

December 29, 2020 ^{Revised}

NCML Finance Private Limited: [ICRA]A (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based / CC	200.00	[ICRA]A (Stable); assigned
Total	200.00	

*Instrument details are provided in Annexure-1

Rationale

To arrive at the rating, ICRA has taken a consolidated view of the credit profiles of National Collateral Management Services Limited (NCML; rated [ICRA]A (Stable)) and NCML Finance Private Limited (NFPL). The companies are hereafter referred to as the NCML Group owing to the common management and clientele, shared infrastructure, and the strategic importance of NFPL to NCML.

The rating factors in the synergistic benefit derived by NFPL as its operations are aligned with those of the parent, NCML, which is one of the major players in the agricultural commodity business. NCML offers an array of services to its customers through its large and widespread network of warehouses in the country. In addition to management oversight, NFPL also benefits from the ease of liquidation of the underlying collateral in the form of agricultural commodities stored at the parent's warehouses by having access to nearby mandis where they can be disposed of in a timely manner in the case of default by the customers. The rating also takes into consideration NFPL's adequate capitalisation for the current scale of operations, with a low gearing of 0.1 times and a net worth of Rs. 120.5 crore as on September 30, 2020. Also, ICRA expects support from the parent to be forthcoming, as and when required.

ICRA has also taken note of the company's limited track record of operations with operations commencing only in February 2016, and the relatively small scale of operations with assets under management (AUM) of Rs. 90 crore as on September 30, 2020. The loan book de-grew by ~86% (annualised) in H1 FY2021 largely due to the scale-down of the collateral management business by the parent entity. ICRA also notes the modest profitability indicators with a return on net worth (RoE) of ~4.8% in H1 FY2021 and the high portfolio vulnerability due to the marginal credit profile of the underlying borrowers. Nevertheless, the company's asset quality indicators have remained under control (reported gross NPA% of 0.14% as on September 30, 2020) so far. Going forward, NFPL's ability to grow the business volumes profitably while maintaining the asset quality will be an important rating consideration.

Key rating drivers and their description

Credit strengths

Operational synergies with parent – NFPL derives operational synergies from the NCML Group as it has common sourcing with the parent. Further, the company has better control of the commodities kept as collateral in NCML's warehouses where they are regularly monitored for quality and quantity-related risks. Hence, the collateral-related risk is somewhat mitigated. This also helps NFPL to easily liquidate securities in case of defaults by borrowers. Moreover, the parent company has a demonstrated track record of over 15 years in the collateral management business and is backed by Fairfax

India Holdings, which held a ~90% stake in NCML as on September 30, 2020. NFPL's overall profitability profile is supported by its position as a part of the NCML Group and its operational synergies with the parent.

Financial flexibility supported by virtue of being a part of the NCML Group – NFPL has relationships with some of the large financial institutions in the country by virtue of being a part of the NCML Group. The company would need to raise incremental debt to grow as per its business plans and ICRA expects that NFPL would benefit from the Group's relationships and raise debt as and when needed.

Adequate capitalisation profile – NFPL's capitalisation profile remains comfortable with a low gearing of 0.1 times on a net worth of Rs. 120.5 crore as on September 30, 2020 compared to 1.5 times and Rs. 113.0 crore, respectively, as on March 31, 2019. With the incremental business being funded from fresh borrowings, the gearing levels would go up from the current levels and are expected to be around 2-3 times over the medium term. Nevertheless, the company is expected to maintain prudent capitalisation levels, going forward as well. Moreover, ICRA expects the support from the parent to be forthcoming, as and when required.

Credit challenges

Modest scale and limited track record of operations – NCML's non-banking financial company (NBFC) operations are relatively new with the operations commencing only in February 2016. Further, the current scale of operations is modest with an AUM of Rs. 90 crore as on September 30, 2020 against Rs. 286 crore as on March 31, 2019. The degrowth (~86% in H1 FY2021 annualised) in the portfolio was largely due to the cyclicity of the business operations along with the scale-down of the collateral management business by the parent entity. The company also stopped disbursements against some commodities due to high volatility in prices. ICRA also notes that NFPL had diversified the loan book to include mortgage loans. However, with the change in business strategy, mortgage loans have been discontinued and the book (~Rs. 34 crore as on September 30, 2020) would gradually run down while incremental growth would come from the traditional warehouse receipt financing business. Overall, the company's ability to leverage the Group synergies and grow the business volumes profitably while maintaining strict underwriting standards would be a key rating sensitivity.

