

Radhakanta Himghar Private Limited

January 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	7.00 (reduced from 8.08)	CARE B; Stable (Single B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	7.00 (Rs. Seven Crore Only)		

*Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of **Radhakanta Himghar Private Limited (RHPL)** continues to remain constrained by its short track record and small scale of operations, leveraged capital structure with moderate debt coverage indicators, regulated nature of business, seasonality of business with susceptibility to vagaries of nature and competition from other local players. However, the rating continues to drive strength from the extensive experience of the promoters in the industry, satisfactory profitability margins and strategic location of the unit.

Key Rating Sensitivities

Positives factors

- Sizeable improvement in scale of operations (turnover beyond Rs.10 crore) while sustaining current operating margin on a sustained basis.
- Improvement in capital structure (overall gearing ratio below 1.50x) and its reduced reliance on external borrowing for funding its working capital requirement on a sustained basis.

Negatives factors

- Any sizeable capex and its increase reliance on external borrowing for funding its working capital requirement which will result in further deterioration in capital structure from current level on a sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Short track record and small size of operations: RHPL has started its commercial operations since March 2017 and thus has short operational track record. Furthermore, the total operating income has witnessed decline trend during last three years (FY18-FY20) due to decrease in revenue from cooling charges received. Moreover, the overall scale of operations of the company remained small marked by total operating income of Rs.2.98 crore (FY19: Rs.3.11 crore), PAT of Rs.0.36 crore (FY19: Rs.0.35 crore), and cash accruals of Rs.1.02 crore (FY19: Rs.1.09 crore) in FY20. Furthermore, the tangible networth also remained low at Rs.4.01 crore as on March 31, 2020. The company has booked net revenue of Rs.2.24 crore during the period from April 01, 2020 to December 28, 2020. The small size restricts the financial flexibility of the company and hinders its economies of scale.

There was no restriction on the local movement of goods even though lockdown was imposed in the country as the company is dealing with the essential commodity for general consumption. Accordingly, the operation of the company was not impacted owing to COVID 19 and is running smoothly. Moreover, the company has booked revenue of Rs.2.24 crore during the period from April 01, 2020 to December 28, 2020

Leveraged capital structure with moderate debt coverage indicators: The capital structure of the company has deteriorated on account of higher utilisation of working capital limit and the same remained leveraged marked by overall gearing ratio of 2.02x (FY19:1.79x) as on March 31, 2020. Furthermore, the debt coverage indicators also deteriorated and the same remained moderate marked by interest coverage ratio of 3.11x (3.61x in FY19) and total debt to GCA of 7.94x (FY19: 6.00x) during FY20. Deterioration in interest coverage ratio was due to high interest expenses during FY20. Moreover, the total debt to GCA has also deteriorated on account of lower generation of gross cash accrual and increase in debt level as on account closing date.

Regulated nature of business: In West Bengal, the basic rental rate for cold storage operations is regulated by the state government through West Bengal State Marketing Board. The rent of these cold storages is decided by taking into account political considerations, not economic viability. Due to severe government intervention, the cold storage facility providers cannot enhance rental charge commensurate with increased power tariff and labour charge.

Seasonality of business with susceptibility to vagaries of nature: RHPL's operation is seasonal in nature as potato is a winter season crop with its harvesting period commencing in March. The loading of potatoes in cold storages begins by the end of February and lasts till March. Additionally, with potatoes having a perceivable life of around eight months in

the cold storage, farmers liquidate their stock from the cold storage by end of season i.e., generally in the month of November. The unit remains non-operational during the period from December to January. Furthermore, lower agricultural output may have an adverse impact on the rental collections as the cold storage units collect rent on the basis of quantity stored and the production of potato is highly dependent on vagaries of nature.

Competition from other local players: In spite of being capital intensive, the entry barrier for new cold storage is low, backed by capital subsidy schemes of the government. As a result, the potato storage business in the region has become competitive, forcing cold storage owners to lure farmers by providing them interest bearing advances against stored potatoes which augments the business risk profile of the companies involved in the trade.

Key Rating Strengths

Experienced promoters: RHPL is managed by Goutam Kumar Pal who has around decades of experience in the same industry through his family business, looks after the day to day operations of the company. He is being duly supported by the other director Mrs. Sutapa Pal.

Satisfactory profitability margins: The profit margins remained satisfactory marked by operating margin of 56.45% (FY19:53.85%) and PAT margin of 12.04% (FY19:11.19%) in FY20. The operating margin has improved during FY20 due to better management of cost of operations. Moreover, the PAT margin has also improved in line with operating margin during FY20.

Strategic location of the unit: RHPL's storage facility is situated at Hooghly, West Bengal which is one of the major potato growing regions of the state. The favourable location of the storage unit, in close proximity to the leading potato growing areas provides it with a wide catchment and making it suitable for the farmers in terms of transportation and connectivity.

Liquidity: Adequate - Liquidity is marked by sufficient cushion in accruals vis-a-vis repayment obligation, modest cash and cash equivalents and modest utilised bank limits. The average utilization of working capital limit was around 70% during last 12 month ended on November 30, 2020. The unencumbered cash and cash equivalent stood at Rs.0.31 crore as on March 31, 2020. The company has reported cash accruals of Rs.1.02 crore during FY20. Moreover, the company not availed moratorium on repayment of term loan and interest on working capital that could be availed under the terms of recent RBI circular. Further, the company has not availed COVID relief loan of from its lender.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Policy on Default Recognition](#)

About the Company

Incorporated in December 2015, Radhakanta Himghar Private Limited (RHPL) was promoted by Mr. Dilip Kumar Pal and his family member to set up a cold storage facility in the state of West Bengal with an aggregate storing capacity of 200000 quintal. The company provides cold storage services to the farmers and traders for potatoes.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	3.11	2.98
PBILDT	1.68	1.68
PAT	0.35	0.36
Overall gearing (times)	1.79	2.02
Interest coverage (times)	3.61	3.11

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October 2024	2.00	CARE B; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	5.00	CARE B; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	2.00	CARE B; Stable	-	1)CARE B; Stable (29-Nov-19) 2)CARE B; Stable; ISSUER NOT COOPERATING* (05-Sep-19)	1)CARE B+; Stable (10-May-18) 2)CARE B+; Stable (27-Apr-18)	-
2.	Fund-based - LT-Working Capital Demand loan	LT	5.00	CARE B; Stable	-	1)CARE B; Stable (29-Nov-19) 2)CARE B; Stable; ISSUER NOT COOPERATING* (05-Sep-19)	1)CARE B+; Stable (10-May-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT-Working Capital Demand loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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