July 05, 2024

NCML Basti Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term Loan	45.0	40.0	[ICRA]BB+ (Stable); reaffirmed
Long-term – Unallocated Limits	7.8	-	-
Total	**52.80**	**40.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in NCML Basti Private Limited (NCML Basti/the company)'s long-term concession agreement (30 years) with the Food Corporation of India (FCI, 'the authority'; rated [ICRA]AAA(CE)), a strong counterparty, for operating a silo at Basti, Uttar Pradesh, with a capacity of 50,000-MT under the design, build, finance, own and operate (DBFOO) basis. The rating also favourably factors the majority shareholding of Fairfax India Holdings Corporation (Fairfax India), a part of Fairfax Financial Holdings Group (Fairfax; rated 'Baa2' by Moody's Investors Service) in National Commodities Management Services Limited (NCML; rated [ICRA]BBB-/A3), which in turn owns full stake in NCML Basti. NCML has already infused a significant portion of the total project cost in the form of equity and unsecured loans, along with an unconditional and irrevocable corporate guarantee to the lender of the rated bank facility.

ICRA notes that the construction is largely complete with ~97% of the project cost incurred till March 31, 2024. The management expects operations to commence on actual utilization basis (AUB; 60% of the rentals being received) by Q2/Q3 FY2025. The project is expected to achieve commercial operation date (COD) once the testing for railway siding is complete by the authorities. The receipt of full rental on a timely basis from FCI, once the COD is achieved (likely by the end of FY2025), remains a monitorable. Further, the parent is likely to provide funding support, if required, to meet any shortfalls in debt servicing during the initial years of operation.

The silo is 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, linked to the inflation indices. The same is likely to provide stable cash flow visibility. It is also likely to maintain healthy operating margins (~70%) over the medium term due to limited expenses incurred in maintaining the silos. The rating, however, remains constrained by the risk related to operation and maintenance (O&M) of the silo as per the standards specified in the concession agreement. Nevertheless, the standard procedures followed by the company and its insurance cover mitigate the risk to an extent. The company also remains exposed to high customer concentration risk as any unforeseen event impacting the counterparty's business will negatively affect the company's credit risk profile. The rating also notes the coverage metrics exposure to the interest rate risk, even as the inflation linked increase in revenues will mitigate the risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's expectation that following commercialisation of the project, the presence of a strong counterparty will facilitate stable cash flows and consequently, comfortable coverage metrics. Further, the promoter group is expected to provide support in meeting timely debt obligation or any fund requirement on a need basis.

Key rating drivers and their description

Credit strengths

Strong and resourceful promoters, with demonstrated track record of support – The Fairfax Group holds ~91% in NCML and enjoys strong financial flexibility as well as a long and successful track record of managing diverse businesses. Additionally, Fairfax has demonstrated strong support towards NCML through significant and regular fund infusions as well as through managerial support. With a view to ensuring timely debt servicing, Fairfax Group subscribed to non-convertible debentures (NCDs) of Rs 200 crore issued by NCML in FY2024. Given the delays in construction of the silo and the associated cost overrun, NCML has contributed ~Rs. 74 crore (equity and unsecured loans; excluding accrued interest on unsecured loan) of the project cost of ~Rs. 116 crore, as of March 2024. While the unsecured loan, which is sub-ordinated to the bank debt, is at a fixed interest rate, there has been no cash outgo in paying the interest costs to parent. The parent loan does not have defined repayment terms and is expected to be repaid only if surplus is available. Accordingly, the Fairfax Group and NCML are expected to extend support to NCML Basti in meeting timely debt obligation as and when required.

Long-term concession agreement with FCI to aid cash flows post commercialisation – Since the silos are leased to FCI for 30 years, the lease rentals would provide assured revenue visibility, and would support the entity's liquidity profile and debt servicing capacity. As FCI is a Government entity, the counterparty risk remains low. As per the agreement, a fixed portion of the revenue from FCI is assured even in case of underutilisation of the 50,000-MT silo capacity, which provides comfort.

Credit challenges

Modest scale of operations and high asset concentration risk – The silos are under construction and are expected to achieve COD by the end of FY2025. The company's scale of operations is modest with projected operating income (OI) of ~Rs. 7.0 crore in its first full year of operations after achieving COD. The long-term commitment with FCI for assured revenue throughout the agreement period provides comfort. The EBIDTA margin is likely to remain comfortable due to limited expenses to be incurred in maintaining the silos. ICRA further notes that the entity remains exposed to geographical concentration risk with the silo complex in a single location, Basti. This exposes the company to the risk of any force majeure event, which could impact the asset and its cash flows, even as the insurance cover mitigates the risk to an extent.

