June 25, 2024

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	6.64	3.11	[ICRA]BBB-(Stable); reaffirmed
Short-term Non-fund based –Bank guarantee	0.50	0.50	[ICRA]A3; reaffirmed
Long-term/short-term Unallocated	25.86	29.39	[ICRA]BBB-(Stable)/ [ICRA]A3; reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers the stable financial profile of Savla Foods & Cold Storage Private Limited (SFCSPL), reflected in the steady improvement and above-average debt protection metrics over the last two fiscals ending FY2024 and expectations of continuation of the same over the medium term. With no major debt-funded capex, the coverage indicators have strengthened over the last two fiscals and is likely to remain at healthy levels in the near to medium term. However, the entity is operating at optimum capacity utilisation level and is, thus, planning to incur capex for capacity expansion in the medium term, which in turn may entail some incremental borrowing. The mix as well as the quantum of this, however still remains uncertain at present. ICRA, however, expects the coverage indicators to remain comfortable, given the strong cash accruals and comfortable liquidity to keep the debt funding at acceptable levels. ICRA will continue to monitor the development in this regard, given the same is at a nascent stage at present and anything concrete will only be available by end of the current fiscal. The ratings continue to be supported by the extensive experience of the promoters of SFCSPL 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.

The ratings, however, remain constrained by the company's small scale of operations with presence in a single location, resulting in asset concentration risk. Also, the company is operating at optimum capacity, which restricts its ability to grow its top line largely through incremental rental rates. Further, SFCSPL's business continues to be vulnerable to agro-climatic risks, though availability of multiproduct storage capabilities mitigates the seasonality risk to some extent. ICRA notes that a part of SFCSPL's net worth is in the form of advances extended to its Group company, wherein the recovery has been gradual. The ratings also remain constrained by the intense competition from other organised and unorganised players in the vicinity, which can impact its occupancy levels, coupled with vulnerability of its margin to overheads as well as rising energy costs.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from its experienced management, favourable location near the port and healthy margin level, which supports its cash accruals.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in cold storage business – SFCSPL 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 ensure repeat orders. Further, SFCSPL benefits from the facility's proximity to the Agricultural Produce Market Committee (APMC) market and Jawaharlal Nehru Port Trust (JNPT) port.

Healthy profitability level and stable cash accruals – The company's operating margin (OPM) remained healthy at 30-40% over the years. However, the OPM was lower at 33.0% in FY2023 over 40.4% in FY2022 owing to discontinuation of cost rationalisation measures (undertaken during the Covid-19 pandemic) and an inflationary cost regime. The operating margin improved to 39.3% in FY2024, on a provisional basis, owing to rental hikes taken by the company and stable fixed overheads. Continued healthy profitability enables healthy and stable accruals generation in the business.

Comfortable capital structure; buffer in sanctioned working capital limits provides liquidity comfort – The company's capital structure remains comfortable owing to controlled debt level, supported by healthy profitability and a moderate net worth base. Healthy operating profits, coupled with steady debt reduction, led to a comfortable interest coverage of 5.2 times in FY2023 and 11.3 times in FY2024 (provisional) and total debt/OPBITDA of 1.9 times in FY2023 and 0.9 times in FY2024 (provisional). The debt is expected to remain range-bound in the current fiscal too, which is likely to keep the debt protection metrics at an above-average level.

Credit challenges

Small scale of operations, with presence in single location; susceptibility of revenues to economic slowdown – The company has posted gradual revenue growth of 12.4% to Rs. 36.3 crore in FY2024 on YoY basis from 7.5% to Rs. 32.3 crore in FY2023, primarily driven by better realisations. However, its current scale of operations in absolute terms remains relatively small with market presence restricted to a single location. The operating income (OI) has remained modest over the past 5 years. Further, the revenue growth of the company is expected to remain restricted as the operations are at mature capacity utilisation levels. However, the company is planning to incur capex in the medium term to increase its storage capacity. Though the capex will aid in capacity enhancement, SFCSPL's ability to scale-up and garner commensurate returns from its planned capex will remain critical.

