Press Release

GNR Cold Storage Private Limited

December 22, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 11.62 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of **'ACUITE BBB-' (read as ACUITE Triple B Minus)** on the Rs.11.62 Cr bank facilities of GNR Cold Storage Private Limited (GNR; part of Gubba Group). The outlook is **'Stable'**.

About the Company and Group

Established in 2008, GNR Cold Storage Pvt Ltd (GNR) is a part of the Gubba Group. Gubba group has a history of 125 years with the 'Gubba' brand that started in 1857 with trading of agri-commodities. The group which includes GNR, Gubba Cold Storage Pvt Ltd (GCS; flagship company of the group), Gubba Green Cold Pvt Ltd (GGC) and Gubba Agro Fresh Pvt Ltd (GAF) provides cold storage facilities for preserving seeds (Commercial seed, foundation seed, and germplasm seed), food items (Fresh, Chilled, Frozen), and Pharmaceuticals (APIs, Dangerous goods, Builk Drugs, Capsules, Vials & Syringes, Packaging material, Finished Goods) at its temperature-controlled cold storages/warehouses (TCW).

Currently, grown to a 1.25 crore cubic feet capacity, the group operates 17 cold storages across Hyderabad and Aurangabad. The group has been serving seed, dairy, processed food and Pharma industries with 30+ years of expertise in the technology of cold storage preservation.

Gubba group is currently managed by the 5th generation entrepreneurs. The day-to-day operations are managed by Mr.Gubba Nagender Rao, Mr. Gubba Kiran Kumar and Mr.Gubba Prashant.

Analytical Approach

Acuité has consolidated the financial and business risk profiles of GNR with GCS, GGC and GAF, hereinafter, referred to as "Gubba Group" on account of their common management and brand name, strong operational and financial linkages.

Key Rating Drivers

Strengths

- **Extensive industry experience with demonstrated track record of operations**

Gubba group has a history of 125 years with the 'Gubba' brand that started in 1857 with trading of agri-commodities. The group provides cold storage facilities for preserving seeds (Commercial seed, foundation seed, and germplasm seed), food items (Fresh, Chilled, Frozen), and Pharmaceuticals (APIs, Dangerous goods, Builk Drugs, Capsules, Vials & Syringes, Packaging material, Finished Goods) at its temperature-controlled cold storages/warehouses (TCW). The group started its operations by setting up its first private cold storage in 1987 for groceries through the flagship company of the group named 'Gubba Cold Storage Pvt Ltd' (GCS) which was established in 1985 in Andhra Pradesh. GCS was established by Mr. Gubba Nagender Rao foreseeing the necessity to store agri-commodities for retaining their market value and efficient future use. It was further expanded in year of 1992 and 1993. In 1996, Gubba group diversified for the pre-cooling of fruits, the group processed more than 1000 containers of fruits and eggs for exports. In 1998, Gubba was setup first to provide education on Cold Storage of India for seeds. With hundreds of research at gubba group, the group has setup India's First Global Standards in 2008. In 2012, it had setup 3000 tonne Sub-Zero Cold Storage facility at Uppal Hyderabad. Currently, grown to a 1.25 crore cubic feet capacity, the group operates 17 cold storages in Hyderabad (16 cold storages) and Aurangabad (1 cold storage). The group has been serving seed, dairy, processed food and Pharma industries with 30 plus years of expertise in the technology of cold storage preservation. Gubba group provides climate controlled preservation facilities with a range of temperatures from +20 to -22 degrees centigrade and Relative humidity (RH) in the atmosphere maintained from 40 percent to 90 percent according to the requirement of the products preserved; Gubba has innovated and engineered the 1st of its kind rack supported global standard cold storage in India for seeds. Group has an in-house Gubba Germplasm Bank, which is one of the finest innovations of the Indian seed Industry in the private sector. With 6 years of research and technical collaboration with ICRISAT, Gubba has set up Gubba Germplasm bank to preserve the germplasm of Seed for upto 40 years in stringent hygienic conditions with approved security. Gubba Seed lab caters to the seed testing requirements of the seed industry. This is a research platform to enquire and improve on the life of the seed inside and outside the seed cold storage.

