

Karnimata Cold Storage Limited

December 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	-	-	Reaffirmed at CARE B+; Stable and Withdrawn
Short-term Bank Facilities	-	-	Reaffirmed at CARE A4 and Withdrawn
Total Facilities	-		

*Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE B+; Stable/CARE A4' (Single B Plus; Outlook: Stable/A Four) assigned to the bank facilities of Karnimata Cold Storage Limited with immediate effect. The above action has been taken at the request of Karnimata Cold Storage Limited and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE

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.5.23 crore (FY18: Rs.5.16 crore) with a PAT of Rs.0.12 crore (FY18: Rs.0.33 crore) in FY19 (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 1.27x (1.61x as on March 31, 2018) as on March 31, 2019. Furthermore, the debt service coverage indicators of the company has deteriorated but remained moderate as indicated by total debt to GCA of 15.41x (FY18: 15.11x) and interest coverage ratio of 1.48x (FY18: 1.66x) in FY19. The liquidity position of the company was moderately weak as indicated by current ratio of 0.95x as on March 31, 2019. The average utilization of fund based working capital limits was high at around 80% during the last 12 months ended November 2019.

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.

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

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 7 years. Mr. Pradip Lodha (Director) has around 26 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 deteriorated but remained satisfactory with PBILDT margin of 36.71% (FY18: 38.57%) and PAT margin of 2.29% (FY18: 6.40%) in FY19.

Analytical approach: Not applicable

Applicable Criteria

[Policy on Withdrawal of ratings](#)

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

[Criteria for Short Term Instruments](#)

[Financial ratios - Non Financial Sector](#)

[CARE's default recognition policy](#)

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)	FY18 (A)	FY19 (A)
Total Operating Income	5.16	5.23
PBILDT	1.99	1.92
PAT	0.33	0.12
Overall Gearing (times)	1.61	1.27
Interest coverage (times)	1.66	1.48

A: Audited

Status of non-cooperation with previous CRA

1. ICRA has placed it ratings under non-cooperation as per its press release dated August 27, 2019 due to lack of adequate information from the company.
2. CRISIL has placed its rating under non-cooperation as per its press release dated November 22, 2019 due to lack of adequate information from the company.

Any other information: Not Applicable

Rating History (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	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Limits	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	0.00	Withdrawn

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE B+; Stable (24-Sep-18)	1)CARE B+; Stable (14-Aug-17)	-
2.	Fund-based - LT-Working Capital Limits	LT	-	-	-	1)CARE B+; Stable (24-Sep-18)	1)CARE B+; Stable (14-Aug-17)	-
3.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE B+; Stable (24-Sep-18)	1)CARE B+; Stable (14-Aug-17)	-
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	1)CARE A4 (24-Sep-18)	1)CARE A4 (14-Aug-17)	-

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.

Contact us

Media Contact

Mradul Mishra

Contact no. : +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact:

Name: Rajesh Shaw

Contact no. : +91-033-40581911

Email: rajesh.shaw@careratings.com

Relationship Contact

Name: Sambit Das

Contact no. : +91-033 4058 1904

Email ID: sambit.das@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over 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 the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. 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. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**