RNS Number : 7095C
Mercantile Ports & Logistics Ltd
21 October 2020

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Mercantile Ports & Logistics Limited
("MPL", the "Group" or the "Company")

Interim Results and Board Change

Mercantile Ports & Logistics Limited (AIM: MPL), which is operating and continuing to develop a modern port and logistics facility in Navi Mumbai, Maharashtra, India, announces its interim results for the period ended 30 June 2020.

Summary during and post period:

- First revenues generated from Tata/Daewoo JV multi-year contract worth in excess of £5.5 million over 40 months
- Cash of £7.8 million and undrawn facilities of £10.1 million at 30 June 2020
- Good platform and engagement around securing additional contracts, although Covid-19 lockdown in Mumbai continues to cause disruption
- Board Change - Andrew Henderson has informed the board of his intention to resign his position as CFO by 15 November 2020. Search for a permanent replacement has commenced

Jeremy Warner Allen, Executive Chairman stated, "The global dislocation from Covid-19 is still reverberating through the system; nevertheless, the opportunity available to Karanja is immense in the coming months and years. India's growth is dependent on a modern logistics infrastructure and we know that the facility we have built, and continue to build, will not only benefit the region and country but also all our shareholders and stakeholders.

"On behalf of the whole Board, I wish Andrew well with his future endeavours and thank him for his hard work and professionalism."

Jay Mehta, CEO stated, "We continue to analyse daily the immense opportunities that lie ahead for our business. There is no doubt that our development provides a much-needed solution for key industries operating within India. We look forward in the coming months to updating the market on new business that Karanja will be undertaking for the coming years. Despite the extraordinary backdrop of Covid-19 and the considerable issues it has created for business and the regional economic environment, I am confident that our operations at Karanja will stand the test of time."

Andrew Henderson, CFO stated, "I am leaving the Company as it ramps up its operations and I am confident that MPL's facility at Karanja will be something to be proud of. I have enjoyed the challenge of being part of the project in its development phase and leave a talented team who will take the business on to complete its operational activities. I wish the Company well."

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Chairman's Statement

Undoubtedly the first half of 2020 was about navigating what Covid-19 would mean to our business going forward. We mainly concentrated on implementing the necessary work required to fulfil our obligations with our first contract, a joint venture with Tata Projects Ltd and Daewoo Engineering. As at 1 April, the Company announced that works had been progressing according to plan and some land was handed over to this customer to enable the contract to commence and revenues to be generated from 1 April, as scheduled. The balance of the land will be handed over following completion of the groundworks, once Covid-19 restrictions are lifted.

Update on operations during the Covid-19 lockdown

India, like most of the rest of the world, continues to see infections from Covid-19 and the impact of the restrictions imposed to tackle it. Unfortunately, India has been one of the worst affected countries in the world. Local restrictions that affect our business have been implemented and we foresee a near term environment of additional restrictions and lock downs occurring. Nevertheless, we believe we have all the resources, both from a financial as well as personnel perspective, to continue to operate during these challenging times and continue to engage with customers to secure further contracts to fill capacity at the facility.

Board Changes

Andrew Henderson, who has been with MPL since 2016 and a board member since September 2017, has informed the board of his intention to resign from the board of the Company and his position as CFO by 15 November 2020 so that he can pursue other opportunities. The MPL board has commenced a process to appoint a replacement CFO candidate who will have both public market and Indian corporate experience, and look forward to updating the market with an appointment in due course.

Outlook

The long-term impact on the global economy of the Covid-19 outbreak is unclear and, whilst it is not possible to estimate the full financial impact of the outbreak, we have taken proactive measures to mitigate our operational risk and manage our business and cash flow. The key focus for the year ahead is a closer focus on revenue generation and closing contracts with end customers. We feel confident that our facility at Karanja is well placed to take advantage of the Indian recovery from Covid-19 restrictions and there will be significant demand to use our facility.

