

## Natural Storage Solutions Pvt. Ltd.

March 05, 2018

### Summary of Rated Instrument:

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Non-Convertible Debentures (NCD)	4.00	4.00	[ICRA]BB (Stable); Downgraded from [ICRA]BB+ (stable)
Unallocated Non-Convertible Debentures	4.00	4.00	[ICRA]BB (Stable); Downgraded from [ICRA]BB+ (stable)
<b>Total</b>	<b>8.00</b>	<b>8.00</b>	

### Material Event

Natural Storage Solutions Pvt. Ltd. has provided its half yearly provisional results on February 22, 2018. The company reported operating income of Rs. 32.40 crore with operating profit (OPBDITA) of Rs. 1.95 crore and profit before depreciation and tax (PBDT) of Rs. 0.62 crore in H1 FY2018.

### Impact of the Material Event

ICRA has revised the long-term rating to [ICRA]BB (pronounced as ICRA double B) from [ICRA]BB+ (pronounced as ICRA double B plus) to the Rs. 8.00 crore<sup>1</sup> Non-Convertible Debentures of Natural Storage Solutions Pvt. Ltd. (NSSPL)<sup>2</sup> as the results are not in line with ICRA's expectations. The outlook on the long-term rating is Stable.

The revision of the long-term rating takes into account the pressure on the credit profile of the company, owing to weaker business performance in H1 FY2018, as against ICRA's expectations because of slower execution of orders in hand during the period. The revenues of the company will remain ~5-10% lower in FY2018 on a YoY basis, as against earlier expectations of about ~15% growth. In addition, the slower than expected ramp up of operations of the newly commissioned sorting and grading line of the manufacturing unit, coupled with increase in debt levels owing to recent debt funded capex and increase in working capital intensity, resulted in moderation in debt coverage indicators and liquidity position.

The previous detailed rating rationale is available on the following link: [Click here](#)

### Rationale

The rating downgrade factors in the pressure on the company's operations, as reflected in lower operating income in H1 FY2018 due to slow order execution and/or deferment of orders by the clients due to the impact of the Goods and Services Tax (GST). The rating takes into account the below average financial risk profile marked by decline in the operating profitability margins and leveraged capital structure due to increase in the debt level following the debt funded nature of expansions undertaken in FY2018. This also led to weakening of its coverage indicators with interest coverage of 1.42 times, Total Debt/OPBDITA of 7.04 times and NCA/Total Debt of 4.54% for H1 FY2018. The rating also takes into account the increase in the receivables (~86 days) and inventory level (~89 days) as on September 30, 2017,

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

which is likely to exert pressure on liquidity. The rating is further constrained by the competition in the highly fragmented industry; however, with the company being an integrated player, it is relatively well placed. The rating also takes in to account the vulnerability of profitability to any adverse movements in prices of key raw materials, given the project's lead time and fixed price nature of contracts.

The rating, however, continues to factor in the experience of the key promoters spanning over a decade in the cold storage and refrigeration industry, together with its pan India operations. Being an integrated player with technical expertise, providing end-to-end turnkey solutions, in-house manufacturing of diverse products along with established relationships with raw material suppliers, provide operational synergies in securing orders across the country as well as internationally.

## Outlook: Stable

ICRA expects Natural Storage Solutions Pvt. Ltd. to continue to benefit from the experience of its promoters, its technical expertise and geographical diversified operations. The outlook may revised to Positive if the company improves its revenues and profitability, along with efficient working capital management, while ensuring regular debt repayments, which is likely to strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if profitability is lower than expected, or if any stretch in the working capital cycle weakens the liquidity position of the company.

## Key rating drivers

### Credit strengths

**Experience of promoters** – Incorporated in 2009 for the quality design and manufacturing of industrial refrigeration applications for providing turkey solutions to set up industrial refrigeration plants across India. The promoters have more than a decade of experience in the cold chain solutions and industrial refrigeration sector.

**Integrated player with wide range of offerings** – NSSPL is an integrated player with technical expertise that provides end-to-end turnkey solutions and in-house manufacturing of diverse products. It also enjoys established relationships with its raw material suppliers. These factors provide the company with operational synergies for securing orders across the country as well as internationally.

### Credit weaknesses

**Modest scale of the company with decline in the revenues** – The scale of operation remains moderate, with decline in the revenues in FY2017 and H1 FY2018 due to slower order execution and deferment of orders in hand.

**Average financial risk profile** - The financial risk profile of the company remains average, marked by leveraged capital structure owing to increase in debt level, with estimated gearing of 1.5 times as of September 2017. Decline in profitability margins and increase in debt level, the debt coverage indicators moderated in H1 FY2018, with OPBDITA/I&F of 1.42 times, Total Debt/OPBDITA of 7.04 times (annualised) and NCA/Total Debt of 4.54%.

**Intense industry competition** – There is an intense competitive pressure owing to high fragmentation in the industry; however, the company's diversified portfolio mitigates the risk to an extent.

**Vulnerability of profitability to any adverse fluctuations in raw material prices** – The operating profitability of the company is exposed to adverse fluctuations in prices of key raw materials, given that NSSPL's major supplies are fixed price in nature. The company also faces limited pricing flexibility.

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