

Baba Satyanarayan Himghar Private Limited

December 14, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facility	7.25	CARE B; Stable (Single B; Outlook: Stable)	Assigned
Total	7.25 (Rupees Seven Crore and Twenty Five Lakh Only)		

Details of facilities in Annexure-1

Detailed rationale & key rating drivers

The rating assigned to the bank facilities of Baba Satyanarayan Himghar Private Limited is constrained by its small scale of operations with moderately low profitability margins, risk associated in renovation of existing unit, seasonality of business with susceptibility to vagaries of nature, regulated nature of business, risk of delinquency in loans extended to farmers, competitive and fragmented nature of industry and working capital intensive nature of business. However, the aforesaid constraints are partially offset by its experienced management and long track record of operations, proximity to potato growing area and comfortable leverage ratios and debt coverage indicators.

Going forward, ability to increase its scale of operation and profitability margins and ability to manage working capital effectively are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management & long track record of operations

Baba Satyanarayan Himghar Private Limited is into cold storage services since May 1978 and thus has long operational track record. Due to long track record of operations of the company, the promoters have gained significant experience in the cold storage industry. The day to day operations of the company are looked after by Mr. Deoshankar Shaw, Mr. Hemanta Kheto, Mr. Naba Kumar Das, Mr. Badal Chandra Patra, Mr. Arup Kumar Ghosh, Mr. Gagan Chandra Aru, Mr. Sanat Kumar Adak, Mr. Tapas Dey Kumar, who have significant experience in cold storage and trading of potatoes business. The benefit derived from the experienced directors and healthy relation with farmers continuously supports the company.

Proximity to potato growing area

Baba Satyanarayan Himghar Private Limited's storage facility is located 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.

Comfortable leverage ratios and debt coverage indicators

Capital structure of the company remained comfortable due to non avilment of any long term loan from bank and other financial institutions in FY18. Moreover, the interest coverage ratio was also comfortable in FY18.

Key Rating Weaknesses

Small scale of operation with moderately low profitability margins

Baba Satyanarayan Himghar Private Limited is a relatively small player in the cold storage business having total operating income and PAT of Rs.2.51 crore (Rs.2.28 crore in FY17) and Rs.0.49 crore (Rs.0.17 crore in FY17), respectively, in FY18. The tangible net worth of the company was at Rs.2.10 crore as on March 31, 2018. The small size restricts the financial flexibility of the company in terms of stress and deprives it from benefits of economies of scale. Due to its relatively small scale of operations, the absolute profit levels of the company also remained low. Furthermore, the profitability margins of the company remained moderately low marked by PBILDT margin of 25.92% (FY17: 19.40%) and PAT margin of 19.50% (FY17: 7.52%) in FY18. Furthermore, the profitability margins improved in FY18 on account of increase in PBILDT and PAT on absolute levels.

Risk associated in renovation of existing unit

The company is renovating its existing cold storage unit at Sahapur, Tarkeshwar, Hooghly, which was damaged due to fire on February 16, 2018 with an aggregate renovation cost of Rs.6.56 crore. The renovation cost is proposed to be financed by way of term loan of Rs.3.70 crore and balance will be financed from promoter's contribution of Rs.2.86 crore. Apart

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

from this, the company has also applied for cash credit and working capital loan for the purpose of operational activities. The financial closure of the bank facilities for project has not been achieved yet. The company has already spent around Rs.2.10 crore towards civil works till December 11, 2018 which is met through promoters' contribution. The renovated unit is expected to be operational from March 2019.

Seasonality of business with susceptibility to vagaries of nature

The cold storage business is seasonal in nature as potato is a winter season crop with its harvesting period commencing in February. 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. Moreover, 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.

Regulated nature of business

In West Bengal, the basic rental rate for cold storage operations is regulated by state government through West Bengal State Marketing Board. Due to ceiling on the rentals to be charged it is difficult for cold storage units like Baba Satyanarayan Himghar Private Limited to pass on sudden increase in operating costs leading to downward pressure on profitability.

Risk of delinquency in loans extended to farmers

Against the pledge of cold storage receipts, Baba Satyanarayan Himghar Private Limited provides advances to farmers. Before the close of the season in November, the farmers are required to pay their outstanding dues, including repayment of the loan taken. In view of this, there exists a risk of delinquency in loans extended to farmers as significant amount of working capital remained blocked in advances given to the farmers. In case of downward correction in potato or other stored goods prices as all such goods are agro commodities which may affect the financial risk profile of the company.

Competitive and fragmented nature of industry

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. Baba Satyanarayan Himghar Private Limited is mainly into storage of potatoes which is highly fragmented and competitive in nature due to presence of many small players with low entry barriers. In such a competitive scenario smaller companies like Baba Satyanarayan Himghar Private Limited in general are more vulnerable on account of its limited pricing flexibility.

Working capital intensive nature of business

Baba Satyanarayan Himghar Private Limited is engaged in the cold storage business; accordingly its operation is working capital intensive. The company also provides advances to farmers who have stored their agriculture commodities with them. Accordingly, the company requires more working capital to smoothly operate its business.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

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

[Rating methodology- Service Sector Companies](#)

About the Company

Baba Satyanarayan Himghar Private Limited (BSHPL) was incorporated in May 1978. Since its inception the company is engaged in providing cold storage services. The company provides cold storage services primarily for potatoes to the farmers and traders on a rental basis. The cold storage unit of the company is located at Sahapur, Tarkeshwar, Hooghly-712410, with a storage capacity of 196265 quintals. Besides providing cold storage facility, the unit also works as a mediator between the farmers and marketers of potato, to facilitate sale of potatoes stored and it also provides interest bearing advances to farmers for farming purpose against potatoes stored. The company is also engaged in trading of potatoes and earned around 30% of revenue in FY18. Currently, the company is renovating its existing cold storage unit which was damaged due to fire on February 16, 2018. The day to day operations of the company are looked after by Mr. Deoshankar Shaw, Mr. Hemanta Kheto, Mr. Naba Kumar Das, Mr. Badal Chandra Patra, Mr. Arup Kumar Ghosh, Mr. Gagan Chandra Aru, Mr. Sanat Kumar Adak, Mr. Tapas Dey Kumar, who have significant experience in cold storage and trading of potatoes business.

Liquidity

The liquidity position of the company remained moderate marked by current ratio and quick ratios both are 22.90x as on March 31, 2018. The cash and bank balance amounting to Rs.1.31 crore remained outstanding as on March 31, 2018. The Gross cash accruals also remained at Rs.0.53 crore in FY18.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	2.28	2.51
PBILDT	0.44	0.65
PAT	0.17	0.49
Overall gearing (times)	2.77	0.00
Interest coverage (times)	2.84	10.79

A: Audited

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable.

Rating History (Last three years): Please refer Annexure-2

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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	-	-	-	3.70	CARE B; Stable
Fund-based - LT-Cash Credit	-	-	-	3.20	CARE B; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	0.35	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	3.70	CARE B; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	3.20	CARE B; Stable	-	-	-	-
3.	Fund-based - LT-Working capital Term Loan	LT	0.35	CARE B; Stable	-	-	-	-

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