

## Karnimata Cold Storage Limited

September 24, 2018

### Ratings

Facilities/ Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	11.14 (reduced from 12.31)	<b>CARE B+; Stable</b> <b>(Single B Plus; Outlook: Stable)</b>	<b>Reaffirmed</b>
Short term Bank Facilities	0.20	<b>CARE A4</b> <b>(A Four)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>11.34</b> <b>(Rupees Eleven crore and Thirty Four lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of Karnimata Cold Storage Limited (KCSL) are continues to remain constrained by regulated nature of business, seasonality of business with susceptibility to vagaries of nature, risk of delinquency in loans extended to farmers, weak financial risk profile marked by small scale of operation, moderate capital structure and moderate debt coverage indicators and competition from other local players. The ratings, however, continue to derive strength from its satisfactory track record of operations, experienced promoters, proximity to potato growing area and satisfactory profitability margins.

Going forward, the company's ability to increase its scale of operations, sustain its current profitability margins and manage working capital effectively shall be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**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 KCSL to pass on sudden increase in operating costs leading to downward pressure on profitability.

**Seasonality of business with susceptibility to vagaries of nature:** KCSL's operations are 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 preservable 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 between December to February. 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 and other vegetables is highly dependent on vagaries of nature.

**Risk of delinquency in loans extended to farmers:** Against the pledge of cold storage receipts, KCSL provides interest bearing advances to farmers. Working capital limits under produce marketing loan scheme from bank are used to extend advances to farmers, which are routed to the farmers through KCSL. Before the close of the season in November, the farmers are required to pay their outstanding dues, including repayment of the loan taken, along with the interest. In view of this, there exists a risk of delinquency in loans extended to farmers, in case of downward correction in potato or other stored goods prices as all such goods are agro commodities.

**Weak financial risk profile marked by small scale of operation, moderate capital structure and moderate debt service coverage indicators:** The scale of operation of KCSL remained small with a total operating income of Rs.5.16 crore (FY17: Rs.4.90 crore) with a PAT of Rs.0.33 crore (FY17: Rs.0.14 crore) in FY18 (refer the period from April 1 to March 31). Further, the credit risk profile of KCSL is restricted by its moderate capital structure with an overall gearing ratio of 1.61x (1.54x as on March 31, 2017) as on March 31, 2018. Furthermore, the debt service coverage indicators of the company has improved but remained moderate as indicated by total debt to GCA of 14.55x (FY17: 17.36x) and interest coverage ratio of 1.66x (FY17: 1.41x) in FY18. The liquidity position of the company was moderately weak as indicated by current ratio of 1.01x as on March 31, 2018. The average utilization of fund based working capital limits was high at around 90% during the last 12 months ended August 2018.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Competition from other local players:** Despite being capital intensive, entry barrier for setting up of new cold storage unit is low on account of government support and high demand for cold storages in West Bengal. The storage business is highly competitive in the potato growing regions of the state as it is the second largest producer of potato in India. In Paschim Medinipur, one of the major potato growing districts of the state around 72 cold storages is in operation. In view of the same, cold storage business is highly competitive in this region forcing cold storage owners to lure farmers by offering them lower rental and other services.

#### Key Rating Strengths

**Satisfactory track record of operations and experienced promoters:** KSCL is into same line of business since 2012 and thus has a satisfactory track record of operations of around 6 years. Mr. Pradip Lodha (Director) has around 25 years of experience in same line of business through Brahmanad Himghar Limited. He looks after the day to day operations of the company with appropriate support from other co-directors.

**Proximity to potato growing area:** KSCL is situated in the Paschim Medinipur district of 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 augers well for the company, as it provides it with a wide catchment and making it suitable for the farmers in terms of transportation and connectivity.

