

Press Release

GNR Cold Storage Private Limited

June 27, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.62	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	11.62	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

The rating takes into account improvement in total operating income and increased profitability level and margin. The rating also takes into account established track record of group and long standing relationship with clientele resulting in continuous revenue streams. The rating is however underpinned by moderation in financial risk profile led by group availing additional debt for modernisation of storage facilities.

About the Company

GNR Cold Storage Private Limited (GCSPL) was incorporated in 2008 and provides cold storage facilities for preserving seeds, food items and Pharmaceutical at its temperature-controlled cold storages/warehouses (TCW).

About the 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 GCS, GNR Cold Storage Pvt Ltd (GNR), 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. It was 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 do education on Cold Storage of India for seeds. With hundreds of research at gubba group, gubba have setup India's First Global Standards in 2008. In 2012, it had setup 3000 tonne Sub-Zero Cold Storage facility at Uppal Hyderabad.

Analytical Approach

Acuite has considered consolidated business and financial risk profile of Gubba Agro Fresh Private Limited, Gubba Cold Storage Private Limited, Gubba Green Cold Private Limited and GNR Cold Storage Private Limited, hereafter referred as "Gubba Group" on account of their common management and brand name and operation in same industry.

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, food items and Pharmaceuticals 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 and expanded in 1996 for the pre-cooling of fruits. Group has an in-house Gubba Germplasm Bank, which is one of the finest innovations of the Indian seed Industry in the private sector. The group currently operates 17 warehouses in Andhra Pradesh. 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.

Long and established track record with clientele

Gubba group has an elite clientele which relies on the group for preserving its products since last 1-2 decades. The same is on account of strategic location of warehouses and continuous modernisation of facilities undertaken by the group in order to cater to customer requirement. 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.

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.

Improvement in financial performance of the group

The total operating income of the group increased from Rs.52.41 crore in FY21 to Rs.62.19 crore in FY22 (Prov.), thereby reporting y-o-y growth of ~19%. The growth in total operating income is backed by increase in revenue contribution across seeds and Pharmaceuticals segment. In line with increase in total operating income, operating profit of the group has also improved from Rs.20.17 crore in FY21 to Rs.24.56 crore in FY22 (Prov.). The operating profit margin also increased by 100 bps from 38.49% in FY21 to 39.49% in FY22 (Prov.). The net profit of the company also increased from Rs.2.60 crore in FY21 to Rs.3.45 crore in FY22 (Prov.), despite increase in capital charge; both interest and depreciation. The same also resulted in increase in net profit margin from 4.96% in FY21 to 5.55% in FY22 (Prov.). The company caters to storage of pharmaceuticals, seeds and food, of which seeds cater to major portion of revenue.

Weaknesses

Moderation in financial risk profile led by significant capex

The group had undertaken installation of solar roof top of 3 MW and modernization in existing storage facilities, such as upgradation of roofing system (increase in shelf life for facilitating installation of solar panels), new racking system (installation of wooden and plastic pallet for pharmaceuticals storage), refurbishment of flooring (which also improves hygiene system) and conveyor belt in storage system in order to facilitate smooth flow of inventory. The group had availed additional debt of ~Rs.60.0 crore, which is almost equivalent to the total operating income of the group. Hence, the increase in term debt resulted in moderation in financial risk profile in FY22. The capital structure as represented by debt equity ratio remained at 2.11 times as on March 31, 2022 (Prov.) as against 1.50 times as on March 31, 2021. incremental debt also resulted in increase in interest expenses from Rs.8.65 crore in FY21 to Rs.10.84 crore in FY22 (Prov.). Hence, interest coverage ratio moderated marginally to 2.27 times in FY22 (Prov.) as against 2.36 times in FY21. The net cash accruals to total debt remained at similar level

between 0.11-0.13 during FY21-22 (Prov.). The total outstanding liability to tangible net worth also moderated to 2.31 times in FY22 (Prov.) as against 1.68 times in FY21 on account of increase in debt. The debt-EBITDA also moderated to 4.80 times in FY22 (Prov.) vis-à-vis 4.10 times in FY21.

The group is not planning to raise any additional debt going ahead. Hence, going ahead, the financial risk profile is expected to improve on account of repayment of existing loans and accretion of profit to reserves.

Elongated working capital cycle

The Gross Current Asset days of the group, albeit improved in FY22, remained at higher level 185 days in FY22 (Prov.), led by increase in total operating income coupled with decline in current asset. The debtors' period of the group remained between 121-173 days in FY21-22. The group extends credit period of 45-90 days to its client. Further, around 15-20% of receivables are from farmers, wherein the receivables are realized in 4-5 months as seeds are seasonal inventory. The working capital utilisation of the group for past 12 months ending March 2022 remained at ~91%.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- >Higher-than-expected improvement in revenue and margin.
- >Any additional debt availed leading to deterioration financial risk profile and liquidity.
- >Substantial and sustainable improvement in working receivable cycle

Material covenants

None

Liquidity Position: Adequate

The liquidity profile of the group continues to remain at adequate level with net cash accruals of Rs.12.59 crores in FY22 as against the debt repayment of Rs.7.45 crore. The net cash accruals of the group are expected to remain between Rs.14-17 crores as against expected debt obligation of Rs.11-12 crore. The group has maintained cash and bank balance of Rs.0.15 crore as on March 31, 2022 (Prov.). The current ratio continues to remain above unity at 1.03 times as on March 31, 2022 (Prov.). The working capital utilisation for the past 12 months ending March 2022 remained at ~91%. The company has not planned to incur any additional capex or avail any additional debt during the year. Hence, with expected increase in net cash accruals and absence of any incremental debt repayment obligation, the liquidity profile of the group is expected to remain at adequate level.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced promoters and established position in market. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues consummating increase, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	62.19	52.41
PAT	Rs. Cr.	3.45	2.60
PAT Margin	(%)	5.55	4.96
Total Debt/Tangible Net Worth	Times	2.11	1.50
PBDIT/Interest	Times	2.27	2.36

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Dec 2020	Term Loan	Long Term	1.76	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	7.40	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.65	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.66	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	1.15	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.15	ACUITE BBB- Stable Reaffirmed
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	10.47	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

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