

March 29, 2023

Kan Silos Lucknow Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	61.00	69.50	[ICRA]BB- (Stable); Reaffirmed/assigned
Total	61.00	69.50	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Kan Silos Lucknow Private Limited (the company) factors in the nascent stage of the project, thereby exposing it to further time and cost overrun risks. The company has attained a long-term contract (30 years) with Food Corporation of India (FCI, or ‘the authority’; rated [ICRA]AAA(CE)) for operating a 50,000-MT silo under a design, build, finance, own and operate (DBFOO) basis. The project was earlier scheduled to be completed by March 2023; however, there has been a delay in its completion due to various reasons and as per management guidance, the silo is likely to become fully operational by March–April 2024.

The company has acquired the land for the silo and also finalised the master layout and designs. The foundation work is in progress with civil works expected to commence soon. The company has also placed orders for plant and machinery with a USA-based vendor. Although the project is in its initial phase of construction, the rating draws comfort from the experienced promoter group who have a long track record in the warehousing industry with experience in managing a 25,000-MT warehouse in Gonda and a 40,000-MT warehouse in Pratapgarh, Uttar Pradesh. ICRA also favourably factors in the timely infusion of funds by the promoter group, which helped the company to acquire land for the silos and furnish performance guarantee to FCI in a timely manner. Since a significant portion (70-80%) of the promoter’s equity is yet to be infused and the debt is yet to be sanctioned, the ability of the company to achieve financial closure remains monitorable.

The rating favourably factors in the long-term agreement in place with FCI, which will provide revenue visibility after the commencement of operations. The company would be entitled to guaranteed fixed charges (payable even if no grains are stored) as well as variable and handling charges on a monthly basis from FCI, which would be revised every year based on the inflation indices. Further, the company is likely to maintain healthy operating margins due to limited expenses incurred in running the silos.

The rating, however, factors in the risk that the project is not operational yet and, thus, remains exposed to risks from any further delay or cost overruns as seen in the past. With presence limited to a single silo, the company also remains exposed to high geographical concentration risk. Further, it is dependent on FCI for most of its revenues, leading to high customer concentration risk; however, given that the management intends to generate additional business through private railway line from third parties, the same is likely to provide some diversification benefits over the medium term. However, this would remain contingent upon the company’s ability to gain additional business for its railway siding infrastructure.

The rating further remains constrained by the significant delay in debt tie-up for the project; nevertheless, as per the management, the loan sanction is in final stage with the Bank. The leverage and coverage metrics for the project are expected to remain relatively weak but improve over the medium term, with the company likely to remain dependent on timely funding support from the promoters in the initial years of operations.

The Stable outlook on the rating reflects ICRA’s expectation that the experienced promoters of the entity would enable a timely construction of the silo, without any further major cost and time overruns. Moreover, the promoters are expected to provide support in meeting timely debt obligation or any fund requirement on a timely basis.

Key rating drivers and their description

Credit strengths

Experienced promoter group to aid in timely commercialisation of the project – The promoters enjoy an established track record in the warehousing industry with an experience of managing a 25,000-MT warehouse in Gonda and 40,000-MT warehouse in Pratapgarh. Further, the promoters have infused funds into the company to acquire land and for site development as well as to furnish performance guarantee to FCI in a timely manner. The promoter group is expected to continue to support the company's funding requirement in the future as well.

Long-term contract with FCI to aid stable cash inflows after commercialisation – The company has entered into an agreement of 30 years with FCI for managing silos for wheat storage. The project is being set up under a DBFOO model. The agreement provides guaranteed fixed charges (inflation linked) to be paid by FCI even if no food grains are stored in the silos. The company would also be entitled to variable and handling charges, which would be revised every year based on the WPI and CPI to compensate for inflation. Furthermore, as FCI is a Government entity, the counterparty risk remains low.

Credit challenges

Exposed to project execution risk – The project is in its initial stages of construction, exposing the company to risks from any delay or cost overrun. ICRA notes that the company has already acquired land and placed the order to procure the requisite machinery, which provides some comfort. The railway siding work is also running simultaneously. The project is expected to become operational by Q4 FY2024 with no further significant delay expected, as per management discussions.

High customer and geographical concentration risks – The entity is exposed to high geographical concentration risk as it is a single location facility in Uttar Pradesh. Further, most of the company's revenues are dependent on a single entity, i.e., FCI. However, the long-term contract with FCI, which is a Government-controlled entity, reduces the counter-party risk to a large extent.

Weak financial risk profile – The company's financial risk profile is expected to remain characterised by weak capitalisation and coverage indicators, since the promoter funding till date has been in the form of unsecured loans (project costs of ~Rs. 110 crore). The company is in advanced stage to raise external debt, and a timely tie up would remain monitorable. The company is expected to be dependent on promoter support till initial years of the silo operations.

Liquidity position: Stretched

The company's liquidity position is expected to remain stretched, evidenced by its negligible free cash and liquid investments as on March 31, 2022. While the promoters have infused funds to support the land acquisition for the construction of silos, it has been through unsecured loans. The company is expected to remain heavily reliant on timely promoter funding to service interest obligations till commercial operations begin,

Rating sensitivities

Positive factors - Timely completion of the project without any further significant delay or cost overrun would remain critical for a rating upgrade.

Negative factors - Negative pressure on the rating could arise in case of any further material delay in commencement of operations leading to penalty/ reduced revenues from FCI. The ratings can also be downgraded in case of any further delay in debt tie-up and/or fund infusion from the promoter group or inadequacy of the same to support the company's operations.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has considered the standalone financials of the company.

About the company

Kan Silos Lucknow Private Limited is a special purpose company set up to undertake a silo project with capacity of 50,000 MT for storing food grains. The company was selected as a successful bidder after technical and financial evaluation by Food Corporation of India for the construction of silos for storing wheat in Lucknow under a public-private partnership (PPP) on a DBFOO basis. A silo project involves the development, design, construction, financing, procurement, engineering, operations and maintenance of a silo complex in accordance with the provisions of the concession agreement, which includes all incidental and auxiliary works and services relating to the project.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	0.0	0.0
PAT	0.1	0.1
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	45.3	39.2
Total debt/OPBDIT (times)	NM*	NM*
Interest coverage (times)	-	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Feb 28, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								Mar 29, 2023
1 Proposed Term loan	Long term	69.5	0.0	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Proposed Term Loan	Simple

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Term Loan	NA	NA	NA	69.50	[ICRA]BB-(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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