Gubba group is currently managed by the 5th generation entrepreneurs. The group is managed and operated by Mr.Gubba Nagender Rao, Mr. Gubba Kiran Kumar and Mr.Gubba Prashant. Mr.Gubba Nagender Rao, founder and Managing director of Gubba group started the first cold storage of Andhra Pradesh with vision to address the agricultural wastage by preserving them for long term use and retaining the business value of those products. Mr. Gubba Kiran, CEO of Gubba group had set up India's first private sector dehumidified cold storage for seeds in 1998. Mr. Gubba Prashanth is the Innovations & Technical lead at Gubba Cold Storage. He heads the technical department and designs the Cold Storages at Gubba. He has designed the first state- of-the-art world class cold storage for seeds in 2008. Consequently, he has designed more World Class cold storages. Acuité believes that the groups' extensive industry experience and demonstrated track record will continue to aid the business risk profile of the group over the medium term.

- **Market leader in Southern region; non-integration into distribution services leads to better operational metrics vs larger players in India**

Gubba group, is the largest cold storage player in Southern region with capacity of 1.25 crore cubic feet spread across 17 cold storages/warehouses; majority of them being in Telangana. Unlike other big integrated temperature controlled logistic players in India named 'Snowman Logistics Limited, Coldman Logistics Private Limited, ColdEx, Crystal group amongst others, it is not an integrated temperature controlled logistics solution provider i.e. 'Sources to Stores' with a possession of large fleet of reefer vehicles for distribution to primary and secondary markets. This is largely on account of it catering to clients with presence in niche market like seeds and pharmaceuticals. Instead, it is gradually adding value-added services to its portfolio like germplasm bank and seed testing lab; which require initial one-time capital expenditure and later yield high margins due to lower fixed/variable overheads required as a part of total cost component. To perceive, integrated cold storage logistic provider yield lower operating margins due to increase in variable overheads related to ownership of reefer vehicles. To add, out of the total 17 cold storages, 14 are on leased land and remaining 3 are fully owned. The group takes the land on lease for a tenure of 15 to 20 years and constructs the cold storages/warehouses, which leads to lower capex to be incurred. Typically, a cold storage will have capacity of 8-10 lakh cubic feet and will require a capex of Rs.7-9 Cr (excluding land, if purchased). Acuité believes that continuous addition to capacity will help retain the group its market leadership and non-integration of distribution services will aid the group in yielding higher margins.

- **Gradual diversification in industry-wise revenue mix resulting in better receivable cycle**

Gubba group on an average derives around 75 percent from preservation of Seeds, 15-20 percent from pharmaceuticals and remaining from food items. The high exposure towards the seed industry makes the group indirectly susceptible to external factors such as seasonality of crops, crop/seed failure, monsoons, soil and climatic conditions, diseases and prices of substitute crops. The above factors, predominantly seasonality, has led to stretched receivable cycle for the group, wherein the seed players recompense in 4-5 months in the non-peak season, leading to high receivables of around 140-180 days over the last 3 years ending March 31, 2020. To overcome the aforesaid stretch in the receivable cycle, the group has been gradually increasing its revenue towards pharmaceutical segment, wherein the receivable cycle is shorter at around 60 days. The diversification will be perceivable through the on-going as well the upcoming capex on the cold storage expansion which will be majorly dedicated to pharmaceutical segment. Acuité believes that the improvement in the receivable cycle through the segment diversification would be the key rating factor over the medium term.

- **Elite clientele yet moderate customer concentration risk persists**

Gubba group has an elite clientele which relies on the group for preserving its products since last 1-2 decades. Southern region, mainly Telangana being a horde of many large pharmaceuticals and seed companies, Gubba cold storages are strategically located to tap the potential demand for storage of such companies. Indeed, the pharmaceutical and seed companies refrain from adding captive/in-house cold storages due to high capital intensity and high maintenance requirements. The average client relationship that the group holds with its top 10-15 customer is around 13-15 years; exhibiting the strong customer relationships, high dependence of customers on Gubba group. For Gubba group (on a consolidated basis), top 10 customer accounted for 50.4 percent of the total revenue in FY2020 against top 10 customers accounting for 57.9 percent of the total revenue in FY2019 and around 60-65 percent in FY2018. This manifests decreasing dependency on the existing customers and addition of new customers majorly under Pharma, thereby, leading to moderate customer concentration risk in the revenue profile. This risk partially mitigated through the repeated orders and assured off-take contracts with its customers. The group has an elite clientele with companies like Aurobindo pharma Ltd, Granules India Ltd, MSN laboratories, Biological E Limited, Gland pharma Ltd, Rampex Labs Pvt Ltd, Hetero Drugs and many more under pharmaceutical segment; PHI seeds Ltd, Syngenta India Ltd, Monsanto India Ltd, Godrej Argrovet, Rasi seeds, JK Seeds, Kaveri seeds, Ganga Kaveri seeds, Mahyco Seeds, UPL, ICRISAT, Indo-american Hybrid seeds India Pvt Ltd amongst others under seeds segment and Heritage, Creamline Dairy, Dodle Dairy, Vijaya, RAW pressery, Masqati Dairy milk, Dinshaw's, etc under food segment. Acuité believes that established relation with its vintage and elite clientele along with its addition of new customers to reduce customer concentration risk will be beneficial for the group over the medium term.

