

Sangha Refrigeration

April 03, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	10.22 (reduced from Rs.11.04 crore)	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Facilities	10.22 (Rupees Ten crore and Twenty Two Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating drivers

The rating assigned to the bank facilities of Sangha Refrigeration (SRG) continue to be constrained by its implementation & execution risk associated with its greenfield project with cost and time overrun, susceptibility of margins to fluctuation in agro products availability and partnership nature of its constitution. The rating is further constrained by firm's presence in competitive and fragmented industry with high government regulation. The rating, however, derives strength from experienced partners.

Going forward, the ability of the firm to execute the project as per the projected schedules and achieve envisaged sales of its products at projected sales price would remain its key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Execution and implementation risk associated with the green field project with cost and time overrun

Execution risk is associated with green-field project which involves setting up a cold storage facility as the firm had already witnessed cost overrun and time overrun in its project due to technical difficulties faced by the firm. The commercial operations of the firm are expected to commence from April, 2019 as compared to earlier projected commencement from April 2018

The revised cost of project stood at Rs.36.33 crore as against initial estimated cost of Rs23.36 crore. The deviation in the cost of project was offset by infusion of funds by partners in the form of capital amount to Rs.12.97 crore. As on February 28, 2019, cost of Rs.34.23 crore has been incurred, funded through term loan of Rs.10.40 crore and partners' capital of Rs.23.83 crore. Out of the term loan of Rs. 5.21 crore, 0.64 crore is yet to be disbursed. Also, project implementation risk is associated in the form of stabilization of the operations to achieve the envisaged scale of business at projected prices in the light of competitive nature of industry.

Susceptibility of margins to fluctuation in agro products availability

Agro-based industry is characterized by its seasonality, as it is dependent on the availability of agro products, which further varies with different harvesting periods. The firm will procure the agro-products such as fruits and vegetables from farmers and open market. Being agro commodities, these are perishable in nature and their prices are dependent on their availability, which is further dependent on the vagaries of nature (agro-climatic conditions). Any adverse impact on the crop production will adversely affect the profitability as well as growth prospects of the firm.

Fragmented nature of the industry with high level of government regulation

In spite of being capital intensive, the entry barrier for new cold storage is low, backed by capital subsidy schemes of the government. SRG operates in a highly fragmented industry wherein there is presence of a large number of players in the unorganized and organized sectors. There are number of small and regional players catering to the same market which might limit the bargaining power of the firm and exert pressure on its margins. Also, the government intervenes in the market to keep a check on the prices to safeguard the interest of farmers, which in turn limits the bargaining power of the buyers.

Partnership nature of constitution

SCG's constitution as a partnership firm has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be the key factors affecting credit decision of the lenders.

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

Key Rating Strengths***Experienced partners in managing a cold storage***

SRG will be engaged in running an integrated cold storage business and is managed by Mr. Hardev Singh Sangha, Mr. Harminder Singh Sangha, Mr. Jang Bahadur Sangha, and Mrs Gurdev Kaur Sangha having an industry experience of four decades, around three decades, two & a half decades and three and a half decades respectively which they have gained through their association with SRG and various group concerns. Furthermore, the partners would be supported by a team of experienced and qualified professionals having varied experience in the technical, finance and marketing fields.

Analytical Approach—Standalone**Applicable criteria**

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

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

[CARE's methodology for service sector companies](#)

[CARE's policy on default recognition](#)

About the firm

Sangha Refrigeration (SRG) was established as a partnership firm in April 2012 and the firm is currently being managed by Mr. Hardev Singh Sangha, Mr. Harminder Singh Sangha, Mr. Jang Bahadur Sangha, and Mrs Gurdev Kaur Sangha. SRG is established with an aim to set up an integrated cold storage facility at Jalandhar, Punjab for procurement, cold storage and distribution of agricultural products such as potatoes, onion, oranges, apples, etc. with proposed storage capacity of 13,966 metric tonne per annum. The commercial operations of the firm are expected to commence from April, 2019.

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

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

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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	-	-	November, 2028	10.22	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 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	10.22	CARE B+; Stable	-	1)CARE B+; Stable (28-Feb-18)	-	-

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