

National Bulk Handling Corporation Private Limited

January 13, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	5.00 (Reduced from 15.00)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	204.00 (Reduced from 281.00)	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Reaffirmed
Short-term bank facilities	32.00 (Enhanced from 29.30)	CARE A1 (A One)	Reaffirmed
Total bank facilities	241.00 (₹ Two hundred forty-one crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings of National Bulk Handling Corporation Private Limited (NBHC) continue to derive strength from strong parentage, experienced management, the company's PAN-India presence with integrated service offerings for agricultural commodities and adequate operational controls implemented by the company. The promoters have extended Letter of Comfort for the bank facilities availed by NBHC, and CARE Ratings Limited (CARE Ratings) understands that they will continue to extend need-based financial support. CARE Ratings also takes cognisance of the improvement in the processes undertaken by the company a few years back, which has led to significant reduction in the quantum of write-offs/provision due to the incidence of fraud. The rating strengths, however, continue to be tempered by competitive nature of the warehousing business and asset light business model leading to low profitability margin, working capital intensive nature of operations for procurement/supply chain business leading to moderate capital structure and debt coverage indicators.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in return on capital employed (ROCE) to above 20% while improving the scale of operations significantly.
- Continuation of overall gearing levels below 1x and increase in the interest coverage ratio to 4x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Inability to achieve profit before tax (PBT) of ₹20 crore on a sustained basis.
- Deterioration in ROCE to below 10%.
- Any further investment in the related companies or higher than anticipated capital expenditure and any inorganic acquisition.

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Strong parentage:

Incorporated in 1999, True North Fund (TNF), formerly India Value Fund Advisors Private Limited (IVFA), is one of the major India-centric private equity funds. TNF is promoted by Vishal Nevatia and is a part of the Global PE Alliance which comprises leading local PE firms across different geographies and offers global reach, broad sector expertise, and leadership in mid-market private equity. TNF enjoys a strong relationship with the lending community and NBHC also gains advantage of these relations over and above its already well-established banking relationships. TNF had infused ₹117.81 crore as equity during FY15-16 (refers to the period April 1 to March 31) in NBHC towards maintaining healthy capital structure and financial risk profile. TNF has also given Letter of Comfort to the lenders of NBHC. Continued support from the parent for the business growth and any exigency shall remain crucial from the credit perspective.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Experienced management:

NBHC has an experienced board of directors with Dr Vijay Kelkar serving as the Chairman of the company, and Ramesh Doraiswami as the Managing Director and Chief Executive Officer of the company. Ramesh Doraiswami has over 30 years of leadership experience across the industry verticals and diverse company cultures, bringing a strong blend of functional and general management skills to NBHC.

PAN India presence with integrated service offerings:

NBHC is engaged in warehousing & storage services and supply chain/ procurement services, along with collateral management, testing & certification, commodity health and care-pest management services and related services. Thus, NBHC serves as a multi-model single-window integrated supply chain solutions provider. NBHC has a PAN-India presence, with 1,300 warehouses across 19 states. It has more than 45 functional quality assaying labs and more than 200 mobile labs for quality testing of around 170 agri-commodities, as well as pest management services across 20 states. The PAN-India presence helps the company offer various services to its customers. Its collateral management services are offered to 54 banks/ financial institutions – public sector as well private sector.

Adequate operational controls implemented:

In its procurement business, NBHC procures commodities in bulk as per the contracts entered with various clients, who in turn off-take it periodically from the company as per the pre-decided terms. Though inventory remains on the books of NBHC till the client takes delivery, the company has stringent processes in place in order to mitigate inventory holding risk. The company has a dedicated team that rigorously monitors commodity prices, and in case of price volatility, the customer is asked to respond to margin calls, which are closely monitored and executed. In order to mitigate the quantity and quality risk related to procurement business, the company has separate teams for operations and quality.

Risk mitigation measures implemented by the company:

Owing to the past instances, the company has implemented various process improvements and policy changes leading to a stringent and better control. The company has made the entire audit process online at all levels and has introduced geo-tagging of audit photographs via their internal portal. Furthermore, the company has formed an internal independent audit team to have surprise inspections at locations and ascertain the reportings. The company has also formed a credit team to have a credit opinion on the clients before taking an exposure. The company as a matter of policy has stopped as being collateral managers for pre-stacked commodities, which has had highest instances of the said frauds. Furthermore, the company has also increased the audit frequency depending on risk evaluation. The warehouses are now audited every 30-45 days. The deviations are monitored on an on-going continuous basis.

Stable operating performance:

The company's PBILDT has remained to ₹26.94 crore in FY22 vis-à-vis ₹26.55 crore in FY21. ROCE has improved to ₹6.57 crore in FY22 (PY: ₹3.42 crore).

Furthermore, the company has taken conscious decision to reduce CM business through third-party warehouses to minimise the risk.

Diversified commodity and customer:

The company handles diversified commodities with exposure on any single commodity not exceeding 30%. The main commodities handled in FY22, include wheat (around 22%), maize (15%), and paddy (14%). The customer profile is diversified with top 10 customers contributing around 35% to 45% of the total revenue.

Key rating weaknesses**Moderate capital structure and improvement in debt coverage indicators:**

The company has a total debt outstanding of ₹141.81 crore as on March 31, 2022, as against ₹231.54 crore during March 31, 2021. During March-end, the inventory levels are low, hence resulting in lower utilisation of working capital limits. However, the utilisation remains high around 95%-98% during May-November cycle due to the seasonal nature of business.

