

March 01, 2023

Savla Foods & Cold Storage Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital	7.00	7.00	[ICRA]BBB-(Stable); reaffirmed
Long-term Fund-based – Term Loan	9.07	6.64	[ICRA]BBB-(Stable); reaffirmed
Short-term Non-fund Based – Bank Guarantee	0.50	0.50	[ICRA]A3; reaffirmed
Long-term/Short-term Unallocated	23.43	25.86	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed
Total	40.00	40.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to take into account the extensive experience of the promoters of Savla Foods & Cold Storage Private Limited (SFCSP) in the cold storage business and its established relationships with customers. The ratings draw comfort from the favourable demand for cold storage facilities in the domestic market leading to optimum occupancy levels, healthy profitability and steady cash generation. This has facilitated regular prepayment of its term loans, and a comfortable capital structure attributable to low dependence on external debt.

The ratings, however, continue to remain constrained by the company's small scale of operations with presence in a single location, coupled with its capital-intensive nature of business that limits the flexibility to ramp-up scale of operations. Also, given the company is operating at optimum capacity, its ability to grow its rental rates remain critical for its top line growth in the near term. Further, SFCSP's business continues to remain vulnerable to agro-climatic risks, though availability of multi-product storage capabilities mitigates the seasonality risk to some extent. ICRA notes that SFCSP has been gradually recovering the sizable advances given to its Group company and believes that a material recovery of the same remains critical for the improvement of its credit metrics and liquidity position. The ratings also remain constrained by the intense competition from other organised and unorganised players in the vicinity, which can impact its occupancy levels.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from its experienced management, the long track record of its operations in the cold storage business and significant cash accruals vis-à-vis its repayments.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in cold storage business – SFCSP was incorporated in 1992 by the Savla family, the promoters of the Benzer Group. The company runs cold storage facilities from a single location in Turbhe, Navi Mumbai, with a total capacity (at any point of time) of ~3.25 million cubic feet. The extensive experience of the promoters has helped the company to establish strong relationships with its customers, which ensures repeat orders.

Healthy profitability level and stable cash accruals – The operating margins of the company remains healthy at 40-43% over the years, however, it remained lower at 40.4% in FY2022 and 39.2% (provisional) in 9M FY2023 against 42.0% in FY2021 owing to stiff competition and an inflationary cost regime. However, the company has taken hike in rentals from November 2022,

which is expected to support the operating margins during the rest of FY2023 to an extent. Continued healthy profitability enables healthy and stable accruals generation in the business. Healthy operating profits also led to comfortable interest coverage of 4.6 times in FY2022 and 6.0 times in 9M FY2023.

Comfortable capital structure, track record of prepayments on term borrowing; buffer in sanctioned working capital limits provides liquidity comfort – The company’s capital structure continues to remain comfortable owing to controlled debt levels, supported by healthy profitability levels and a moderate net worth base. ICRA notes that the generation of steady accruals from the business has facilitated SFCSP to regularly prepay its term loans resulting in low dependence on debt. Also, the coverage indicators remain comfortable as depicted by Total Debt/OPBDITA of 1.7 times as on December 31, 2022 over Total Debt/OPBDITA of 2.2 times as of March 31, 2022.

Credit challenges

Small scale of operations, with presence in single location; susceptibility of revenues to economic slowdown – While SFCSP benefits from the facility’s proximity to the Agricultural Produce Market Committee (APMC) market and Jawaharlal Nehru Port Trust (JNPT) port, its current scale of operations remains relatively small with market presence restricted to a single location. The operating income (OI) has remained modest over the period under study. Further, the revenue growth of the company is expected to remain restricted given that the operations are at mature capacity utilisation levels.

Capital intensive nature of business; sizable cash locked up in advances to Group entity, though gradual recovery is seen – With cold storage being a capital-intensive business, the asset turnover ratio, as represented by the operating income over gross block (OI/GB), has remained less than 40% during FY2016-FY2022. Also, SFCSP had advanced a substantial amount to its Group company for developing an IT Park in Vashi, leading to cash lock up in the business. The recovery of these advances continues to remain gradual in the last few fiscals. A material recovery of these advances will be crucial for the improvement of SFCSP’s credit metrics and liquidity position, going ahead. As on December 31, 2022, these Group company advances stood at Rs. 15.5 crore (Rs. 16.6 crore as on March 31, 2021 and Rs. 15.9 crore as on March 31, 2022). Though ICRA expects no further support from SFCSP, going forward, recovery of the earlier advances remains critical from a credit perspective.

Dependence on agriculture sector and seasonality risk; however, multiple product categories mitigate the risk – SFCSP is vulnerable to agro-climatic risks considering that it provides storage facilities for agri-products and processed food products, such as dry fruits, fresh fruits, frozen pulps, ice cream, chocolates and milk. Nonetheless, the company’s cold storage facilities can handle multiple agri-products and processed foods, which mitigates the seasonality risk to an extent. Further, it handles a significant quantum of imported and export quality products, therefore, remaining susceptible to the economic slowdown and global economic activities that have an impact on the overall EXIM trade volume of food products.

Intense competition from nearby units – Given the presence of several players in the cold storage business, SFCSP continues to face competition from small as well as large-sized players in the vicinity. Thus, despite the established position of the promoter group in the market, the intense competition in the industry exerts pressure on its revenues.

Liquidity position: Adequate

SFCSP’s liquidity remains **adequate** with cash and liquid investments of Rs. 12.1 crore as on December 31, 2022. The average monthly utilisation of the sanctioned fund-based working capital limit stood low at ~52% during the 12-month period that ended on January 31, 2023. In addition, the cash accruals are expected to adequately cover the repayments in the near to medium term.

Rating sensitivities

Positive factors – ICRA could upgrade SFCSP's ratings if the company demonstrates notable rise in top line with improvement in profitability levels, which strengthens its overall financial profile.

Negative factors – Negative pressure on SFCSP's ratings could arise in case the profitability weakens, or any major debt-funded capex or stretch in working capital cycle leads to weakening of the liquidity position. Any further advances to the Group company will have a material impact on its liquidity profile and would be a key rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

Note (for analyst reference only):

About the company

Incorporated in 1992, SFCSP provides cold storage facilities on a rental basis with a total capacity of 3.25 million cubic feet. The company provides advanced facilities such as re-packaging, ripening and pre-cooling. The cold storage unit is located at Turbhe in Navi Mumbai, Maharashtra. It commenced as a container freight yard at Jawaharlal Nehru Port Trust in FY2018, where it leases out land for storage of empty containers and provides repair and maintenance services for containers. However, the container freight yard operation was discontinued from May 2021 since business suffered significantly from the Covid-19 induced global lockdowns, which resulted in reduced EXIM trade.

The company is closely held and promoted by the Savla family, who are the promoters of the Benzer Group, which is present in retail, manufacturing, jewellery and real estate businesses, in addition to cold storage. The flagship company of the Group is Benzer Departmental Stores Private Limited, which runs the Benzer chain of retail stores.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	30.4	30.1
PAT (Rs. crore)	5.0	5.7
OPBDIT/OI (%)	42.0%	40.4%
PAT/OI (%)	10.0%	10.2%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	2.5	2.2
Interest coverage (times)	3.8	4.6

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of December 31, 2022 (Rs. crore)	Date & rating in FY2023 Mar 1, 2023	Date & rating in FY2022 Mar 28, 2022	Date & rating in FY2021 Mar 18, 2021	Date & rating in FY2020 Mar 31, 2020
1 Long-term Fund-based – Cash Credit	Long-term	3.50	--	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2 Overdraft	Long-term	3.50	--	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
3 Long-term Fund-based – Term Loan	Long-term	6.64	6.64	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
4 Short-term Non-fund Based - BG	Short term	0.50	--	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
5 Long-term/Short-term Unallocated	Long-term and short term	25.86	--	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple
Short-term Non-fund Based	Very Simple
Long-term/Short-term Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund-based – Cash Credit	NA	NA	NA	3.50	[ICRA]BBB-(Stable)
NA	Long-term Fund-based – Term Loan	FY2017	NA	FY2027	6.64	[ICRA]BBB-(Stable)
NA	Overdraft	NA	NA	NA	3.50	[ICRA]BBB-(Stable)
NA	Short-term Non-fund Based	NA	NA	NA	0.50	[ICRA]A3
NA	Long-term/Short-term Unallocated	NA	NA	NA	25.86	[ICRA]BBB-(Stable)/ [ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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