

## Khanpur Cold Storage Private Limited

March 16, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	6.64	<b>CARE BB-; Stable</b> <b>(Double B Minus; Outlook: Stable)</b>	<b>Assigned</b>
Short-term Bank Facilities	0.36	<b>CARE A4</b> <b>(A Four)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>7.00</b> <b>(Rupees Seven crore only)</b>		

\*Details of facilities in Annexure-1

### Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of **Khanpur Cold Storage Private Limited (KCSPL)** are constrained by its small scale of operations, 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 ratings drive strength from experienced promoters with long track record of operation, proximity to potato growing area, satisfactory profitability margins and comfortable capital structure with satisfactory debt coverage indicators.

### Key Rating Sensitivities

#### Positive factors

- Increase in scale of operation (turnover above Rs.10.00 crore) while sustain its current operating margin on a sustained basis.
- Improvement in capital structure (overall gearing ratio below 1.00x) and its reduced reliance on external borrowing for funding its working capital on a sustained basis.

#### Negative factors

- Any sizeable decline in scale of operation (turnover below Rs.5.00 crore) on a sustained basis and any changes in the government policy which affects the operations of the company.
- Deterioration in capital structure (overall gearing above 1.50x) with increased reliance on external borrowing for funding its working capital requirement on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Small scale of operations:** KCSPL is a small player in the domestic cold storage industry marked by total operating income of Rs.7.13 crore (Rs.5.62 crore in FY18) with a PAT of Rs.0.66 crore (Rs.0.99 crore in FY18) in FY19. Furthermore, the tangible net worth also remained low at Rs.5.11 crore as on March 31, 2019. Moreover, the company has achieved the turnover of Rs.7.50 crore during 11MFY20.

**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 taking into account political considerations, not economic viability. Due to severe government intervention, the cold storage facility providers cannot enhance rental charge commensurate with increased power tariff and labour charge.

**Seasonality of business with susceptibility to vagaries of nature:** KCSPL'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, KCSPL's 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.

**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

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

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**

**Experienced promoters with long track record of operations:** KCSPL's is into cold storage business since 1978 and accordingly has a long track record of operations of four decades. The key director; Mr. Durga Pada Ghosh has four decades of experience in cold storage industry, looks after the overall management of the company. He is supported by other director Mr. Bidyut Kumar Ghosh, Mr. Swapan Kumar Mukherjee, Mr. Rabindra Nath Ghosh and Mr. Prabhat Kumar Ghosh who also has four decade of experience in this line of business.

**Proximity to potato growing area:** KCSPL's storing facility is situated at Burdwan and Tarakeshwar (Chaulpatti) 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 provides it with a wide catchment and making it suitable for the farmers in terms of transportation and connectivity.

**Satisfactory profitability margins:** The profitability margins of the company remained satisfactory marked by PBILDT margin of 22.13% and PAT margin of 9.28% in FY19. However, the PBILDT margin deteriorated during FY19 on account of high income from trading activities where margin remains low. Further, the PAT margin moved in line with PBILDT margin during last three years.

**Comfortable capital structure with satisfactory debt coverage indicators:** The capital structure of the company has improved on the account of accumulation of surplus into reserves and lower utilization of working capital borrowings as on account closing date and the same remained comfortable marked by overall gearing ratio of 1.00x (2.12x as on March 31, 2018) as on March 31, 2019. Furthermore, the debt coverage indicators remained satisfactory marked by interest coverage of 3.82x and total debt to GCA of 5.92x in FY19. Deterioration in interest coverage during FY19 was on account of higher interest expense. However, total debt to GCA has improved on account of low debt level as on March 31, 2019.

**Liquidity: Adequate** - Liquidity is marked by sufficient cushion in accruals vis-a-vis repayment obligations and modest cash balance. The average utilization of working capital limit was around 85% during last 12 month ended on February 29, 2020. The cash and cash equivalent stood at Rs.3.69 crore as on March 31, 2019. During FY19, the company has reported a gross cash accrual of Rs.0.86 crore. The current ratio stood above unity at 1.08x as on March 31, 2019.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

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

#### **About the Company**

Khanpur Cold Storage Private Limited (KCSPL) was incorporated in November 1978 and currently it is being managed by Mr. Durga Pada Ghosh, Mr. Bidyut Kumar Ghosh, Mr. Swapan Kumar Mukherjee, Mr. Rabindra Nath Ghosh and Mr. Prabhat Kumar Ghosh. The company provides cold storage services for potatoes to farmers and traders. It runs two cold storage units in the name of 'K P Cold Storage' (having a storage capacity of 1,45,000 quintals) located at Burdwan district of West Bengal, and 'Khanpur Cold Storage' (having a storage capacity of 2,00,721 quintals) located at Hooghly district of West Bengal. The company is also engaged in trading of potatoes and potatoes seeds and it derived around 38% of revenue from trading activities during FY19 as against 18% in FY18.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	12M, A	12M, A
Total operating income	5.62	7.13
PBILDT	1.71	1.58
PAT	0.99	0.66
Overall gearing (times)	2.12	1.00
Interest coverage (times)	9.36	3.82

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

**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-Cash Credit	-	-	-	1.40	CARE BB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	5.02	CARE BB-; Stable
Fund-based - LT-Term Loan	-	-	Dec. 2025	0.22	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.36	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 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-Cash Credit	LT	1.40	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Working Capital Limits	LT	5.02	CARE BB-; Stable	-	-	-	-
3.	Fund-based - LT-Term Loan	LT	0.22	CARE BB-; Stable	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	0.36	CARE A4	-	-	-	-

**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.

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