NCML Bhattu Private Limited (Revised)

January 19, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	54.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	Revised from CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable] and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

Unsupported Rating As stipulated vide SEBI circular dated June 13, 2019
Withdrawn [Withdrawn]#

In line with the Reserve Bank of India's (RBI's) circular and guidance note dated April 22, 2022, and July 26, 2022, respectively, on credit enhanced ratings, CareEdge has removed the CE ratings assigned to bank facilities wherever the credit enhancement terms were not fully in compliance with the terms as per the RBI guidelines. Accordingly, the Unsupported rating has also been withdrawn.

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from National Commodities Management Services Limited and subsidiaries including NCML Bhattu Pvt Ltd (NBPL) to monitor the ratings vide e-mail communications dated November 17, 2022, November 30, 2022, December 01, 2022, December 05, 2022, December 06, 2022, January 05, 2023, January 06, 2023 & January 09, 2023, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings.

Further NCML Bhattu Private Limited (NBPL) has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE Ratings Ltd.'s rating on NBPL's bank facilities will now be denoted as **CARE BBB-; Stable; ISSUER NOT COOPERATING*.**

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating revision takes into consideration, continued deterioration in operational performance of the group in FY22 (as per ROC fillings). The parent company continued to post losses for three consecutive years (FY20-FY22) leading to significant deterioration in financial risk profile.

Detailed description of the key rating drivers

The ratings continue to derive strength from experienced and resourceful promoters and their continued financial support, completion of the development of silos and commencement of operations, long term concession agreement (30 years) with assured storage charges from the FCI providing long term revenue visibility. The promoters have demonstrated their ability and intent to support the operations of NBPL by extending the financial support through fund infusion as well as by unconditional & irrevocable corporate guarantee.

The rating strengths however are by constrained by modest debt coverage indicators in the initial years, operational risk, which includes any losses incurred owing to the material breach with regards to operation and maintenance of the silo as per the standards specified in the concession agreement, as well as material quality and quantity loss of the food grain in custody of the concessionaire, leading to deductions from the payments received from FCI. The rating considers exposure to the interest rate risk, although the inflation inked increase in revenues will mitigate the risk to a major extent. In addition, continued support from the promoters as and when required will also be crucial from the credit perspective.

Key Rating Strengths

Strong and resourceful promoters, with demonstrated track record of support

NCML group was promoted by various banks/financial institutions and other public sector entities. After the exit of some of the previous shareholders, the company is currently owned by Fairfax India Holdings Corporation (Fairfax). Fairfax holds 89.53% stake in the company. Fairfax has track record in managing similar business and owns 40% in AFGRI Holdings, Africa's largest grain storage company, which has been in the similar business for over 90 years. Also, the company has a highly experienced Board of Directors. CARE Ratings has given due weightage to the financial flexibility that NCML enjoys from being a part of the Fairfax group. Fairfax group has regularly demonstrated its commitment towards NCML's growth plans by periodically infusing equity to meet its funding requirements. In FY20, the Board of Directors had approved the capital infusion of Rs.250 crore, out of which Rs.100 crore was infused in H1FY20 in the form of compulsorily convertible debentures and the remaining Rs. 150 crore was proposed to be infused in the same year. However, the management has not availed the same till date due to no immediate requirement, and given that these lines are available at their discretion. This decision has been guided by the management policy of improving Return on Equity for shareholders. The company has availed long tenure NCDs of Rs.320 crore

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

from FMO (a Dutch Development Bank) in March 2020 and has also tied up adequate funding for the silo project from Yes Bank, and IndusInd Bank.

Long term contract with assured storage charges from the FCI providing long term revenue visibility:
The concession period is for 32 years including the construction period of 2 years. The company is assured guaranteed income from FCI for 30 years with respect to the fixed charges. Furthermore, the fixed storage charges are equal to the bid value for full capacity (100% utilization), irrespective of the utilization of the Silos. In addition, the company will also receive variable charges. The company will receive fixed rental charges irrespective of the utilization of the silos and the company will receive variable charges, packing and processing charges on the utilization level of the warehouse.

Key Rating Weaknesses
Modest scale of operations with asset concentration risk
NBPL has modest scale of operations with Silos of capacity with 50000 MT. It operates the silo complex in Sonepat Haryana and faces high asset concentration. This exposes the company to the risk of any force majeure event, which could impact the asset. However, the insurance cover mitigates the risk to an extent. Further, the interest rate on the rupee term loan is linked to repo rate, thus, increasing the exposure to interest rate risk. CARE takes comfort from the stability of cash flows, and inflation-linked increase in revenues, which will mitigate the risk to a major extent.

