

Press Release

Amarnath Cold Storage Private Limited

February 27, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1.	Long term bank facilities	6.50 (Enhanced from Rs.5.00 crore)	IVR B+ /Stable (IVR Single B Plus with Stable Outlook)	Reaffirmed

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of Amarnath Cold Storage Private Limited (ACSPL) continues to remain constrained by its small scale of operations with low profitability, exposure to agro-climatic risks, risks associated with delinquency of loans extended to the farmers and regulated nature of the industry. The rating also factors in its weak financial risk profile marked by small worth base, leveraged capital structure and moderate debt protection metrics. However, the reaffirmation of rating derives comfort from its experienced promoters and locational advantage being located in potato growing district of West Bengal.

Key Rating Sensitivities:

Upward Rating Factor –

- Sharp increase in scale of operations with improvement in profitability on a sustained basis leading to improvement in liquidity

- Improvement in capital structure

Downward Rating Factor –

- Any decline in scale of operation and moderation in profitability
- Movement of gearing ratio above 5x leading to deterioration in financial risk profile
- Deterioration in liquidity position
- More than expected delinquency in loans extended to farmers

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters**

The promoters, Mr. Shyam Sunder Agarwala and other directors, are having almost three decades of experience in the cold storage business. Thus the experience of the promoters supports the daily operations of the company.

- **Locational advantage**

ACSPL enjoys a locational advantage in terms of presence of its cold-storage unit in Dadpur, Hooghly, West Bengal, where a large quantity of potato is produced. Thus the favourable location of the storage unit makes it feasible for the farmers in terms of transportation, connectivity and logistics.

Key Rating Weaknesses

- **Small scale of operations with low profitability**

The scale of operation is small with operating revenue of Rs.2.00 crore in FY 2019 as against Rs.2.08 crore in FY2018 from its cold storage and warehousing operations. Moreover, the PAT margin of the company stood low at 1.61% in FY2019 (3.60% in FY2018). Further, the total capital employed also remained low at Rs.3.27 crore as on March 31, 2019. Small scale of the company limits the flexibility of the company in time of stress and restricts its financial risk profile to a large extent.

- **Regulated nature of the industry**

In West Bengal, the basic rental rate for cold storage operations is regulated by the state government through West Bengal State Marketing Board. Regulated nature of the industry makes it difficult to pass on the increase in operating costs, thus exerting pressure on the profitability.

- **Exposed to agro-climatic risks**

The operations of cold storage units are seasonal in nature and hence exposed to agro-climatic risks. With the harvesting period commencing in February, the loading of potatoes in cold storages begins by the end of February and lasts till March. Further, with potatoes having a limited life even after preservation, farmers liquidate their stock from the cold storage generally by November. The unit generally remains non-operational from December to

February, during which it undertakes annual maintenance. Further, the company largely depends upon a single agro-commodity, potato. Hence, lower output of potato will have an adverse impact on the rental collections as the cold storage units collect rent on the basis of quantity stored.

- **Risks associated with delinquency of loans extended to the farmers**

Against the pledge of potatoes stored, the company provides interest-bearing advances to the farmers. These advances are funded by the bank in the form of cash credit, which are routed to the farmers through the company. Before the close of the season (Generally in November), farmers have to pay their outstanding dues, which include repayment of the loans taken, along with interest. Though the company has the right to auction the stock and recover its dues, any significant downward correction in potato prices exposes the company to the risk of delinquency in loans extended to the farmers.

- **Weak financial risk profile marked by small net worth base, leveraged capital structure and moderate debt protection metrics**

The financial risk profile of the company remained weak marked by its leveraged capital structure as on the last three accounting closing dates. The overall gearing ratio though has improved from 7.01x as on March 31, 2018 to 3.25x as on March 31, 2019 on the back of lower utilization of bank borrowing continued to remain high. Moreover, due to low cash accruals the debt protection parameters of the company, though improved in FY19, remained depressed marked by high Total debt to GCA at 19.19 years in FY19. However, the interest coverage ratio remained moderate at 1.49x in FY19. The Total Outside Liabilities to Tangible Net worth also remained moderate at 3.53x as on March 31, 2019 (7.39x as on March 31, 2018).

Liquidity: Adequate

The liquidity profile is expected to remain adequate marked by its expected satisfactory cash accrual of ~Rs.0.13 crore vis-à-vis its low debt repayment obligations of ~0.03 crore in FY20. Further, the company has no planned capex or availment of long-term debt which imparts comfort. However, the liquidity profile is restricted due to the company's working capital intensive nature of operations marked by high utilisation of its bank borrowing.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Service Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

Incorporated in May, 1987, Kolkata based Amarnath Cold Storage Private Limited (ACSPL) was promoted by Mr. Shyam Sunder Agarwala. ACSPL is operating a cold storage facility in Dadpur, in Hooghly district in West Bengal. The commercial operation of cold storage service started on 1988 with an installed capacity of 1,85,000 quintals per annum for cold storage of potato. The day-to-day affairs of the company are looked after by Mr. Shyam Sunder Agarwala (Director) and other directors having experience of almost three decades in the cold storage business.

Financials (Standalone)

(Rs. Crore)		
For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	2.08	2.00
EBITDA	0.21	0.20
PAT	0.08	0.03
Total Debt	5.07	2.49
Tangible Net worth	0.72	0.77
EBITDA Margin (%)	10.31	10.23
PAT Margin (%)	3.60	1.61
Overall Gearing Ratio (x)	7.01	3.25

* Classification as per Infomerics' standards

Any other information: N.A

Details of Non Cooperation with any other CRA:

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long	4.80	IVR	IVR B+/Stable	-	-	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
		Term		B+/Stable	(February 14, 2020)			
2.	Working Capital loan	Long Term	1.20	IVR B+/Stable	IVR B+/Stable (February 14, 2020)	-	-	-
3.	Bank Guarantee	Long Term	0.16	IVR B+/Stable	IVR B+/Stable (February 14, 2020)			
4.	Bank Guarantee	Long Term	0.06	IVR B+/Stable	IVR B+/Stable (February 14, 2020)	-	-	
5.	Proposed	Long Term	0.28	IVR B+/Stable	IVR B+/Stable (February 14, 2020)			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Analysts:

Name: Ms. Sutapa Nandy Tel: (033) 46022266 Email: snandy@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
--	---

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	4.80*	IVR B+/Stable
Working Capital loan	-	-	-	1.20**	IVR B+/Stable
Bank Guarantee	-	-	-	0.16	IVR B+/Stable
Bank Guarantee	-	-	-	0.06	IVR B+/Stable
Proposed	-	-	-	0.28***	IVR B+/Stable

*Enhanced from Rs.3.80 crore

**Enhanced from Rs.0.90 crore

*** Enhanced from Rs.0.08 crore