Jeremy Warner Allan, Chairman
Mercantile Ports & Logistics Limited 21 October 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2020

	Note	6 months to 30 June 2020	6 months to 30 June 2019	Year to 31 Dec 2019
		£000	£000	£000

	Note			
CONTINUING OPERATIONS				
Revenue		155	-	30
Operating costs		(58)	-	(47)
Administrative expenses		(2,046)	(1,899)	(4,351)
OPERATING LOSS		**(1,949)**	**(1,899)**	**(4,368)**
Finance income		**44**	10	19
Finance cost		**(695)**	**(125)**	(632)
NET FINANCING COST		**(651)**	**(115)**	**(613)**
LOSS BEFORE TAX		**(2,600)**	**(2,014)**	**(4,981)**
Tax expense for the period / year		-	-	-
LOSS FOR THE PERIOD /YEAR FROM CONTINUNING OPERATION		**(2,600)**	**(2,014)**	**(4,981)**
Loss on closure of subsidiary operations		-	(44)	-
Tax expense of discontinued operations		-	-	-
LOSS FOR THE PERIOD/YEAR		**(2,600)**	**(2,058)**	**(4,981)**
Loss for the period / year attributable to:				
Non-controlling interest		(5)	(3)	(8)
Owners of the parent		(2,595)	(2,055)	(4,973)
Loss for the period / year		**(2,600)**	**(2,058)**	**(4,981)**
Other comprehensive income/(expense)				
Items that will not be reclassified to profit or(loss)				
Re-measurement of net defined benefit liability		**-**	-	4
Items that may be reclassified to profit or loss				
Exchange differences on translating foreign operations	4	**774**	**1,282**	(5,256)
Other comprehensive loss for the period / year		**774**	**1,282**	**(5,252)**
Total comprehensive loss for the period / year		**(1,826)**	**(776)**	**(10,233)**
Total comprehensive loss for the period / year attributable to:				
Non-controlling interest		**(5)**	**(3)**	(8)
Owners of the parent		**(1,821)**	**(773)**	(10,225)
		(1,826)	**(776)**	**(10,233)**
Loss per share (consolidated): Basic & Diluted, for the year/period attributable to ordinary equity holders		(£0.001)	(£0.001)	(£0.003)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2020

	Note	**Period ended 30 June 2020**	**Period ended 30 June 2019**	**Year ended 31 Dec 2019**
		£000	**£000**	**£000**
Assets				
Property, plant and equipment	8	**139,022**	138,926	133,108
Intangible asset		4	-	5
Total non-current assets		**139,026**	**138,926**	**133,113**
Trade and other receivables		**22,787**	27,938	18,729
Cash and cash equivalents		**7,796**	7,371	14,823
Total current assets		**30,583**	**35,309**	**33,552**
Total assets		**169,609**	**174,235**	**166,665**
Equity				
Share capital and share premium		**134,627**	134,627	134,627
Retained earnings		**(11,336)**	(5,783)	(8,741)
Translation reserve		**(19,440)**	(13,676)	(20,214)

Equity attributable to owners of parent		**103,851**	**115,168**	**105,672**
Non-controlling interest		**(2)**	8	3
Total equity		**103,849**	**115,176**	**105,675**
Liabilities				
Non-current				
Borrowings	7	**37,943**	34,302	35,989
Employee benefit obligations		**4**	26	4
Lease liabilities payables		**2,691**	-	2,460
Trade and other payables		**-**	2,591	-
Non-current liabilities		**40,638**	**36,919**	**38,453**
Current				
Borrowings		**3,753**	60	2,605
Employee benefit obligations		**159**	41	130
Current tax liabilities		**7,074**	7,339	6,949
Leases Liabilities payable		**739**	-	930
Trade and other payables		**13,397**	14,700	11,923
Current liabilities		**25,122**	**22,140**	**22,537**
Total liabilities		**65,760**	**59,059**	**60,990**
Total equity and liabilities		**169,609**	**174,235**	**166,665**

CONDENSED STATEMENT OF CASH FLOWS

for the period ended 30 June 2020

	Note	6 months to 30 June 2020	6 months to 30 June 2019	Year to 31 Dec 2019
		£000	**£000**	**£000**
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss before tax for the period / year		(2,600)	(2,058)	(4,981)
Noncash flow adjustments	5	1,466	928	1,204
Net cash generated/used from operating activities		**(1,134)**	**(1,130)**	(3,777)
Net changes in working capital		445	-	1,811
Net cash from operating activities		**(689)**	**-**	**(1,966)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(7,717)	(4,541)	(4,221)
Finance income		39	2	15
Net cash used in investing activities		**(7,678)**	**(4,539)**	**(4,206)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of share capital		-	-	8,287
Proceeds from borrowing (net)		1,464	6	169
Repayment of lease liabilities principal		**(3)**	**-**	(313)
Interest payment on lease liabilities		**(107)**		(62)
Net cash generated from / (used in) financing activities		**1,354**	**6**	**8,081**
Net change in cash and cash equivalents		**(7,013)**	**(5,663)**	**1,909**
Cash and cash equivalents, beginning of the period / year		14,823	13,113	13,113
Exchange differences on cash and cash equivalents		(14)	(79)	(199)
Cash and cash equivalents, end of the period / year		**7,796**	**7,371**	**14,823**

Note :

1) The adjustments and working capital movements have been combined in the above Statement of Cash Flows.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2020

	Stated Capital	Translation Reserve	Retained Earnings	Other Components of equity	Non-controlling Interest	Total Equity
	£000	£000	£000	£000	£000	£000
Balance at 1 January 2019	**134,627**	**(14,958)**	**(3,772)**	--	**11**	**115,908**
Issue of share capital	--	--	--	--	--	--
Transactions with owners	134,627	(14,958)	(3,772)	--	11	115,908
Loss for the year	--	--	(4,973)	--	(8)	(4,981)
Foreign currency translation differences for foreign operations	--	(5,256)	--	--	--	(5,256)
Re-measurement of net defined benefit pension liability	--	--	--	4	--	4
Re-measurement of net defined benefit pension liability transfer to retained earning	--	--	4	(4)	--	--
Total comprehensive income for the year	--	(5,256)	(4,969)	--	(8)	(10,233)
Balance at 31 December 2019	**134,627**	**(20,214)**	**(8,741)**	--	**3**	**105,675**
Balance at 1 January 2020	**134,627**	**(20,214)**	**(8,741)**	--	**3**	**105,675**
Issue of share capital	--	--	--	--	--	--
Transactions with owners	**134,627**	**(20,214)**	**(8,741)**	--	**3**	**105,675**
Loss for the period	--	--	(2,595)	--	(5)	(2,600)
Foreign currency translation differences for foreign operations	--	774	--	--	--	774
Total comprehensive income for the period	--	774	(2,595)	--	(5)	(1,826)
Balance at 30 June 2020	**134,627**	**(19,440)**	**(11,336)**	--	**(2)**	**103,849**

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Mercantile Ports & Logistics Limited (the "Company") was incorporated in Guernsey under the Companies (Guernsey) Law 2008 on 24 August 2010. The condensed interim consolidated financial statements of the Company for the period ended 30 June 2020 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company has been established to develop, own and operate port and logistics facilities.

2. General information and basis of preparation

The condensed interim consolidated financial statements are for the 6 months' period ended 30 June 2020 and are not for full year accounts. The condensed interim consolidated financial statements are prepared under AIM 18 guidelines. They have been prepared on the historical cost basis. They do not include all of the information required in annual financial statements in accordance with IFRS. The condensed interim consolidated financial statements are not audited.

The condensed interim consolidated financial statements are presented in Great British Pounds Sterling (£), which is the functional currency of the parent company. The preparation of the condensed interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these, condensed interim consolidated financial statements, the significant judgments made by management applying the Group's accounting policies and the key sources of estimation uncertainty are the same as those applied in the annual IFRS financial statements. "The Company is confident of its ability to raise further funds to meet cost overruns, project enhancements or working capital requirements. The Company's financing effort to date is considered sufficient to enable the Company to fund all aspects of its operations. As a result, the condensed interim consolidated financial statements have been prepared on a going concern basis."

The condensed interim consolidated financial statements have been approved for issue by the Board of Directors on 21 October, 2020.

3. Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2019. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements.

New standards, amendments and interpretations to existing standards effective from January 1, 2020

IFRS 16 amendment - IASB published 'Covid-19-Related Rent Concessions (Amendment to IFRS 16)' amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

IBOR reform Phase 1 amendment - IASB issued 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

Definition of Materiality - IASB issued 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective annual reporting periods beginning on or after 1 January 2020.

Conceptual Framework - IASB issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. The amendments are effective for annual periods beginning on or after 1 January 2020

IFRS 3 amendments - IASB issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

4. Going Concern

In accordance with Provision 31 of the 2018 revision of the UK Corporate Governance Code. The Board initially, prior to the outbreak of Covid-19, assessed the Group's ability to operate as a going concern for the next 12 months from the date of issuing the interim statements, based on a financial model which was prepared as part of approving the 2020 budget.

The Directors considered the cash forecasts prepared for the two-years ending 31 December 2021 (which includes the potential impact of COVID-19), together with certain assumptions for revenue and costs, to satisfy themselves of the appropriateness of the going concern basis used in preparing the financial statements.

Regarding financing, the Group had available capital £17.9 million made up of a cash balance of £7.8m as at 30 June 2020 and £10.1 million still to drawdown on its the Rupee term loan facility of INR 480 Crore. Under the terms of the loan facility the Company was to start repayment of the principal amount from June 2020 with £15.1 million of payments to be repaid in the 2 years period from 1 January 2020 too 31 December 2021. In March 2020 a payment holiday for 3 months as per RBI guideline was agreed with the Banking consortium for March, April, May. As at 22 May the RBI in India has provided a further 3-month payment holiday to August 2020. The directors believe that the debt providers will continue to support the Group thereafter.

The Directors also took account of the principal risks and uncertainties facing the business referred to above, a sensitivity analysis on the key revenue growth assumption and the effectiveness of available mitigating actions.

The uncertainty as to the future impact on the Group of the recent Covid-19 outbreak has subsequently been considered as part of the Group's adoption of the going concern basis. In the downside scenario analysis performed, the Directors have considered the impact of the Covid-19 outbreak on the Group's trading and cash flow forecasts. In preparing this analysis, the directors assumed that the lockdown effects of the Covid-19 virus would peak in India around the end of June and trading will normalise over the subsequent few months, albeit attaining substantially lower levels of revenue than budgeted, for at least the rest of the current financial year. This scenario will lead to a material reduction in the Group's revenues and results for 2020.

A range of mitigating actions within the control of management were assumed, including reductions in the Directors and all staff salary by 35% from May 2020 until the end of the year, a reduction in all non-essential services and delay in building out the facility which isn't needed for the current 3 signed customer until significant revenue is again being generated. The Directors have also considered the financial support commitment made by the RBI in India. The Directors have also assumed, having had productive discussions with its lenders, that certain bank fees due to be paid in October 2020, can be deferred to the end of the current facility.

In this scenario, the Group would remain within its banking facilities, although some of the financial covenants would require a waiver from the lenders during the current financial year, in order to avoid being breached. Further adverse changes arising from Covid-19 would increase the challenge of complying with financial covenants and remaining within banking facilities. The Directors, as stated above, are still in discussions with its lenders and expect to be able to provide a update shortly.

The Group continues to closely monitor and manage its liquidity risk. In assessing the Group's going concern status, the Directors have taken account of the financial position of the Group, anticipated future utilisation of available bank facilities and other funding options, its capital investment plans and forecast of gross operating margins as and when the operations commence.

Based on the above indications, after taking into account the impact of Covid-19 on the Group's future trading, the Directors believe that it remains appropriate to continue to adopt the going concern in preparing the financial statements.

However, the downside scenario detailed above would indicate the existence of a material uncertainty, which may cast significant doubt on the Group's ability to continue as a going concern.

