National Commodities Management Services Limited

January 19, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.53	CARE BBB; Stable; ISSUER NOT COOPERATING*	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	393.47	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING*	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	45.00	CARE A3+; ISSUER NOT COOPERATING*	Revised from CARE A2+ (A Two Plus) and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from National Commodities Management Services Limited 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 National Commodities Management Services Limited 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 has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on National Commodities Management Services Limited's bank facilities will now be denoted as CARE BBB; Stable / CARE A3+; 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 company in FY22 (as per ROC fillings). The 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

At the time of last rating on January 07, 2022, the following were the rating strengths and weaknesses:

Key Rating Strengths

Strong and resourceful promoters, with demonstrated track record of support

NCML 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 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.

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

Multiple services provider for agri commodities and Pan-India operations
NCML is engaged in storage & preservation and procurement/supply chain management services, along with collateral management, testing & certification, marketing intelligence & commodity research. Thus, NCML serves as a multi-model single window supply chain solutions provider. NCML operates a pan-India chain of owned, leased, and franchise warehouses. The company has been in operations for almost a decade and has served various government and private entities.

Adequate risk policy adopted by the company in SCM/procurement business
NCML has an adequate risk management policy for SCM operations. The purchases are made post confirmation from client. Further, NCML collects advances from customers prior to initiation of purchase. In the event of decline in price of commodity, NCML issues a margin call for the shortfall to be restored to initial level within stipulated time. In case the customer is unable to meet the margin call, NCML has the right to dispose of the commodity without giving further notice to the company.

Asset Monetization Plan is expected to unlock funds to be used primarily for debt repayments
NCML is working on unlocking substantial funds till March 2023 through a combination of capital efficiency initiatives and sale of certain non-core assets. The company has plans to reduce exposure in warehouse management wherein it is selling its owned warehouses and leasing them back to operate. The monetization proceeds are expected to be largely used for optimizing debt levels in the business. CARE would closely monitor the asset monetization plan of the company

Key Rating Weaknesses
Degrowth in revenues and continued losses
NCML's Total Operating Income declined by ~42% from Rs.898crore in FY20 to Rs.518.42crore in FY21. The TOI further declined to Rs. 294 crore in FY22. This has been primarily due to reduced Supply Chain Management (SCM) revenue and planned reduction in the Collateral Management (CM) division. Further, due to write offs taken by the company, the overall profitability was impacted, and the company reported losses at operating level in FY21. During FY22 the company continued to post losses at operating level.

Intense competition in the warehousing business
NCML faces competition in the warehousing business which translates into higher leasing costs for the company 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, which may lead to sub-optimal utilization of the warehousing space. However, NCML has a good brand recall in the agri warehousing space with a bouquet of services being offered at one place.

Project related risks
The total cost of the silo projects is around Rs.1044crore to be funded with a debt of around Rs.637crore and balance through equity and internal accruals. Land acquisition has been completed at 9 locations under DFBOO model and is in early stages for the remaining 3 locations. There have been time and cost overruns in the projects currently under implementation. Though land acquisition is near completion, the ratings continue to be constrained by other aspects of project implementation and operational risks for silos. NCML has started silo operations in two SPVs (Sonepat and Bhattu) from H1FY22, which lends some comfort. The company has been utilising funds from the FMO NCD proceeds for funding the silo projects for which repayment will begin from March 2023. There has been significant delays in execution of majority of the silo projects, which has led to time and cost overruns and could possibly result in penalties being levied by FCI. Any further time and cost-overruns will have additional impact on the profitability and cash flows of these projects and would be monitored by CARE.

High Government Control
The government control in commodity space is comparatively high. Government can intervene and change the course of existing market by introducing additional duties and tariffs, export and import restrictions, price restrictions etc. Depending on the price of commodities in the market government has previously introduced restrictions on hoarding, price control, suspension of trading etc. on Rice/Paddy, Wheat, Pulses, Sugar and other essential commodities in which NCML provides services.

Analytical approach: NCML: Consolidated. As on March 31, 2022, NCML had 18 subsidiaries.

Sr. No.	Name of subsidiary	% holding
1	NCML Finance Private Limited	100%
2	NCML Mktyard Private Limited	100%
3	NCML Basti Private Limited	100%
4	NCML Varanasi Private Limited	100%
5	NCML Faizabad Private Limited	100%
6	NCML Batala Private Limited	100%
7	NCML Chhehreatta Private Limited	100%
8	NCML Deoria Private Limited	100%
9	NCML Palwal Private Limited	100%
10	NCML Bettiah Private Limited	100%
11	NCML Bhattu Private Limited	100%
12	NCML Jalalabad Private Limited	100%
13	NCML Sonepat Private Limited	100%
14	NCML KB Private Limited	100%
15	NCML Madhepura Private Limited	100%
16	NCML Saran Private Limited	100%
17	NCML Motihari Private Limited	100%
18	NCML Agribusiness Consultants Private Limited	100%

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
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies

About the company
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.

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/Non-fund-based-LT/ST		-	-	-	368.47	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING*
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	25.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING*
Non-fund-based-Short Term		-	-	-	45.00	CARE A3+; ISSUER NOT COOPERATING*
Term Loan-Long Term		-	-	31-03-2028	30.53	CARE BBB; Stable; ISSUER NOT COOPERATING*

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	Term Loan-Long Term	LT	30.53	CARE BBB; Stable; ISSUER NOT COOPERATING*	-	1)CARE A-; Stable (07-Jan-22)	1)CARE A; Negative (17-Dec-20)	1)CARE A; Stable (30-Sep-19)
2	Non-fund-based-Short Term	ST	45.00	CARE A3+; ISSUER NOT COOPERATING*	-	1)CARE A2+ (07-Jan-22)	1)CARE A1 (17-Dec-20)	1)CARE A1 (30-Sep-19)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	368.47	CARE BBB; Stable / CARE A3+; ISSUER NOT	-	1)CARE A-; Stable / CARE	1)CARE A; Negative / CARE A1	1)CARE A; Stable / CARE

				COOPERATING*		A2+ (07-Jan-22)	(17-Dec-20)	A1 (30-Sep-19)
4	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (10-Dec-20)	1)CARE A1 (30-Sep-19)
5	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	25.00	CARE BBB; Stable / CARE A3+; ISSUER NOT COOPERATING*	-	1)CARE A-; Stable / CARE A2+ (07-Jan-22)	1)CARE A; Negative / CARE A1 (17-Dec-20)	1)CARE A; Stable (30-Sep-19)

*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/Non-fund-based-LT/ST	Simple
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
3	Non-fund-based-Short Term	Simple
4	Term Loan-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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Arunava Paul
Phone: +91-9820904584
E-mail: arunava.paul@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-22-67543404
E-mail: saikat.roy@careedge.in

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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