Exposure to capacity underutilisation and O&M risk after commercialisation – After commercialisation, though a significant portion of the rentals is fixed, a part of consideration from FCI is variable and linked to the capacity utilisation of the storage silos (~5-10% of overall cash flows at full utilisation). 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 small share of variable charges, the impact on the debt coverage metrics is low. Further, the entity will remain exposed to the material breach related to O&M of the silo complex, as well as material quality and quantity loss of the food grain, which may lead to deductions in the payments from FCI. However, the standard procedures followed by the company and insurance cover mitigate the risk to an extent.

Leveraged capital structure and interest rate risk- The company's financial risk profile is expected to remain characterised by weak capitalisation and coverage indicators, as it has outstanding term loan of 38.4 crore as of March 31, 2024. The credit metrics are likely to gradually improve over the medium term with increase in revenues and reduction in debt servicing obligations. The company also remains exposed to the interest rate risk, although the inflation linked increase in revenues will mitigate the risk to a major extent.

Liquidity position: Stretched

The company's liquidity position is expected to remain stretched, evidenced by negligible cash and liquid investments as on March 31, 2024. Hence, the achievement of COD and timely receipt of full payments by the counterparty will be a key monitorable over the medium term. While the project is expected to remain largely self-sufficient in servicing its debt obligations after achieving its COD, in case of inadequate liquidity, NCML is likely to extend funds to meet any cash flow mismatch.

Rating sensitivities

Positive factor: A sustained track record of timely payments from FCI without material deductions post commercialization of the project, leading to an improvement in coverage indicators, could result in a positive rating action. The rating may also be upgraded if there is improvement in the credit profile of the parent entity.

Negative factor: Pressure on the rating could arise in case of any further significant delay in commencement of operations or deductions in receipt of the rentals and/or higher-than-anticipated operational expenditure (post commercialization) resulting in lower cash flows on a sustained basis. Further, noncompliance to the concession terms leading to penalties/ deductions could also put pressure on the rating. Specific credit metrics that could lead to a rating downgrade include cumulative DSCR falling below 1.1 times. Weakness in credit profile of the parent entity or significant deterioration in the credit profile of the authority could also put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings assigned factor in the high likelihood of its parent, NCML, extending financial support to the company out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of NCML Basti Pvt. Ltd.

About the company

NCML Basti, a wholly-owned subsidiary of NCML, entered into a concession agreement with FCI for the construction, operation and maintenance of a silo complex for storing wheat, under the DBFOO model for 30 years. The entity had won the bid to construct a silo, with a capacity of 50,000 MT at Basti, Uttar Pradesh. The silo is expected to achieve COD by the end of FY2025. Given that the silo is being built on the DBFOO model, the company had to acquire the land, design, finance, operate and maintain the silo complex. As per the contract, the initial two years are assigned for construction activity and then 30 years for the operation of food grain storage.

The parent, NCML, is one of the country's leading agri-logistics companies in the private sector, present across warehouse services, collateral management, testing and certification, and weather intelligence, among others. NCML operates a chain of warehouses at more than 100 locations across the country through owned, leased, and franchisee models. Initially promoted by various banks/financial institutions and other public-sector entities, the largest shareholding in NCML, after the exit of some of its early shareholders, lies with Fairfax India Holdings Corporation (91%) through a Mauritius-based entity, FIH Mauritius Investments. Fairfax India has an asset portfolio in excess of $3.5 billion invested in India.

Fairfax Financial Holdings Limited, Canada, is the ultimate holding company, which is engaged in insurance, reinsurance and investment management through its subsidiaries. Founded in 1985 by Mr. V. Prem Watsa, Fairfax is headquartered in Toronto, Canada, and is rated Baa2 (Stable) by Moody's.

Key financial indicators (audited)

NCML Basti Standalone	FY2022	FY2023
Operating income	-	-
PAT	-0.5	-0.0
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	6.9	13.1
Total debt/OPBDIT (times)	NM*	NM*
Interest coverage (times)	-	-

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 05, 2024	Oct 10, 2023	Feb 17, 2023	-
1	Term Loan	Long term	40.0	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-
2	Unallocated Limits	Long term	-	-	[ICRA]BB+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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	**Long-term fund-based – Term Loan**	FY2023	NA	FY2041	40.0	**[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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

K. Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545808
rohan.kanwar@icraindia.com

Astha Bansal
+91 124 4545342
astha.bansal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches