

April 10, 2017

## Maa Bameswari Cold Storage Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
LT-Working Capital Loan	0.94	[ICRA]B (Stable) reaffirmed
LT- Term Loan	2.00	[ICRA]B (Stable) reaffirmed
LT- Bank Guarantee	0.25	[ICRA]B (Stable) reaffirmed
ST- Seasonal Cash Credit	6.50	[ICRA]A4 reaffirmed
LT/ST-Unallocated	0.08	[ICRA]B (Stable)/[ICRA]A4
<b>Total</b>	<b>9.77</b>	

*LT: Long term; ST- Short term; \* The Inland Letter of Credit is a sublimit within the Cash Credit.*

*\*Instrument Details are provided in Annexure-1*

### Rating Action

ICRA has re-affirmed the long term rating of [ICRA]B (pronounced ICRA B) to the Rs. 0.94 crore working capital , Rs. 2 crore term loan and Rs. 0.25 crore bank guarantee of Maa Bameswari Cold Storage Private Limited (MBCS/the company) . ICRA has also re-affirmed the short term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs. 6.50 crore seasonal cash credit facility of MBCS. The outlook on the long term rating is stable. An unallocated amount of Rs. 0.08 crore rated on a long term and short term scale has been reaffirmed at [ICRA]B and [ICRA]A4.

### Detailed Rationale

The reaffirmation of ratings takes into account MBCS's small scale of current operations, its weak financial risk profile as reflected by high gearing, depressed coverage indicators, and subdued return on capital employed. It also considers the high working capital-intensive nature of operations due to the practice of extending up-front advances to the farmers at the time of loading of potatoes, which exerts pressure on the liquidity position. The ratings are further constrained by the regulated nature of the industry, making it difficult to pass on the increase in operating costs, exerting pressure on the profitability. Besides, MBCS is exposed to agro-climatic risks as its business performance entirely depends upon a single agro commodity — potato. ICRA notes that the company remains exposed to the counterparty risk due to loans extended to farmers, given the chances of delinquencies, if potato prices fall to a low level.

The ratings, however, derives support from the established track record of the company in the cold storage business and the promoters' experience of more than five decades in the industry. Besides, MBCS enjoys location advantage as its cold storage unit is situated in Hooghly, a district well known for large-scale potato production.

In ICRA's opinion, the ability of the company to improve its profitability as well as cash accruals while managing its working capital requirements efficiently would be the key rating sensitivities, going forward.

## **Key rating drivers**

### **Credit Strengths**

- Established track record of the promoters in the cold-storage business, with an experience of around four decades
- Location advantage in terms of presence of its cold-storage unit in Hooghly district, where a large quantity of potato is produced

### **Credit Weaknesses**

- Small scale of current operations
- Regulated nature of the industry makes it difficult to pass on the increase in operating costs, thus exerting pressure on the profitability
- Operation is entirely depends upon a single agro commodity — potato, making the company susceptible to agro-climatic risks
- Weak financial risk profile as reflected by high gearing, depressed coverage indicators and subdued return on capital employed
- High working capital intensity of business exerts pressure on the liquidity position
- Risks associated with delinquency of loans extended to the farmers

### **Description of key rating drivers highlighted above:**

MBCS had set up its cold storage unit in 2005 at Goghat in Hooghly district of West Bengal and has a storage capacity of 19,300 MT. The promoters have experience of more than four decades in the business through other group entity, Dhirendra Narayan Cold Storage Pvt. Ltd, which was established in 1971. The company is involved in the business of providing cold storage facility to potato-growing farmers and traders. The favourable location of the cold storage unit, in close proximity to the leading potato-growing areas of West Bengal, augurs well for the company as it provides a wide catchment area. However, ICRA notes that MBCS remains exposed to agro-climatic risks as it deals with the storage of only one agro commodity - potato.

MBCS's income stream is primarily generated from multiple sources that include basic cooling charges, drying charges, and insurance and interest income from farmers. The basic cooling charges accounted for around 90% of the company's top-line during FY2016. The basic rental rate for cold storages operating in West Bengal is regulated by the State Government, which makes it difficult to pass on the increase in operating costs, thus exerting pressure on the profitability. The State Government has fixed the rental rate at Rs. 141 per quintal (excluding Rs. 14 per quintal for loading and unloading) for FY2017.