The overall gearing improved to 0.60x in FY22 as against 1.02x in FY21. The company has no term debt on its books, and the entire debt is on account of working capital borrowings. PBILDT interest coverage ratio stood adequate at 2.84x in FY22 (2.16x in FY21).

Working capital intensive nature of operations:

The NBHC Group has working capital intensive nature of operations as the trade facilitation business requires significant amount of working capital. The operating cycle has stood at 121 days in FY22 compared with 112 days during FY21 on account of increase in the inventory days from 103 days in FY21 to 114 days in FY22. Average maximum utilisation of working capital limits for NBHC and NEPL was around 56% and 74%, respectively, for the past 12 months ending November 2022 and thus provides some cushion.

Intense competition in the warehousing business and cyclical nature of the industry owing to high dependence on the vagaries of nature:

NBHC faces intense competition in the warehousing industry that leads to higher warehouse rental cost at strategic locations. This industry has five to six established players, and it is not always possible to pass on the rise in warehouse rentals completely. The company is also exposed to the risk of crop failure in a particular location, owing to the vagaries of nature, which may lead to sub-optimal utilisation of the warehousing space. In view of the same, the company follows a process for optimising on the warehouse spaces as well as on cost optimisation to reduce its operational expenditure.

Liquidity: Adequate

NBHC has adequate liquidity with free cash and cash equivalent of ₹34.31 crore as on March 31, 2022, on consolidated basis. The company does not have any long-term debts as on November 30, 2022, and no plans to borrow such debt in the medium term. The company relies primarily on working capital borrowings. Average maximum utilisation of working capital limits for NBHC and NEPL was around 56% and 74%, respectively, for the past 12 months ending November 2022 and thus provides some cushion.

Analytical approach

CARE Ratings has considered the consolidated financials of NBHC, which includes the financials of its wholly-owned subsidiary, NBHC Enterprises Pvt. Ltd., owing to financial and operational linkages with the company. The rating derives comfort from the parentage of True North (formerly known as India Value Fund). CARE Ratings understands that they will continue to provide need-based financial support.

Sr. No.	Name of Subsidiary/ JV Company	% share shareholding as on March 2022
1	NBHC Enterprises Pvt. Ltd.	100

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Factoring Linkages Parent Sub JV Group](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

About the company

NBHC is one of the leading agri-warehousing and allied services companies, offering inter alia supply chain, collateral management, warehouse management, pest management & commodity health, quality assaying & certification, audit supervision & surveillance, and allied services. NBHC was incorporated on April 20, 2005, and was a part of the Financial Technologies (FT) group. On April 25, 2014, FT and all other shareholders of NBHC divested 100% ownership in the company to Private Equity player, True North (Formerly known as India Value Fund). The company is also ISO 17025 accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) for specific commodities in addition to ISO 22000 and ISO 9000.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,248.52	1,164.42	437.00
PBILDT	26.55	26.94	18.20
PAT	2.18	9.03	NA
Overall gearing (times)	1.02	0.60	NA
Interest coverage (times)	2.16	2.84	NA

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ST-Cash credit		-	-	-	60.00	CARE A; Stable / CARE A1
Fund-based - LT/ST-Cash credit		-	-	-	94.00	CARE A; Stable / CARE A1
Fund-based - LT/ST-Cash credit		-	-	-	50.00	CARE A; Stable / CARE A1
Fund-based - ST-Term loan		-	-	6 months loan	5.00	CARE A1
Fund-based - ST-Term loan		-	-	6 months loan	10.00	CARE A1
Non-fund-based - LT-BG/LC		-	-	-	2.50	CARE A; Stable
Non-fund-based - LT-BG/LC		-	-	-	2.50	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	17.00	CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ST-Cash credit	LT/ST*	60.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (28-Jan-22)	1)CARE A; Stable / CARE A1 (02-Feb-21)	1)CARE A; Stable (18-Dec-19)
2	Fund-based - LT/ST-Cash credit	LT/ST*	94.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (28-Jan-22)	1)CARE A; Stable / CARE A1 (02-Feb-21)	1)CARE A; Stable (18-Dec-19)
3	Fund-based - ST-Term loan	ST	5.00	CARE A1	-	1)CARE A1 (28-Jan-22)	1)CARE A1 (02-Feb-21)	1)CARE A1 (18-Dec-19)
4	Fund-based - LT/ST-Cash credit	LT/ST*	50.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (28-Jan-22)	1)CARE A; Stable / CARE A1 (02-Feb-21)	1)CARE A; Stable / CARE A1 (18-Dec-19)
5	Non-fund-based - LT-BG/LC	LT	2.50	CARE A; Stable	-	1)CARE A; Stable (28-Jan-22)	1)CARE A; Stable (02-Feb-21)	1)CARE A; Stable (18-Dec-19)
6	Fund-based - ST-Term loan	ST	10.00	CARE A1	-	1)CARE A1 (28-Jan-22)	1)CARE A1 (02-Feb-21)	1)CARE A1 (18-Dec-19)
7	Non-fund-based - ST-BG/LC	ST	17.00	CARE A1	-	1)CARE A1 (28-Jan-22)	1)CARE A1 (02-Feb-21)	1)CARE A1 (18-Dec-19)
8	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	1)Withdrawn (28-Jan-21)	1)CARE A1 (18-Dec-19)
9	Non-fund-based - LT-BG/LC	LT	2.50	CARE A; Stable	-	1)CARE A; Stable (28-Jan-22)	1)CARE A; Stable (02-Feb-21)	1)CARE A; Stable (18-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT/ ST-Cash credit	Simple
2	Fund-based - ST-Term loan	Simple
3	Non-fund-based - LT-BG/LC	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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