Modest profitability indicators – NFPL's overall profitability remained range-bound with a return on assets (RoA) and a return on equity (RoE) of 1.9% and 4.1%, respectively, in FY2020 (3.4% and 4.8%, respectively, in H1 FY2021) compared to 1.5% and 4.2%, respectively, in FY2019, despite a significant degrowth in the loan book. This was partly due to the company repricing its loans in the market as well as some large recoveries from delinquent accounts resulting in low credit costs. At the same time, the operating expenses in relation to the average assets remained moderate (~5.0% in FY2020 compared to ~3.5% in FY2019) benefitting from the operational linkages in the form of the shared sourcing of the portfolio and the collection infrastructure with the parent. Going forward, the profitability indicators are expected to improve with increased business volumes, provided the company is able to control fresh slippages.

Relatively high portfolio vulnerability, though mitigated to an extent by the ease of liquidation of collateral – NFPL's target segment mainly consists of small-and-medium-scale farmers along with farmer producer organisations and traders. The portfolio vulnerability remains high due to the marginal credit profile of its underlying borrowers and the inherent risks associated with commodity financing. The key credit risks for the company include its ability to manage the commodity storage at the warehouses, the volatility in commodity prices which may lead to a reduction in the value of the collateral, and the build-up of any stress in the agrarian economy reflected by the impact of climatic conditions on the two major crop harvesting seasons in India. However, these risks are mitigated to an extent by the ease of liquidation of the commodities stored at the parent's warehouses. Also, NFPL has taken measures to tighten its credit underwriting norms such as lending incrementally to customers with a strong track record as well as a reduction in the loan-to-value (LTV) ratio to ~70% from ~75% earlier. This provides adequate buffer against the commodities kept as collateral at the parent's

warehouse, which can be easily liquidated without a significant time lag, thus providing cover against significant losses due to default.

The asset quality indicators improved due to recoveries from some large accounts as some of the delinquent customers paid their overdue amounts in FY2020. This resulted in a decline in the GNPA% (recognised on a 180 days past due basis) to 0.86% as on March 31, 2020 from 3.01% as on March 31, 2019. The GNPA% reduced further in H1 FY2021 to 0.14% supported by write-offs of Rs. 0.9 crore during this period. However, the 90+ dpd% increased to ~2.0% during the same period due to the portfolio degrowth. Further, while ~28% of the portfolio was under moratorium at the end of August 2020, there was an improvement in the collections post the completion of the moratorium period, with NFPL witnessing a collection efficiency of over 90% in October 2020 and November 2020.

Liquidity position: Adequate

The company's liquidity profile is adequate reflected by the availability of drawable bank lines of ~Rs. 37 crore¹ as well as ~Rs. 14.7 crore cash and liquid investments as on September 30, 2020. NFPL also had cheques in hand worth Rs. 30 crore as on September 30, 2020. The liquidity position is further supported by the low gearing of 0.1 times with an outstanding debt of only Rs. 13 crore as on September 30, 2020, which is repayable in the next 5 months. The company has not raised any additional debt in YTD FY2021 and had not applied for a moratorium on any of its debt repayments. Also, given the business linkages and the strategic importance of the company to the Group, ICRA expects the support from the parent to be forthcoming, as and when required.

Rating sensitivities

Positive triggers – ICRA could upgrade the rating if there is a sustainable and significant improvement in the credit and financial risk profile of the Group.

Negative triggers – ICRA could downgrade the rating if there is a significant deterioration in the company's asset quality indicators or the credit profile of the parent. Any change in the strategic importance to the Group or reduced likelihood of support from the Group would also warrant a rating change.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated view of NCML and NFPL owing to the common management, clientele, shared infrastructure and strategic importance of NFPL to NCML

About the company

NCML Finance Private Limited (NFPL) was formed by acquiring an existing non-functional NBFC called T G Finance on February 12, 2016. NFPL is a 100% subsidiary of National Collateral Management Services Limited (NCML), which is primarily held by Fairfax India Holdings (~90% as on September 30, 2020) with a 50% representation of Fairfax nominees on NCML's board. The company is involved in warehouse receipt financing for the commodities (~63% as on September

¹ NFPL's sanctioned bank lines stood at Rs. 140 crore as on September 30, 2020

30, 2020) stored at its parent's warehouse along with some proportion of loan against property (LAP; ~37%), which was started in FY2019.

NFPL reported a profit after tax (PAT) of Rs. 4.7 crore in FY2020 on a total asset base of Rs. 202.1 crore as on March 31, 2020 against a PAT of Rs. 4.7 crore in FY2019 on a total asset base of Rs. 290.8 crore as on March 31, 2019. In H1 FY2021, the company reported a PAT of Rs. 2.8 crore on a total asset base of Rs. 136.9 crore and the net worth stood at Rs. 120.5 crore as on September 30, 2020. The last equity infusion in the company was Rs. 24 crore, by the parent in FY2018.