The operations of cold storage units are seasonal in nature. With the harvesting period commencing in February, the loading of potatoes in cold storages begins by the end of February and lasts till March. Further, with potatoes having a limited life even after preservation, farmers liquidate their stock from the cold storage by November. The unit remains non-operational from December to February, during which it undertakes annual maintenance. Against the pledge of potatoes stored, MBCS provides interest-bearing advances to the farmers. These advances are funded by the bank in the form of cash credit, which are routed to the farmers through the company. Before the close of the season in November, farmers have to pay their outstanding dues, which include repayment of the loans taken, along with interest. Moreover, any significant downward correction in potato prices exposes the company to the risk of delinquency in loans extended to the farmers. However, in such cases, MBCS has the right to auction the stock and recover its dues.



The company registered decline of around 9% in OI during FY2016 primarily due to sharp decline in interest income from crop loan lent to the farmers during FY2016, as the company provided low advances to the farmers, though rental income has improved during the year. The operating margin remained healthy at 31.9% during FY2016, though declined compared to the previous year. However, the company was able to achieve nominal profits in FY2016 after incurring loss in FY2015 due to relatively low depreciation and interest expense. The return on capital employed continues to remain at a depressed level in FY2016.

MBCS's capital structure deteriorated significantly with a gearing of 8.58 times as on March 31, 2016, since the company availed cash-credit facility for extending advances to the farmers, which in turn also kept the working capital requirements at a high level. High debt, coupled with low profits led to weak coverage indicators as reflected by a Total Debt/OPBDITA of 12.58 times, an interest cover of 1.87 times and net cash accruals relative to Total Debt of 5% in FY2016. The company has to extend advances to the farmers, depending upon the value of the goods stored. These advances are recovered at the time of offloading of potatoes, which results in high working capital intensity of operations for the company. The working capital intensity of operations surged to 292% in FY2016 as the company extended advances to the farmers in FY2016 (in FY2015 advances were lower).

**Analytical approach:**

**Links to applicable criteria**

Corporate Credit Rating –A Note on Methodology

ICRA Rating Methodology – Ferrous Metals

**About the Company:**

Maa Bameswari Cold Storage Private Limited (MBCS) had set up its cold storage unit at Goghat in the Hooghly district of West Bengal in 2005. Promoted by the Kolkata-based Saha and the Shaw family, MBCS has a storage capacity of 19,300 metric tonnes (MT) at present.

The company reported net profit of Rs. 0.01 crore on an operating income of Rs. 2.47 crore in FY2016 compared to a net loss of Rs. 0.16 crore on an operating income of Rs. 2.68 crore during FY2015.

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

**Any other information:** Not Applicable

**Rating History:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	May 2016	March 2016	March 2015	December 2013
1	Working capital loan	Long Term	0.94	[ICRA]B (Stable)	[ICRA]B	[ICRA]B	[ICRA]B	[ICRA]B
2	Term Loan	Long Term	2.00	ICRA]B (Stable)	ICRA]B	ICRA]B	ICRA]B	ICRA]B
3.	Bank Guarantee	Long Term	0.25	ICRA]B (Stable)	ICRA]B	ICRA]B	ICRA]B	ICRA]B
4.	Seasonal cash credit	Short Term	6.50	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4
5	Unallocated	Long /Short Term	0.08	ICRA]B (Stable)/ [ICRA]A4	ICRA]B (Stable)/ [ICRA]A4	ICRA]B (Stable)/ [ICRA]A4	ICRA]B (Stable)/ [ICRA]A4	ICRA]B (Stable)/ [ICRA]A4

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple," "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Working capital loan	-	-	-	0.94	[ICRA]B (Stable)
Term Loan	Feb 26, 2016	-	September 30, 2020	2.00	[ICRA]B (Stable)
Bank Guarantee				0.25	[ICRA]B (Stable)
Seasonal cash credit	-	-	-	6.50	[ICRA]A4
Unallocated				0.08	[ICRA]B (Stable)/ [ICRA]A4

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