Capital intensive nature of business; sizeable cash advances to Group entity – Cold storage is a capital-intensive business, hence the asset turnover ratio, represented by the operating income over gross block (OI/GB), has remained less than 40% during FY2019-FY2024. Also, SCSPL had advanced a substantial amount to its Group company for developing an IT park in Vashi, resulting in cash lock-up in the business. The recovery of these advances has been gradual in the last few fiscals. As on March 31, 2024, the advances stood at Rs. 14.4 crore (Rs. 15.1 crore as on March 31, 2023). Though ICRA expects no further support from SFCSPL, going forward, recovery of the earlier advances remains critical from a credit perspective, especially given the entity will be necessitated to embark on capex for capacity enhancement.

Dependence on agriculture and seasonality risk, however, multiple product categories mitigate the risk – SFCSPL is vulnerable to agro-climatic risks as it provides storage facilities for agricultural and processed food products, such as dry fruits, fresh fruits, frozen pulps, ice cream, chocolate and milk. Nonetheless, the company's cold storage facilities can handle multiple types of products, 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.

Margin exposed to intense competition and rising operational costs – The presence of several players in the cold storage business, results in SFCSPL facing 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. The margin also faces pressure from rising operational costs especially related to overheads as well as power costs, given the nature of cold storage business, wherein energy requirements are high.

Liquidity position: Adequate

SFCSPL's liquidity remains adequate, with cash and liquid investments of Rs. 16.5 crore as on March 31, 2024. The average monthly utilisation of the sanctioned fund-based working capital limit stood low at ~47% during the 12 months that ended on May 31, 2024. In addition, the cash accruals are expected to adequately cover the repayments of Rs. 1.99 crore in FY2025 and Rs. 1.25 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade SFCSPL's ratings if the company's top line expands with maintenance of healthy profitability level, which strengthens its overall financial profile.

Negative factors – Pressure on SFCSPL's ratings could arise in case of material decline in top line or weakening of profitability, or any major debt-funded capex or stretch in working capital cycle, weakens its liquidity position. Any further advances to the Group company which has a material impact on its liquidity profile, will also be a downward trigger.

Analytical approach

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

About the company

SFCSPL, incorporated in 1992, provides cold storage facility on a rental basis with a total capacity of 3.25 million cubic feet (storage capacity of 30,000 metric tonnes (MT)). SFCSPL also provides ancillary services such as re-packaging, ripening and pre-cooling. The cold storage unit is located at Turbhe, in Navi Mumbai, Maharashtra

It offers logistics services through its dedicated fleet which is used for transportation of various products as per requirements of the customer.

SFPL is closely held and promoted by the Savla family, who is the promoter of the Benzer Group, which, apart from cold storage, is also present in retail, manufacturing, jewellery and real estate. The flagship company of the Group is Benzer Departmental Stores Private Limited, which runs the Benzer chain of retail stores.

Key financial indicators (audited)

	FY2022	FY2023	FY2024*
Operating income	30.1	32.3	36.3
PAT	5.7	4.5	10.0
OPBDIT/OI	40.4%	33.0%	39.3%
PAT/OI	18.9%	14.1%	27.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	0.2
Total debt/OPBDIT (times)	2.2	1.9	0.9
Interest coverage (times)	4.6	5.2	11.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore*

PAT: Profit after tax; OPBDIT: 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	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 14, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 25, 2024	-	Mar 01, 2023	Mar 28, 2022
1	Long-term fund-based – Cash credit	Long-term	3.50	--	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Overdraft	Long term	3.50	--	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Long-term Fund-based –Term Loan	Long term	3.11	3.11	[ICRA]BBB-(Stable)	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
4	Short-term Non-fund Based-BG	Short term	0.50	--	[ICRA]A3	-	[ICRA]A3	[ICRA]A3
5	Long-term/Short-term Unallocated	Long term and short term	29.39	--	[ICRA]BBB-(Stable)/ [ICRA]A3	-	[ICRA]BBB-(Stable)/ [ICRA]A3	[ICRA]BBB-(Stable)/ [ICRA]A3

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	Nov 2020	NA	May 2026	3.11	[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	29.39	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-4445964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches