of coal again.

| Brief Financials (₹ crore) | March 31, 2021 (A) | March 31, 2022 (A) | H1 FY23 (Prov.) |
|----------------------------|--------------------|--------------------|-----------------|
| Total operating income | 1,082.54 | 1591.98 | 1080.35 |
| PBILDT | 48.79 | 102.23 | 45.28 |
| PAT | 85.04 | 70.81 | NA |
| Overall gearing (times) | 0.12 | 0.20 | NA |
| Interest coverage (times) | 4.40 | 10.03 | NA |

A: Audited; Prov: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-------------------------------|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Fund-based - LT-Cash Credit | | - | - | - | 120.00 | CARE A; Stable |
| Non-fund-based - LT/ ST-BG/LC | | - | - | - | 1000.00 | CARE A; Stable / CARE A1 |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|--------------------------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 | Date(s) and Rating(s) assigned in 2019-2020 |
| 1 | Non-fund-based - LT/ ST-BG/LC | LT/ST* | 1000.00 | CARE A; Stable / CARE A1 | - | 1)CARE A; Stable / CARE A1 (17-Mar-22) 2)CARE A; Stable / CARE A1 (01-Apr-21) | 1)CARE A; Stable / CARE A1 (07-Apr-20) | 1)CARE A; Stable / CARE A1 (04-Apr-19) |
| 2 | Fund-based - LT-Cash Credit | LT | 120.00 | CARE A; Stable | - | 1)CARE A; Stable (17-Mar-22) 2)CARE A; Stable (01-Apr-21) | 1)CARE A; Stable (07-Apr-20) | 1)CARE A; Stable (04-Apr-19) |

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not Applicable**Annexure-4: Complexity level of the various instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|-------------------------------|------------------|
| 1 | Fund-based - LT-Cash Credit | Simple |
| 2 | Non-fund-based - LT/ ST-BG/LC | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Parvathavardhini Natarajan
Phone: +91-44-2850 1000
E-mail: P.Natarajan@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-44-2850 1001
E-mail: pradeep.kumar@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**