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Press Release

Swambhunath Cold Storage Private Limited

December 16, 2019

Rating

| Instrument / Facility | Amount (Rs. crore) | Rating | Rating Action |
|---------------------------|-----------------------|---|------------------|
| Long Term Bank Facilities | 8.76 | IVR B /Stable (IVR Single B with Stable Outlook) | Assigned |
| Total | 8.76 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Swambhunath Cold Storage Private Limited (SCSPL) derives comfort from its experienced promoters with long track record of operations and locational advantage. However the rating strengths are tempered by its small scale of operations, 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 negative 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
- Improvement in capital structure

Downward Rating Factors:

- Any decline in scale of operation and moderation in profitability
- Further erosion of net worth
- Deterioration in liquidity position

List of Key Rating Drivers with detailed description

Key Rating Strengths

- **Experienced promoters with long track record of operations**

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The promoters, are having more than two decades of experience in the cold storage business. Thus the experience of the promoters supports the daily operations of the company. Moreover, the company has started its business in 1994, thus having a long track record of operation in the cold storage industry.

- **Locational advantage**

SCSPL enjoys a locational advantage in terms of presence of its cold-storage unit in Paschim Medinipore 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

- **Small scale of operations**

Being a small player in the cold storage industry the company's scale of operation remained small with a total operating income of Rs.2.98 crore in FY19. Further, total capital employed also remained low at Rs.8.81 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. 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 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

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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**

The financial risk profile of the company remained weak marked by its negative net worth base as on March 31, 2019. The erosion of net worth was due to net loss incurred during the year on account of 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, debt protection parameters of the company remained depressed marked by high Total debt to GCA at 55.93 years in FY19. However, the interest coverage ratio remained moderate at 1.10x in FY19.

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 and highly utilized bank limits leaving a limited buffer.

About the Company

Incorporated in December 16, 1994, Paschim Medinipore based Swambhunath Cold Storage Private Ltd. (SCSPL) was promoted by Samanta family. SCSPL is operating a cold storage

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facility in Paschim Medinipore, West Bengal. The company is engaged in the business of providing cold storage facility with an installed capacity of 2,42,000 quintals per annum for cold storage of potato. Apart from operating a cold storage facility the company is also provides advances to farmers for farming purposes of potato against potato stored. The day-to-day affairs of the company are looked after by Mr. Anup Kumar Samanta, Mr. Sukumar Samanta, Mr. Sandip Samanta and Mr. Swapan Samanta.

Financials (Standalone):

(Rs. crore)

| For the year ended* / As On | 31-03-2018 | 31-03-2019 |
|-----------------------------|------------|------------|
| | Audited | Audited |
| Total Operating Income | 3.63 | 2.98 |
| EBITDA | 0.51 | 0.90 |
| PAT | -0.55 | -0.59 |
| Total Debt | 8.21 | 8.48 |
| Tangible Net worth | 0.25 | -0.34 |
| EBITDA Margin (%) | 14.14 | 30.01 |
| PAT Margin (%) | -15.13 | -19.36 |
| Overall Gearing Ratio (x) | 32.33 | -25.18 |

*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. | Working Capital demand loan | Long Term | 7.31 | IVR B/Stable | - | - | - |
| 2. | Working Capital loan | Long Term | 1.25 | IVR B/Stable | - | - | - |
| 3. | Bank Guarantee | Long Term | 0.20 | 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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|---|---|
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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 |
|-----------------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Working Capital demand loan | - | - | - | 7.31 | IVR B /Stable |
| Working Capital loan | - | - | - | 1.25 | IVR B /Stable |
| Bank Guarantee | - | - | - | 0.20 | IVR B /Stable |