July 05, 2024

NCML KB Private Limited: Ratings reaffirmed and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term Loan	58.10	58.10	[ICRA]BB+ (Stable); reaffirmed and withdrawn
Total	**58.10**	**58.10**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in NCML KB Private Limited (NCML KB/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 silos at Kaimur and Buxar, Bihar, with a capacity of 50,000-MT under the design, build, finance, operate and transfer (DBFOT) 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 KB. NCML has already infused a significant portion of the total project cost in the form of equity and unsecured loans.

The silo is not operational yet; the construction is in progress at both the sites, Kaimur and Buxar, with the management expecting operations to commence by the end of FY2025. ICRA notes that ~96% of the overall project cost of Rs 122 crore was incurred as of March 2024. The silos at Buxar are largely complete and grain intake will commence in the next harvest season. The silos at Kaimur are likely to be complete over the next few months. The receipt of full rental payments on a timely basis from FCI, once the COD is achieved remain a monitorable. Since the company has fully repaid the term loan availed from YES Bank in November 2023, the company has no term debt obligations to repay.

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 eligible to receive a grant of up to ~Rs. 7.65 crore from FCI as per the concession agreement, in addition to the rentals. The company is 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 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. Further, the promoter group is expected to provide any fund requirement on a need basis.

ICRA has withdrawn the ratings assigned to the bank facilities at the request of the company, and upon receipt of the No Objection Certificate (NOC) from the banker, and in accordance with ICRA's policy on withdrawal of credit ratings.

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 more than Rs 100 crore (equity and unsecured loans) out of the estimated project cost of ~Rs. 122 crore, as of March 2024. While the unsecured loan 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 KB in meeting timely funding support 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 thus support the entity's liquidity profile. Furthermore, 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 expected to achieve COD by end of FY2025. The company's scale of operations is modest with projected operating income (OI) of ~Rs. 10-12 crore in first full year of operations. 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 required to be incurred in maintaining the silos. ICRA further notes that the entity remains exposed to geographical concentration risk with silo complex at only two locations. This exposes the company to the risk of any force majeure event, which could impact the asset and the company's cash flows, even as the insurance cover mitigates the risk to an extent.

Exposure to capacity under-utilisation and O&M risk post commercialisation- Post 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. However, given the relatively smaller share of variable charges, the impact is likely to be low. Further, the entity will remain exposed to the material breach with regard 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 mitigates the risk to an 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 payment by the counterparty (post commercialisation) will be a key monitorable.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Not applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
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 KB Pvt. Ltd.

About the company

NCML KB, 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 and rice under a DBFOT model for 30 years. The entity had won the bid to construct silos, with a capacity of 50,000 MT each at Kaimur and Buxar in Bihar. The silo is expected to achieve COD by end of FY2025. Given that the silos are being built on a DBFOT model, and with the land for the silo being provided by FCI, the assets will be transferred to it after the concession period is over. As per the contract, the initial two years have been assigned for construction, followed by 30 years for operations in 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 KB Standalone	FY2022	FY2023
Operating income	24.5	35.6
PAT	0.5	2.0
OPBDIT/OI	14.5%	7.4%
PAT/OI	2.0%	5.5%
Total outside liabilities/Tangible net worth (times)	13.7	15.1
Total debt/OPBDIT (times)	10.5	25.2
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; *the revenue shown above is concessional income which is a notional revenue entry (proportionate to cost) as per the accounting for transfer model EPC projects*

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	58.10	**[ICRA]BB+ (Stable); withdrawn**	**[ICRA]BB+ (Stable)**	**[ICRA]BBB- (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**	FY2019	NA	FY2040	58.10	**[ICRA]BB+ (Stable); withdrawn**

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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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.

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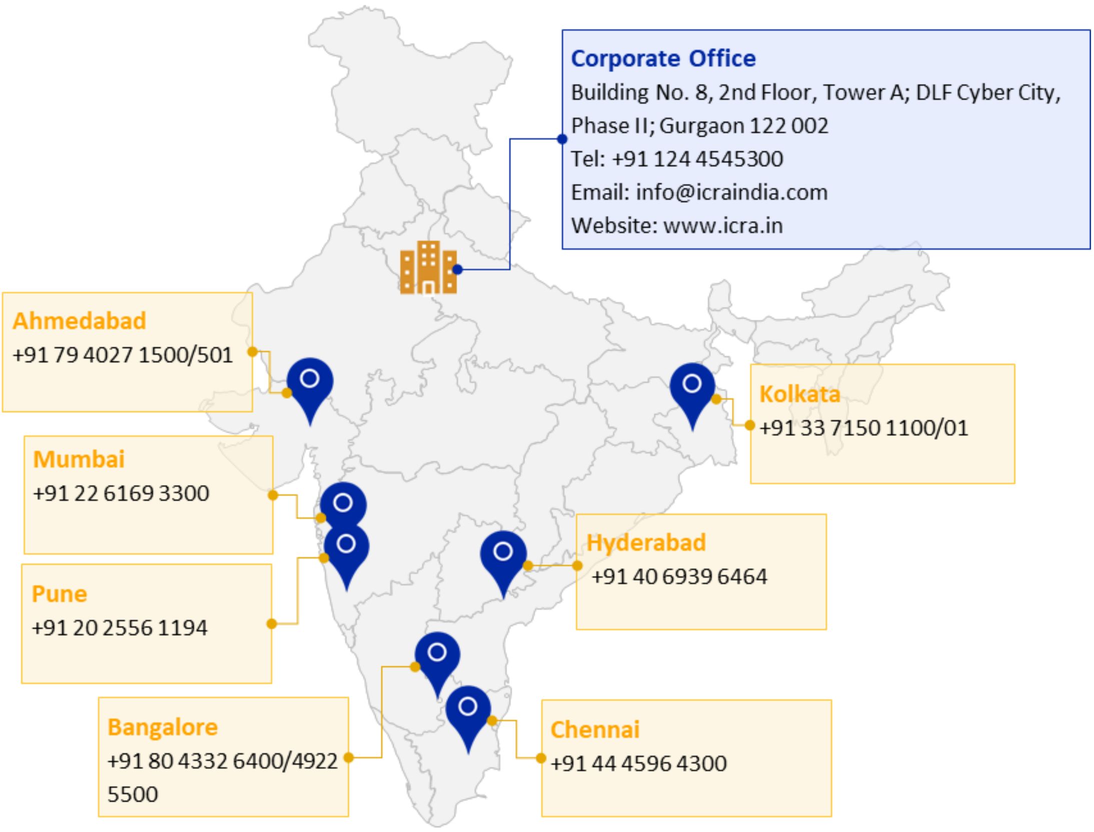

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