About National Collateral Management Services Limited

National Collateral Management Services Limited (NCML) was incorporated in 2004 and is one of the country's largest private sector agri-logistics companies, with a presence in supply chain management, warehouse services, collateral management, non-banking financial services, silo construction & operations, testing and certification, weather intelligence, crop intelligence, online marketplace for commodities and consultancy services. NCML operates a pan-India network of warehouses with more than 1.3 million MT storage capacity. Initially promoted by various financial institutions and public-sector entities, Fairfax Financial Holdings Group (FFH) has the largest shareholding in NCML (~90% stake) after the exit of some of the earlier shareholders. FFH was founded in 1985 by Mr. V. Prem Watsa and is headquartered in Toronto, Canada. It has business interests in insurance, reinsurance and investment management and manages operations across multiple countries.

Key financial indicators – NFPL (standalone)

	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
Profit after Tax	4.7	4.7	2.8
Net Worth	113.0	117.7	120.5
AUM	285.9	158.3	90.1
Total Assets	290.8	202.1	136.9
Return on Average Assets	1.5%	1.9%	3.4%
Return on Net Worth	4.2%	4.1%	4.8%
Gearing (times)	1.5	0.7	0.1
Gross NPA %*	3.0%	0.9%	0.1%
Net NPA %	2.7%	0.3%	0.1%
% Net NPA/Net Worth	6.8%	0.3%	0.1%

Source: NFPL, ICRA research; Amount in Rs. crore; *180+ dpd

Key financial indicators – NCML (consolidated)

	FY2019	FY2020	H1 FY2021
	Audited	Audited	Provisional
Operating Income (Rs. crore)	1335	893	233
PAT (Rs. crore)	16	-58	-6
OPBDIT/ OI (%)	6.5%	-2.1%	5.7%
PAT/OI (%)	1.2%	-6.5%	-2.7%
TOL/TNW (times)	1.42	1.37	1.26
Total Debt/ OPBDIT (times)	10.36	NM	27.00
Interest coverage (times)	1.44	NM	0.69

Source: NCML, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2021)		Rating History for the Past 3 Years					
		Amount Rated	Amount Outstanding	FY2021 Dec-29-2020	Oct-30-2020	FY2020 Sep-25-2019	Aug-30-2019	FY2019 Sep-03-2018	FY2018
1 Long term fund based/CC	Short Term	200	11*	[ICRA]A (Stable)	-	-	-	-	-
2 Commercial paper	Short Term	50	-	-	[ICRA]A1; withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A 1+	-
3 NCD	Long Term	100	-	-	[ICRA]A (Stable); withdrawn	[ICRA]A (Stable)	-	-	-

Source: ICRA research; Amount in Rs. crore; *As on Nov 30, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	WCDL/CC - 1	NA	NA	NA	30.00	[ICRA]A (Stable)
NA	WCDL/CC - 2	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	WCDL/CC - 3	NA	NA	NA	25.00	[ICRA]A (Stable)
NA	WCDL/CC - 4	NA	NA	NA	25.00	[ICRA]A (Stable)
NA	WCDL/CC - 5	NA	NA	NA	10.00	[ICRA]A (Stable)
NA	Unallocated/proposed bank lines	NA	NA	NA	60.00	[ICRA]A (Stable)

Source: NFPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NCML Finance Private Limited	100%	Full Consolidation
NCML Mktyard Private Limited	100%	Full Consolidation
NCML Basti Private Limited	100%	Full Consolidation
NCML Varanasi Private Limited	100%	Full Consolidation
NCML Faizabad Private Limited	100%	Full Consolidation
NCML Batala Private Limited	100%	Full Consolidation
NCML Chhehreatta Private Limited	100%	Full Consolidation
NCML Deoria Private Limited	100%	Full Consolidation
NCML Palwal Private Limited	100%	Full Consolidation
NCML Bettiah Private Limited	100%	Full Consolidation
NCML Bhattu Private Limited	100%	Full Consolidation
NCML Jalalabad Private Limited	100%	Full Consolidation
NCML Sonapat Private Limited	100%	Full Consolidation
NCML KB Private Limited	100%	Full Consolidation
NCML Madhepura Private Limited	100%	Full Consolidation
NCML Saran Private Limited	100%	Full Consolidation
NCML Motihari Private Limited	100%	Full Consolidation
NCML Agribusiness Consultants Private Limited	100%	Full Consolidation

Source: ICRA

Corrigendum

Document dated December 29, 2020 has been corrected with revisions as detailed below:

‘Annexure-2: List of entities considered for consolidated analysis’ has been captured on Page 6.

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