Karnimata Cold storage Limited

August 14, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	12.31	**CARE B+; Stable (Single B Plus; Outlook: Stable)**	Assigned
Short-term Bank Facilities	0.20	**CARE A4 (A Four)**	Assigned
Total	**12.51 (Rupees Twelve crore and Fifty One lakh only)**		

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 constrained by regulated nature of industry, 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 with low profitability, moderate capital structure and moderate debt coverage indicators. The ratings, however, derive strength from the satisfactory track record of operations, experienced promoters and proximity to potato growing area.

Going forward, the company’s ability to increase its scale of operations with improvement in 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 with low profitability, moderate capital structure and moderate debt service coverage indicators: The scale of operation of KCSL remained small with a total operating income of Rs. 4.90 crore (Rs.4.60 crore in FY16) with a PAT of Rs.0.14 crore (Rs.0.08 crore in FY16) in FY17 (refer the period from April 1 to March 31). Furthermore, the total capital employed was also low at Rs.17.27 crore as on March 31, 2017. The small size restricts the financial flexibility of the company in times of stress. Further, despite satisfactory PBILDT margin, PAT margin remained low due to high capital charges. The credit risk profile of KCSL is further restricted by its moderate capital structure with an overall

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

gearing of 1.54x as on March 31, 2017. Furthermore, debt service coverage indicators were also remained moderate as indicated by weak total debt to GCA at 17.36 times and the satisfactory interest coverage ratio at 1.41 times in FY17. The liquidity position of the company is moderately weak as indicated by below unity current ratio as on March 31, 2017. The average utilization of fund based working capital limits was high around 95% during the last 12 months ended July 31, 2017.

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 5 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: KCSL 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.

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

KCSL 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. KCSL 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)	FY16 (A)	FY17 (A)
Total operating income	4.60	4.90
PBILDT	1.83	1.95
PAT	0.08	0.14
Overall gearing (times)	1.98	1.54
Interest coverage (times)	1.38	1.41

A: Audited;

Status of non-cooperation with previous CRA: CRISIL B/A4; Issuer Not Cooperating as per press release dated July 13, 2017 due to lack of adequate information from the company.

Any other information: Not Applicable

Rating History (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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Rajesh Shaw
Tel: 033-40181636

Mobile: +91- 9007700172
Email: rajesh.shaw@careratings.com

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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	-	-	-	4.49	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	4.49	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Limits	LT	6.72	CARE B+; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	1.10	CARE B+; Stable	-	-	-	-
	Non-fund-based - ST-Bank Guarantees	ST	0.20	CARE A4				

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 98779
E-mail: 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

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

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

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@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

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

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

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

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

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

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

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