- **Existing contracts providing medium-term revenue visibility; prudent escalation clauses in contracts ensure assured off-take and margin protection**

The group has existing contracts worth Rs.46.99 Cr on cumulative basis providing medium term revenue visibility. Gubba group enters into contracts of short to long tenure (few days to 5 years) with its customers either in form of charging it per pallet occupancy or price per cubic feet occupied. This is payable as a monthly rent. The client specifies the no. of pallets or the space in cubic feet required to preserve its products. Each and every contract differs w.r.t. the specifications required by the client. If the contracts are for longer tenure, it will include price escalation per pallet or per cubic feet per annum. Moreover, the clients have to pay for the entire amount agreed in the contracts, in such circumstances where they fail to ensure agreed occupancy of the pallets or cubic feet. Also, for pharma customers, Gubba constructs customized chambers which cannot be used for preservation of seeds/food items. Hence, pharma customers have to pay in full even if the agreed space remains fully unoccupied. Acuité believes the above factors not only ensure assured offtake but better margins too.

- **Consistent improvement in revenue and margins; no adverse impact of Covid-19**

Gubba group showed consistent improvement in revenues from Rs.40.28 Cr in FY2018, Rs.44.65 Cr in FY2019 and Rs.46.74 Cr in FY2020 (provisional). The rationale behind the growth is continuous expansion of cold storages which remain occupied to the tune 90-100 percent. In FY2020, the 17 cold storages where 97 percent occupied. Accompanying the growth in revenue was the sustainable enhancement in operating margins from 38.72 percent in FY2018 to 42.62 percent in FY2020. Besides, the outbreak of Covid-19 had no adverse impact on the cold storage players wherein during the initial months of lockdown with no business activities, there was need for higher and longer duration of storage of seeds, food items and pharma products. The same is evident from the year-to-date performance for the period April to October 2020, wherein the group achieved consolidated revenue of Rs.24.13 Cr and operating margin of 45 percent. The operating margin of 45 percent on an aggregate basis for the FY2021 is likely to be lower, yet better than FY2020. Acuité believes that the group will continue to report consistent growth in revenue and operating margins keeping in view the continuous expansion and diversification in segments catered.

- **Moderate financial risk profile**

The group's financial risk profile is marked by moderate capital structure and deb protection metrics. The group's debt-to-equity ratio (gearing) stood at 2.10 times as on March 31, 2020 (provisional) against 1.91 times as on previous year. The gearing remained below 2 times over the past 3 years ending March 31, 2020. Despite the deb-funded capex to be incurred over the medium term, the gearing is expected to improve and remain below 2 times on account of higher profitability. Group's debt protection metrics are moderate marked by interest coverage and Net cash accruals to total debt (NCATD) of 2.16 times and 0.17 times as on March, 2020 (provisional) against 2.26 times and 0.19 times as on previous year end. With repayments of existing loans and increased accruals, the debt protection metrics are expected to remain moderate. The group has unsecured loans of Rs.23.01 Cr as on March 31, 2020 (provisional) which are expected to remain over the medium term. Group has moderate networth of Rs.27.78 Cr as on March 31, 2020 (provisional) against Rs.25.53 Cr as on previous year end. The networth is expected to improve over the medium term backed by higher profitability. Acuité believes that the financial risk profile will remain moderate given the capital intensive nature of operations.

Weaknesses

• Growth in revenue susceptible to continuous capital expenditure; plans to add additional cold storages over the medium term

Gubba group has 17 cold storages with total capacity of 1.25 Cr cubic feet which is presently occupied to the extent of 95 to 97 percent, which can generate maximum revenue of around Rs.50- 52 Cr with present capacity. Only way to increase the revenue from present capacity would be increase in realization of per pallet charge or per cubic feet charged. This shows that setting-up of cold storage business calls for continuous incurrent of capex to increase scale of operations and meet continuous demand from existing and new clients. This is observed from the continuous addition to fixed assets either to add capacity or to upgrade the technology in existing cold storages or to meet the customized demands of the pharma clients. Hence, timely completion of the storage construction is also the key. The group plans to add 4-5 cold storages in the next 3 years with a total capex of around Rs.50 Cr to be funded by debt to equity ratio of 70:30. With this capex, the group plans to diversify geographically in Maharashtra and AP. It plans to build 2 warehouses in Mumbai, 1 in Hyderabad and 1 in Vizag. These would ranging from capacity between 8-12 lakh cubic feet with capex per cold storage of approx. Rs.9-10 Cr. Till date, no capex has been incurred on this and they are at initial stages of discussions. The group already undertaking a capex to set up seed testing lab and upgradation in existing cold storages, the funding of which was done through Emergency covid- 19 loan availed in June, 2020 and additional investments amongst the group entities. Acuité believes that any delay in on-going or planned capex will lead to saturation in revenue. Also, due to continuous capex on expansion, the group is expected to remain eminently leveraged.

