

March 28, 2022

## Savla Foods & Cold Storage Private Limited: Ratings upgraded to [ICRA]BBB- (Stable)/[ICRA]A3

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital	5.00	7.00	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Fund based-Term Loan	17.50	9.07	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Non-fund based-Bank Guarantee	0.50	0.50	[ICRA]A3; upgraded from [ICRA]A4+
Unallocated Limit	17.00	23.43	[ICRA]BBB- (Stable)/ [ICRA]A3; upgraded from [ICRA]BB+ (Stable)/[ICRA]A4+
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade reflect the steady generation of accruals in Savla Foods & Cold Storage Private Limited's (SFCSP), backed by healthy operating profitability, which has facilitated the prepayment in term loans, resulting in low dependence on external debt and a comfortable capital structure. Also, with the discontinuation of container freight yard services in the current year (FY2022), which remained challenged by low volumes and high operational costs, SFCSP's profitability metrics are likely to improve in the near term. The ratings also continue to take into account, the extensive experience of SFCSP's promoters in the cold storage business and its established relationship with its customers, which has resulted in repeat orders.

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 continue 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 ~33,000 MT. 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 company's operating margin continues to remain healthy at 42% in FY2021, which further improved to 45.3% in 9M FY2022 (provisional) with discontinuation of container freight yard services. The same remained challenged by low volumes due the reduction in EXIM activities given the Covid-19 impact on Global trade along with escalated input costs leading to weak margin business compared to company's traditionally healthy margin in cold storage warehousing business. Continued healthy profitability enables healthy and stable accruals generation in the business. Improvement in operating margin in 9M FY2022 has resulted in healthy interest coverage of 6.5 times over 3.8 times in FY2021.

**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 2.0 times as December 31, 2021 over Total Debt/OPBDITA of 2.5 times as of March 31, 2021.

## 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, given capacity utilisation at optimum 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-FY2021. Also, SCSPL 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 March 31, 2021, these Group company advances stood at Rs. 16.6 crore (P.Y. Rs. 16.7 crore). 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 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. Due to the lockdown and restriction on imports, the company witnessed decline in storage of food items, which has impacted its operating income in FY2021. The rentals, which are also a function of economic activity, witnessed moderation in FY2021; though the rental rates were partly upward revised since January 2022.

**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, notwithstanding the established position of the promoter group in the market, the intense competition in the industry exerts pressure on its revenues.

## Liquidity position: Adequate

SFCSPL's liquidity remains **adequate**. The average monthly utilisation of the sanctioned fund-based working capital limit stood low at ~16.5% during the nine-month period that ended on December 31, 2021. As on December 31, 2021 a cushion of Rs. 1.7 crore on the sanctioned working limit was available in the form of undrawn limits. In addition, the cash accruals are expected to adequately cover the repayments in near to medium term. Also, the presence of significant unsecured loans from friends and family with absence of scheduled repayment obligations along with surplus cash parked as FD which stood at ~4.0 crore as on March 21, 2022 which is a source of comfort.

## Rating sensitivities

**Positive factors** – ICRA could upgrade SFCSPL'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 SFCSPL'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	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

## About the company

Incorporated in 1992, SFCSPL provides cold storage facilities on a rental basis with a total capacity of 3.25 million cubic feet (storage capacity of 33,000 MT). 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 the 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)

	FY2020	FY2021
Operating Income (Rs. crore)	35.8	30.4
PAT (Rs. crore)	7.5	5.0
OPBDIT/OI (%)	42.9%	42.0%
RoCE (%)	14.1%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.6
Total Debt/OPBDIT (times)	2.6	2.5
Interest Coverage (times)	3.4	3.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-Cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

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

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 28, 2022	Mar 18, 2021	Mar 31, 2020	Jan 29, 2019
1	Cash Credit	Long-term	3.50	-	[ICRA]BBB-(Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
2	Overdraft	Long-term	3.50	-	[ICRA]BBB-(Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
3	Term Loans	Long-term	9.07	9.00	[ICRA]BBB-(Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)
4	Bank Guarantee	Short-term	0.50	-	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
5	Unallocated Limit	Long-term/Short-term	23.43	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Stable)/[ICRA]A4+	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BB (Stable)

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Overdraft	Simple
Term Loans	Simple
Bank Guarantee	Very Simple
Unallocated	NA

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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Bank name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	3.50	[ICRA]BBB- (Stable)
NA	Overdraft	NA	NA	NA	3.50	[ICRA]BBB- (Stable)
NA	Term Loans	FY2017	7-7.25%	FY2027	9.07	[ICRA]BBB- (Stable)
NA	Bank Guarantee	NA	NA	NA	0.50	[ICRA]A3
NA	Unallocated	NA	NA	NA	23.43	[ICRA]BBB- (Stable)/[ICRA]A3

Source: Savla Foods & Cold Storage Private Limited

### Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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