

## Radhakanta Himghar Private Limited

November 29, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	8.08 (reduced from 10.05)	CARE B; Stable (Single B; Outlook: Stable)	Removed from non-cooperation and Reaffirmed
Total	8.08 (Rs. Eight crore and Eight lakhs Only)		

*Details of facilities in Annexure-1*

*In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of Radhakanta Himghar Private Limited and in line with the extant SEBI guidelines, CARE revised the ratings of bank facilities of the company to 'CARE B; Stable; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the rating and the ratings stand at 'CARE B; Stable'*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of **Radhakanta Himghar Private Limited (RHPL)** continues to remain constrained by its short track record and small scale of operations, leveraged capital structure with moderate debt coverage indicators, seasonality of business with susceptibility to vagaries of nature, regulated nature of business and competition from other players. The rating, however, continue to derive strength from the experienced promoters, satisfactory profitability margins and strategic location of the unit.

### Rating Sensitivities

#### Positives

- Increase in turnover beyond Rs.25 crore and cash accruals beyond Rs.1.50 crore on a sustained basis.
- Improvement in overall gearing to below 1.00x on a long term basis with reduced reliance on external borrowings to fund working capital requirements.

#### Negatives

- Deterioration in overall gearing ratio beyond 3.00x on a sustained basis.
- Elongation in working capital cycle beyond 150 days and increase in external borrowings to fund these requirements.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Short track record and small size of operations:** RHPL has started its commercial operations since March 2017 and thus has short operational track record. Furthermore, the size of operations of the company remained small marked by total operating income of Rs.3.11 crore (FY18: 3.37 crore) with a PAT of Rs.1.68 crore (FY18: 2.01 crore) in FY19. The tangible net worth of the company stood low at Rs.3.64 crore (FY18: 3.29 crore) as on March 31, 2019. The small size restricts the financial flexibility of the company and hinders it's economies of scale.

**Leveraged capital structure with moderate debt coverage indicators:** The capital structure of the company deteriorated due to higher utilisation of working capital and the same remained leveraged marked by overall gearing ratio of 1.79x as on March 31, 2019 as against 1.54x as on March 31, 2018. Further, the debt coverage indicators of the company also remained moderate as marked by interest coverage ratio of 3.61x (FY18:3.50x) and total debt to GCA of 6.00x (FY18:3.85x) in FY19. Improvement in interest coverage was on account of low interest expenses.

**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:** RHPL'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.

<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:** 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.

#### Key Rating Strengths

**Experienced promoters:** RHPL is managed by Mr. Dilip Kumar Pal who has more than two decades of experience in the same industry through his family business, looks after the day to day operations of the company. He is being duly supported by the other directors Mr. Gautam Kumar Pal.

**Satisfactory profitability margins:** The profitability margins of the company remained satisfactory marked by PBILDT margin of 53.85% (FY18: 59.64%) and PAT margin of 11.19% (FY18: 14.12%) in FY19. Deterioration in PBILDT margin was mainly due to higher increase in cost of operation. The PAT margin also deteriorated during FY19 in line with PBILDT margin.

**Strategic location of the unit:** RHPL's storage facility is situated 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.

#### Liquidity Indicator

**Liquidity: Adequate** - Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and low cash balance of Rs.0.36 crore. Its bank limits are utilized to the extent of 80% supported by above unity current ratio. During FY19, the company has reported a gross cash accrual of Rs.1.09 crore.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

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

#### About the Company

Incorporated in December 2015, Radhakanta Himghar Private Limited (RHPL) was promoted by Mr. Dilip Kumar Pal and his family member to set up a cold storage facility in the state of West Bengal with an aggregate storing capacity of 200000 quintal. The company has setup its cold storage unit with an aggregate cost of Rs.9.00 crore funded at debt equity of 2.00x and the company has started its commercial operations from March 2017. The company provides cold storage services to the farmers and traders for potatoes.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3.37	3.11
PBILDT	2.01	1.68
PAT	0.48	0.35
Overall gearing (times)	1.54	1.79
Interest coverage (times)	3.50	3.61

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

**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	-	-	October 2024	3.08	CARE B; Stable
Fund-based - LT-Working Capital Demand loan	-	-	-	5.00	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 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	3.08	CARE B; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Sep-19)	1)CARE B+; Stable (10-May-18) 2)CARE B+; Stable (27-Apr-18)	-	-
2.	Fund-based - LT-Working Capital Demand loan	LT	5.00	CARE B; Stable	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Sep-19)	1)CARE B+; Stable (10-May-18)	-	-

**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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### About CARE Ratings:

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