**Satisfactory profitability margins:** The profit margin of the company remained satisfactory with PBILDT margin of 38.46% (FY17: 39.89%) and PAT margin of 6.39% (FY17: 2.95%) in FY18.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

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

#### About the Company

KSCL was originally incorporated as “Karnimata Cold Storage Private Limited” on April 29, 2011. Subsequently the company was reconstituted as public limited company since December 4, 2012 and its name changed to the current one. KSCL is engaged in the business of providing cold storage facility primarily for potatoes to local farmers and traders on rental basis with an aggregate storage capacity of 258275 quintals per annum. The cold storage is located at Paschim Medinipur district of West Bengal in a built up area of 15, 895 sq ft. Besides providing cold storage facility, the company also provides interest bearing advances to farmers for their agricultural activities against the bonds receipts of potato stored.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4.90	5.16
PBILDT	1.95	1.99
APAT	0.14	0.33
Overall gearing (times)	1.54	1.61
Interest coverage (times)	1.41	1.66

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### **Analyst Contact:**

Name: Rajesh Shaw

Tel: 033-40181636

Mobile: +91- 9007700172

Email: [rajesh.shaw@careratings.com](mailto:rajesh.shaw@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

### 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	-	-	February 2022	3.32	CARE B+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	6.72	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	1.10	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.20	CARE A4

### 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	3.32	CARE B+; Stable	-	1)CARE B+; Stable (14-Aug-17)	-	-
2.	Fund-based - LT-Working Capital Limits	LT	6.72	CARE B+; Stable	-	1)CARE B+; Stable (14-Aug-17)	-	-
3.	Fund-based - LT-Cash Credit	LT	1.10	CARE B+; Stable	-	1)CARE B+; Stable (14-Aug-17)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.20	CARE A4	-	1)CARE A4 (14-Aug-17)	-	-

## CONTACT

### Head Office Mumbai

**Ms. Meenal Sikchi**  
 Cell: + 9198190 09839  
 E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
 Cell: + 9198196 98985  
 E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
 Cell: + 9199675 70636  
 E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
 Cell: + 9198209 98779  
 E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

### CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

#### AHMEDABAD

**Mr. Deepak Prajapati**  
 32, Titanium, Prahaladnagar Corporate Road,  
 Satellite, Ahmedabad - 380 015  
 Cell: +91-9099028864  
 Tel: +91-79-4026 5656  
 E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

#### JAIPUR

**Mr. Nikhil Soni**  
 304, Pashupati Akshat Heights, Plot No. D-91,  
 Madho Singh Road, Near Collectorate Circle,  
 Bani Park, Jaipur - 302 016.  
 Cell: +91 – 95490 33222  
 Tel: +91-141-402 0213 / 14  
 E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

#### BENGALURU

**Mr. V Pradeep Kumar**  
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
 No. 30, M.G. Road, Bangalore - 560 001.  
 Cell: +91 98407 54521  
 Tel: +91-80-4115 0445, 4165 4529  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

#### KOLKATA

**Ms. Priti Agarwal**  
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
 10A, Shakespeare Sarani, Kolkata - 700 071.  
 Cell: +91-98319 67110  
 Tel: +91-33- 4018 1600  
 E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

#### CHANDIGARH

**Mr. Anand Jha**  
 SCF No. 54-55,  
 First Floor, Phase 11,  
 Sector 65, Mohali - 160062  
 Chandigarh  
 Cell: +91 851111-53511/99251-42264  
 Tel: +91- 0172-490-4000/01  
 Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

#### NEW DELHI

**Ms. Swati Agrawal**  
 13th Floor, E-1 Block, Videocon Tower,  
 Jhandewalan Extension, New Delhi - 110 055.  
 Cell: +91-98117 45677  
 Tel: +91-11-4533 3200  
 E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

#### CHENNAI

**Mr. V Pradeep Kumar**  
 Unit No. O-509/C, Spencer Plaza, 5th Floor,  
 No. 769, Anna Salai, Chennai - 600 002.  
 Cell: +91 98407 54521  
 Tel: +91-44-2849 7812 / 0811  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

#### PUNE

**Mr. Pratim Banerjee**  
 9th Floor, Pride Kumar Senate,  
 Plot No. 970, Bhamburda, Senapati Bapat Road,  
 Shivaji Nagar, Pune - 411 015.  
 Cell: +91-98361 07331  
 Tel: +91-20- 4000 9000  
 E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

#### COIMBATORE

**Mr. V Pradeep Kumar**  
 T-3, 3rd Floor, Manchester Square  
 Puliakulam Road, Coimbatore - 641 037.  
 Tel: +91-422-4332399 / 4502399  
 Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

CIN - L67190MH1993PLC071691

#### HYDERABAD

**Mr. Ramesh Bob**  
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
 Hyderabad - 500 029.  
 Cell : + 91 90520 00521  
 Tel: +91-40-4010 2030  
 E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)