• Continuous capex, stretched receivable cycle and constant extension of need based fund support amongst the group entities leading to weaker free cashflows

Each entity in the group is a stakeholder in the other group company and has invested and extended need based financial support in form of ICDs, NCDs and unsecured loans as well advances. Likewise, stretched receivable cycle and continuous debt-funded capex have resulted in weaker free cashflows over the last 3 years ending March 31, 2020. Acuité believes that the improvement in the free cashflows will remain the key rating aspect over the medium term.

• Highly Fragmented Industry and sensitivity to power cost

The cold chain industry in India is dominated by the presence of several domestic players catering to localised markets. The organised players account for a small portion of the total cold chain industry market. The company faces intense competition from the unorganised players. The fragmented nature of industry could constrain the pricing power and the operating profit margin of the group. Howbeit, increasing demand for temperature-controlled services by the pharmaceutical, seeds and food industry, due to increasing urbanisation and changing consumer consumption patterns partially offsets the risk. Besides, Cost of electricity forms nearly 14-14.5 percent of temperature controlled warehouses. Any chronic interruption or adverse hike in electric charges by various state electricity boards may hinder profit growth.

Liquidity Position: Adequate

Group's liquidity is sufficient supported by moderate net cash accruals vis-à-vis its increasing debt obligations, high dependence on working capital limits, continuous promoter fund support and modest current ratio. The group has generated NCA of Rs.9.94 Cr in FY2020 (provisional) against debt obligation of Rs.5.41 Cr. The group is expected to generate adequate NCAs in the range of Rs.11-16 Cr against CPLTD of Rs.5.8-12.00 Cr. The group's combined Overdraft limits of Rs.10.30 Cr which remained highly utilized in the range of 95-100 percent over the last 12 months till October 2020. Notably, the dependency on bank lines is to meet the fixed overheads due to the elongated receivable cycle resulting from the high exposure to the seasonal seed industry. The group's liquidity is supported by increasing promoter fund support in form of unsecured loan of Rs.23.01 Cr as on March, 2020 (provisional). The group maintained low unencumbered cash and bank balance of Rs.0.5 Cr as on March, 2020 (provisional) and modest current ratio of 1.06 times. Acuité believes that the liquidity will remain sufficient over the medium term subject to change in factors like better receivable cycle, industry-wise diversification and controlled capex as assumed.

Rating Sensitivities
- Higher-than-expected improvement in revenue and margins
- Substantial and sustainable improvement in working receivable cycle
- Delay in planned or ongoing capex leading to lower than estimated revenue
- Higher-than-expected debt to fund the planned capex leading to deterioration financial risk profile and liquidity.

Outlook: Stable
Acuité believes that the group will maintain a 'Stable' business and financial risk profile over medium term on the back of extensive industry experience, market leadership and moderate order book. The outlook may be revised to 'Positive' in case of higher-than-expected revenue growth or improvement in receivable cycle while maintaining profitability and overall financial risk profile. The outlook may be revised to 'Negative' in case of slowdown in the flow of contracts, elongation of working capital cycle or higher-than-expected debt funded capex leading to weakening of the liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	46.74	44.65
PAT	Rs. Cr.	2.29	2.30
PAT Margin	(%)	4.89	5.16
Total Debt/Tangible Net Worth	Times	2.10	1.91
PBDIT/Interest	Times	2.16	2.26

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Any Material Covenants: Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Entities In Services Sector -https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.15	ACUITE BBB-/Stable (Assigned)
Term Loan I	24 Dec 2014	9.6%	31 March 2022	0.66	ACUITE BBB-/Stable (Assigned)

Term Loan II	22 June 2017	9.6%	31 July 2024	0.65	ACUITE BBB- /Stable (Assigned)
Term Loan III	20 May 2019	9.6%	31 July 2026	1.76	ACUITE BBB- /Stable (Assigned)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	7.40	ACUITE BBB- /Stable (Assigned)

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