

June 28, 2024

## Kan Silos Lucknow Private Limited: Rating reaffirmed

### Summary of rating action

| Instrument*                      | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                  |
|----------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Long-term Fund-based – Term Loan | 69.50                                | 40.00                               | [ICRA]BB- (Stable); reaffirmed |
| <b>Total</b>                     | <b>69.50</b>                         | <b>40.00</b>                        |                                |

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of Kan Silos Lucknow Private Limited (KSLPL) factors in the nascent stage of the project with ~42% of the total cost incurred till March 2024 (total project cost is estimated at ~Rs. 80 crore), exposing it to time and cost overrun risks. The company has received long-term contract (30 years of operation) with Food Corporation of India (FCI) for operating a 50,000-MT silo under design, build, finance, own and operate (DBFOO) basis. It has acquired the land for the silo and finalised the designs and drawings. The foundation work is partially complete at the site and the silo installation is expected to start from July 2024, in phases. The project is expected to achieve commercial operations date (COD) by December 2024, whereas the scheduled COD was June 2023, exposing the entity to the risk of levy of further penalty from FCI. As per the management, a penalty of Rs. 44 lakh has already been levied on the company in June 2023 due to delay in construction.

Besides, with presence limited to a single silo, the company would remain exposed to high geographical concentration risk. The entity is dependent on FCI for most of its revenues, leading to high customer concentration risk. The management intends to generate additional business from railway siding from third parties, which would provide some diversification benefits over the medium term. However, this would be contingent upon the company's ability to gain additional businesses for its railway siding infrastructure. The rating assigned also remains constrained as the leverage and coverage metrics for the project are expected to remain weak over the medium term, with the company likely to remain dependent on timely funding support from the promoters till commercialisation of operations and subsequent commencement of rentals from FCI.

The Stable outlook on the rating reflects ICRA's expectation that the experienced promoters of the entity would ensure a timely construction of the silo, without any further major cost and time overrun. Moreover, the promoters are expected to provide support in meeting debt obligation or any fund requirement on a timely basis.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoter group to aid in timely commercialisation of the project** – The promoters enjoy an established track record in the warehousing industry with an experience of managing a 25,000-MT warehouse in Gonda and 40,000-MT warehouse in Pratapgarh. Further, the promoters have infused funds into the company (Rs. 21 crore infused out of promoters' equity/unsecured loans requirement of ~Rs. 42 crore) towards the silo construction. The promoter group is expected to continue to support the company's funding requirement in the future as well.

**Long-term contract with FCI to aid stable cash inflows after commercialisation** – The company has entered into an agreement of 30 years with FCI for managing silos for wheat storage. The project is being set up under a DBFOO model. The agreement provides guaranteed fixed charges (inflation linked) to be paid by FCI even if no foodgrains are stored in the silos. The company would also be entitled to variable charges and handling charges, which would be revised every year based on the wholesale price index (WPI) and cost price index (CPI) to compensate for inflation. As FCI is a Government entity, the counterparty risk remains low.

## Credit challenges

**Exposed to project execution risk** – The project is in its initial stages of construction, exposing the company to risks arising from any further delay or cost overrun. ICRA notes that the foundation work has been completed for two silo structures (of 12,500 MT capacity each) out of four, and the silo installation is expected to start from July 2024, which provides some comfort. The railway sliding work is also running simultaneously. The project is expected to become operational by Q4 FY2025 with no further significant delay expected, as per management discussions.

**Exposed to high customer and geographical concentration risks** – The entity is exposed to high geographical concentration risk as it is a single location facility in Uttar Pradesh. Further, most of the company’s revenues are dependent on a single entity, FCI. However, the long-term contract with FCI, which is a Government-controlled entity, reduces the counterparty risk to a large extent.

**Weak financial risk profile** – The company’s financial risk profile is expected to remain weak characterised by weak capitalisation and coverage indicators, considering delay in project completion. The company has been sanctioned term debt of Rs. 36.9 crore in December 2023, with an outstanding of Rs. 12.6 crore as of March 31, 2024. The loan tenure will be for 15 years with repayments commencing from Q4 FY2025. The company is expected to be dependent on promoter support for servicing its debt repayment obligations during the initial years of the silo operations. ICRA further notes the absence of debt service reserve account (DSRA) amid exposure to risks related to further delay in construction and timely receipt of payment from FCI upon commercialisation.

## Liquidity position: Stretched

The company’s liquidity position is expected to remain stretched, as evident from its negligible free cash and liquid investments as on March 31, 2024. The company is likely to remain reliant on timely promoter funding to service its debt repayment obligations till commercial operations begin.

## Rating sensitivities

**Positive factors** – Timely completion of the project without any further significant delay or cost overrun would remain critical for a rating upgrade.

**Negative factors** – Pressure on the rating could arise in case of any further material delay in commencement of operations, leading to penalty/ reduced revenues from FCI. The ratings can also be downgraded in case of any delay in fund infusion from the promoter group or inadequacy of the same to support the silo construction/operations.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>           |
| Parent/Group support            | Not Applicable  |
| Consolidation/Standalone        | ICRA has considered the standalone financials of the company. |

## About the company

Kan Silos Lucknow Pvt. Ltd. is a special purpose vehicle (SPV), set up to undertake the silos project for foodgrains storage. The company was incorporated on August 23, 2018 under the provisions of the Companies Act, 2013 and has its registered office on Faizabad Road, Lucknow. The company was selected as a successful bidder after technical and financial evaluation by FCI for the

construction of silos for storage of wheat in Lucknow, Uttar Pradesh under DBFOO basis of public private partnership, for 30 years. The concession agreement between the two parties was signed in January 2019.

Silo project means the development, design, construction, financing, procurement, engineering, operations and maintenance of silo complex in accordance with the provisions of the agreement and includes all incidental and auxiliary works and services related to or in respect of the project.

#### Key financial indicators (audited)

|  | FY2023 | FY2024 <sup>^</sup> |
|--|--------|---------------------|
| Operating income                                     | 0.0    | 0.0                 |
| PAT  | 0.0    | 0.1                 |
| OPBDIT/OI  | -      | -                   |
| PAT/OI   | -      | -                   |
| Total outside liabilities/Tangible net worth (times) | 27.9   | 74.3                |
| Total debt/OPBDIT (times)                            | NM*    | NM*                 |
| Interest coverage (times)                            | -      | -                   |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; \*Not meaningful; <sup>^</sup> Provisional

#### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

#### Rating history for past three years

| Instrument | Type      | Current rating (FY2025)  |   | Chronology of rating history for the past 3 years |                         |                         |                         |
|------------|-----------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
|            |           | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2024 (Rs. crore) | Date & rating in FY2025                           | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 |
|            |           |                          |   | June 28, 2024                                     |                         |                         |                         |
| 1          | Term loan | 40.0                     | 12.6  | [ICRA]BB-(Stable)                                 | -                       | [ICRA]BB-(Stable)       | [ICRA]BB-(Stable)       |

#### Complexity level of the rated instruments

| Instrument                      | Complexity Indicator |
|---------------------------------|----------------------|
| Long-term fund-based –Term Loan | Simple               |

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   | Term Loan       | December 2023    | NA          | December 2038 | 40.00                    | [ICRA]BB-(Stable)          |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis: Not applicable**

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