5. Comprehensive income

The comprehensive loss for the period includes a gain of £0.77 million from the retranslation of foreign operations to Great British Pounds Sterling (£), which is the functional currency of the Company. (INR/GBP exchange rate at 30 June 2020 of 92.69, 31 December 2019: 93.48 and 30 June 2019: 87.34 were used).

6. Cash flow adjustments and changes in working capital

The following non-cash flow adjustments and adjustments for changes in working capital have been made to profit before tax to arrive at operating cash flow:

	Period ended 30 Jun 2020 £000	Period ended 30 Jun 2019 £000	Year ended 31 Dec 2019 £000
Adjustments and changes in working capital			
Depreciation	801	142	608
Finance income	(39)	(2)	(19)
Unrealized exchange loss	13	-	(5)
Finance cost	691	-	620
	1,466	**140**	**1,204**
Change in trade and other payables	22	2 080	1,330
Change in trade and other receivables	423	(1,292)	481
	445	**788**	**1,811**

7. Loan facility

Karanja Terminal & Logistics Private Limited (KTLPL), the Indian subsidiary has in place a rupee term loan of INR 480 crore (£ 51.79 million) for part financing the port facility out of same bank has disbursed only INR 386.47 crore (£ 41.70 million). The rupee term loan was sanctioned by 4 Indian public sector banks and the loan agreement was executed on 28th February, 2014.

On 29 September 2017 the terms of sanction were amended, extending the tenure of the loan for 13 years and 6 months with repayment commencing from the end of June 2020.

The emergence of the COVID-19 pandemic has brought a drastic financial challenge to various business across the board, worldwide. In India, Reserve Bank of India (RBI) had proactively granted moratorium on interest as well as principal repayment initially for a period of 3 months, which later they extended further up to August, 2020, which KTPL has availed. Numerous petitions have been filed at both Hon'ble High Court as well as Supreme Court of India, by various corporates and individuals seeking further relief and to extend the moratorium period till December 31, 2020. Pending disposal of above petitions, the Supreme Court of India has directed all Banks and financial institution to stop recovery of loan EMI until the case is disposed. Due to above development we have calculated repayment presuming instalments to be due from October 2020 and repayment is calculated accordingly as follow:

	Repayment amount	
Payment falling due	**INR in Crore**	**GBP in Million**
Within 1 year	34.78	3.75

1 to 5 year's	231.88	25.02
After 5 year's	119.81	12.93
Total	**386.47**	**41.70**

The rate of interest will be a floating rate linked to the Canara bank base rate (8.65%) with an additional spread of 480 basis points. The present composite rate of interest is 13.45%. The borrowings are secured by the hypothecation of the port facility and pledge of its shares as well as a personal guarantee by the chairman, Nikhil Gandhi. The carrying amount of the bank borrowing is considered to be a reasonable approximation of the fair value.

KTLPL has utilised the rupee term loan facility of INR 386.47 crore (£ 41.70 million) as at 30 June 2020 (1 crore = 10 Million Rupees). (30 June 2019: INR 298.45 crore (£34.17 million)) as of the reporting date.

8. Property, plant and equipment

During the six months ended 30 June 2020, the Group progressed construction of the remaining facility and the carrying amount at 30 June 2020 was £ 97.13 million (30 June 2019: £ 138.93 million) as 25% of the port facility was capitalised on 1 October 2019 was £ 39.75 million. The amount of borrowing costs capitalised during the six months ended 30 June 2020 was £ 2.10 million (31 December 2019: £ 2.36 million). The weighted average rate used to determine the amount of borrowing costs during the period eligible for capitalisation was 13.39%, which is the effective interest rate of the specific borrowing. (INR/GBP exchange rate at 30 June 2020 of 92.69, 31 December 2019: 93.48 and 30 June 2019: 87.34 were used).

9. Event Subsequent to the reporting period.

Lockdown in Mumbai has been extended until 31 October. The RBI moratorium for Term loan repayment & interest was extended until September 2020 which the company has taken advantage of. On 6 August the RBI released a Circular allowing Restructuring Term Loan and PIL is underway in Supreme Court for further relief in Moratorium. As explained in note 7 proceedings are still underway in the Supreme court.

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