



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Kartick Chandra Agro Products Private Limited

November 27, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	11.66	IVR B /Stable (IVR Single B with Stable Outlook)	Assigned
Total	11.66		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kartick Chandra Agro Products Private Limited (KCAPPL) derives comfort from its experienced promoters and locational advantage. However the ratings are tempered by its short track record and small scale of operations, exposure to agro-climatic risks, risks associated with delinquency of loans extended to the farmers and regulated nature of industry. The rating also factors in its weak financial risk profile marked by small net worth base, leveraged capital structure and depressed debt protection metrics.

Key Rating Sensitivities:

Upward Rating Factors:

- Sharp increase in scale of operations with improvement in profitability on a sustained basis
- Improvement in capital structure on a sustained basis

Downward Rating Factors:

- Any decline in scale of operation and moderation in profitability on a sustained basis
- Movement of gearing ratio above 5x leading to deterioration of financial risk profile
- Decline in liquidity position on a sustained basis

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List of Key Rating Drivers with detailed description

Key Rating Strengths

- **Experienced promoter**

The promoters, Mr. Arun Ghosh and Mr. Tarun Kanti Ghosh, are having experience of more than three decades in the cold storage segment and in Potato trading business. Thus, the experience of the promoters supports business risk profile of the company.

- **Locational advantage**

KCPPL enjoys a locational advantage in terms of presence of its cold-storage unit in Burdwan district of 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

- **Short track record and small scale of operations**

The company has started its operation from FY18, hence it has a very short track record. Further, in its first full year of operation in FY19 its scale of operation remained small with a total operating income of Rs.7.89 crore. Further, total capital employed also remained low at Rs.11.79 crore as on March 31, 2019. Small scale of the company limits the flexibility in time of stress.

- **Regulated nature of 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 the agro-climatic risk. 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.

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- **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 depressed debt protection metrics**

The financial risk profile of the company remained weak marked by its leveraged capital structure as on the last two accounting closing dates. The overall gearing ratio further deteriorated from 3.70x as on March 31, 2018 to 4.06x as on March 31, 2019 mainly due to net loss incurred in FY19. The net loss further extended due to a provision based on expected delinquency in loans extended to the farmers. However, there were no cash loss. Moreover, due to low cash accruals the debt protection parameters of the company remained depressed marked by high Total debt to GCA at 13.28 years in FY19. However, the interest coverage ratio remained moderate at 1.59x in FY19. The Total Outside Liabilities to Tangible Net worth also remained high at 4.17x as on March 31, 2019 (3.70x as on March 31, 2018).

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Service Companies

Financial Ratios and Interpretation (Non-financial sector)

Liquidity: Stretched

Liquidity is marked by below unity current ratio with tightly matched accruals to repayment obligations, highly utilized bank limits leaving a limited buffer.

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About the Company

Incorporated in February, 2015, Hooghly, West Bengal based Kartick Chandra Agro Products Private Limited (KCAPPL) was promoted by Mr Tarun Kanti Ghosh and Mr. Arun Ghosh. KCAPPL is operating a cold storage facility in Burdwan district of West Bengal. The commercial operation of cold storage service has been started from FY18 with an installed capacity of 4,00,000 packets per annum for cold storage of potato. Apart from operating a cold storage facility the company is also engaged in potato trading.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	2.55	7.89
EBITDA	1.09	1.74
PAT	-1.02	-0.95
Total Debt	12.09	9.47
Tangible Net worth	3.27	2.33
EBITDA Margin (%)	42.72	22.07
PAT Margin (%)	-39.01	-11.93
Overall Gearing Ratio (x)	3.70	4.06

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Seasonal Working Capital loan	Long Term	6.00	IVR B/Stable	-	-	-
2.	Working Capital loan	Long Term	1.00	IVR B/Stable	-	-	-
3.	Term loan I	Long Term	4.50	IVR B/Stable	-	-	-
4.	Bank Guarantee	Long Term	0.16	IVR B/Stable	-	-	-



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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.

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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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Seasonal Working Capital loan	-	-	-	6.00	IVR B /Stable
Working Capital loan	-	-	-	1.00	IVR B /Stable
Term loan I	-	-	April 2024	4.50	IVR B /Stable
Bank Guarantee	-	-	-	0.16	IVR B /Stable