

Mahima Cold Storage Private Limited

March 15, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.22	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	6.22 (Rs. Six Crore and Twenty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Mahima Cold Storage Private Limited (MCSPL) continues to remain constrained on account of its small scale of operations, moderate profitability margins and stretched liquidity in FY21 (refers to period April 01 to March 31), regulated nature of business, seasonality of business with susceptibility to vagaries of nature, risk of delinquency in loans extended to farmers and competition from other local players. However, the rating continues to drive strength from the extensive experience of the promoters with long track record of operations, comfortable capital structure with moderate debt coverage indicators and proximity to potato growing area.

Key Rating Sensitivities

Positive factors

- *Sizeable improvement in scale of operations (turnover beyond Rs.10 crore) while maintaining current operating margin on a sustained basis*

Negative factors

- *Any sizeable capex and its increase reliance on external borrowing for funding its working capital requirement which lead to deterioration in overall gearing ratio above 2.5x on a sustained basis*

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with moderate profitability margins

MCSPL is a small player vis-a-vis other player in the domestic cold storage industry marked by total operating income of Rs. 2.00 crore (Rs. 2.01 crore in FY20) in FY21. The small size restricts the financial flexibility of the company and hinders its economies of scale. Further, the profitability margins of the company remained moderate marked by PBILDT margin of 20.31% and PAT margin of 4.90% in FY21 as against 18.73% and 4.60% during FY20. The improvement in profitability was on account of decrease in power cost along with operating expenses in FY21. However, in absolute term PBILDT and PAT remained low at Rs.0.41 crore and Rs.0.10 crore in FY21. Hence, gross cash accruals also were low at Rs.0.23 crore in FY21.

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 considering political considerations, not economic viability. Due to severe government intervention, the cold storage service providers cannot enhance rental charge commensurate with increased power tariff and labour charge.

Seasonality of business with susceptibility to vagaries of nature

MCSPL'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.

Risk of delinquency in loans extended to farmers

Against the pledge of cold storage receipts, MCSPL provides interest bearing advances to the farmers & traders. Before the closure of the season in November, the farmers & traders are required to clear their outstanding dues with the interest. In view of this, there exists a risk of delinquency in loans extended, in case of downward correction in potato or other stored goods prices, as all such goods are agro commodities.

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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

Extensive experience of the promoter in the industry with long track record of operations

The company is into cold storage business since 2003 and accordingly it has established relationship with its customers and suppliers. The promoter; Mr. Rajesh Kumar Patwari, has more than three decades of experience in cold storage industry, looks after the overall management of the company. He is supported by other director Mr. Neeraj Agarwal who also has more than a decade of experience in this line of business. The promoters are supported by a team of experienced professionals.

Comfortable capital structure with moderate debt coverage indicators

The capital structure of the company improved on account of lower utilization of working capital bank borrowings and remained comfortable marked by overall gearing ratio of 0.40x (0.70x as on March 31, 2020) as on March 31, 2021. Furthermore, the debt coverage indicators although improved on back of increased profitability along with improved gearing level but remained moderate marked by interest coverage ratio of 2.87x in FY21 as against 2.78x during FY20 and total debt to GCA ratio of 4.12x as on March 31, 2021 as against 7.73x as on March 31, 2020.

Proximity to potato growing area

MCSPL's storing facility is situated at Cooch Bihar, West Bengal which is one of the major potatoes 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: stretched

Liquidity was stretched marked by inadequate cushion of cash accruals for managing repayment obligation of any major capex planned. Further, the average utilization of working capital limit was around 60% during last 12 month ended on February, 2022. The unencumbered cash and cash equivalent stood low at Rs.0.61 crore as on March 31, 2021. Net cash flow from operations have improved and remained at Rs. 1.13 crore during FY21 as against CFO of Rs. 0.08 crore during FY20. The improvement was on account of realization of funds from receivables. Further, working capital cycle remained at 64 days during FY21 due to higher collection period.

Analytical approach: Standalone

Applicable criteria

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

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

[Rating Methodology-Service Sector Companies](#)

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

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

About the Company

Mahima Cold Storage Private Limited (MCSPL) was incorporated in July 2003 and presently managed by Mr. Rajesh Kumar Patwari and Mr. Neeraj Agarwal. The cold storage facility of the company is located at Cooch Bihar, West Bengal with aggregated storage capacity of 149664 quintal. The company provides cold storage services for potatoes to the farmers and traders. This apart the company provides interest bearing advances to the farmers & traders against the pledge of cold storage receipts. Mr. Rajesh Kumar Patwari, has more than three decades of experience in cold storage industry, looks after the overall management of the company. He is supported by other director Mr. Neeraj Agarwal who also has more than a decade of experience in this line of business. The promoters are supported by a team of experienced professionals.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	11MFY22 (Prov.)
Total operating income	2.01	2.00	2.05
PBILDT	0.38	0.41	NA
PAT	0.09	0.10	NA
Overall gearing (times)	0.70	0.40	NA
Interest coverage (times)	2.78	2.87	NA

A: Audited, Prov. – Provisional; NA: Not Available

Status of non-cooperation with previous CRA: ICRA has continued the rating assigned to the bank facilities of MCSPL rating into Issuer Not Cooperating category vide press release dated October 12, 2021 on account of its inability to carry out a review in the absence of the requisite information from the company.

Any other information: Not Applicable

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

Covenants of rated instrument/facility: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	6.22	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	6.22	CARE B+; Stable	-	1)CARE B+; Stable (08-Mar-21)	1)CARE B+; Stable (17-Feb-20)	1)CARE B+; Stable (26-Mar-19) 2)CARE B+; Stable (11-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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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