Exposure to capacity under-utilisation and operational risk
Though a significant portion of the rentals is fixed (subject to availability of silos), a part of consideration from FCI is variable and linked to the capacity utilisation of the storage silos. This exposes the company to risk of lower utilisation of the facility or lower-than-normative availability, which may impact its cash inflows and coverage metrics. However, given the relatively smaller share of variable charges, the impact on the debt coverage metrics is low. Further, the entity is exposed to the material breach with regard to operation and maintenance of the silo complex as per the standards specified in the concession agreement, leading to deductions from the payments received from FCI. However, though the standard procedures followed by the company and insurance cover mitigates the risk to an extent.

Analytical approach: Standalone

Liquidity: Adequate
NCML's liquidity is adequate, with cash and liquid investments of Rs.84crore as on September 30, 2021. The company has working capital lines of ~Rs.365crore as on December 31, 2021 with average fund based working capital utilization of ~75% over the 12 months ending September 2021. Further, the company has standing line of Rs.150 crore equity sanctioned by Fairfax group that can be availed on the discretion of management.

Applicable criteria
Policy in respect of Non-cooperation by issuer
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Policy on Withdrawal of Ratings

About the company
About the Silo Project- NCML Bhattu Private Limited
Government of India through Food Corporation of India as a nodal agency is implementing creation of modern storage capacity through the construction of food grain silos. Revenues from the Silo project will be primarily dependent on the payment of storage and handling charges by the Food Corporation of India (FCI). The total concession period is for 32 years including the construction period of around 2 years. Under NCML Bhattu Private Limited, a silo has been setup at Bhattu in Haryana with total installed capacity of 50,000 MT. The total cost incurred was Rs.86.20crore which has been funded through debt and promoter's funds

About the National Commodities Management Services Limited (NCML)
Incorporated on September 28, 2004, National Commodities Management Services Limited (NCML) provides storage & preservation, procurement services, along with collateral risk management, testing & certification services etc. NCML operates a chain of more than 700 warehouses situated at different locations across the country through leased, franchisee or associate model. NCML was initially promoted by various banks/financial institutions and other public sector entities. After the exit of some of the earlier shareholders the company's largest shareholding lies with Fairfax India Holdings Corporation (89.53%). It is registered with Warehouse Development & Regulatory Authority (WDRA) and is authorized to issue warehouse receipts. Fairfax Financial Holdings is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. The group formed a subsidiary called Fairfax India Holdings Corporation Ltd. (FIHC), to invest in India.

Standalone:

Brief Financials (₹ crore)	March 31, 2019 (A)	March 31, 2022 (A)	9MFY23
Total operating income	0.00	NA	NA
PBILDT	-0.03	NA	NA
PAT	-0.03	NA	NA
Overall gearing (times)	6.19	NA	NA
Interest coverage (times)	NM	NA	NA

A: Audited; NA: Not available; NM: Not meaningful

Consolidated:

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23
Total operating income	509.31	294.39	NA
PBILDT	-19.15	-10.88	NA
PAT	-57.77	-64.38	NA
Overall gearing (times)	0.91	1.12	NA
Interest coverage (times)	-0.54	-0.34	NA

A: Audited; 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 the covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of the various instruments rated: Annexure-4
Lender details: Annexure-5

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-Term Loan		-	-	31/03/2025	50.40	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based/Non-fund-based-Long Term		-	-	-	3.60	CARE BB+; Stable; ISSUER NOT COOPERATING*
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn

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-Term Loan	LT	50.40	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE A-(CE); Stable (07-Jan-22)	1)CARE A (CE); Negative (17-Dec-20)	1)CARE A (CE); Stable (30-Sep-19) 2)CARE A+ (SO); Stable

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
								(07-May-19)
2	Fund-based/Non-fund-based-Long Term	LT	3.60	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE A- (CE); Stable (07-Jan-22)	1)CARE A (CE); Negative (17-Dec-20)	1)CARE A (CE); Stable (30-Sep-19) 2)CARE A+ (SO); Stable (07-May-19)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)CARE BBB- (07-Jan-22)	1)CARE BBB- (17-Dec-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based/Non-fund-based-Long Term	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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