

September 27, 2023

NCML Finance Private Limited: Rating downgraded to [ICRA]BBB (Negative)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based/CC	100.0	100.0	[ICRA]BBB (Negative); downgraded from [ICRA]A- (Negative)
Total	100.0	100.0	

*Instrument details are provided in Annexure I

Rationale

To arrive at NCML Finance Private Limited's (NFPL) rating, ICRA has taken a consolidated view of the credit profiles of the parent, i.e. National Commodities Management Services Limited {NCML; rated [ICRA]BBB (Negative)}, and its subsidiaries (mentioned in Annexure II). The companies are hereafter referred to as the NCML Group owing to the common management and clientele, shared infrastructure and operational synergies.

The rating downgrade factors in the slower-than-expected improvement in the NCML Group's business performance over the past one year and the expectation that the Group's credit profile is likely to remain weak in the near term, given the continued pressure on its operational and financial risk profile. While the scale of operations has declined substantially over the last few years owing to concerted efforts to gradually reduce its supply chain management (SCM) business and the collateral management (CM) division, the lack of a commensurate decline in its operating expenses has resulted in weaker cash flow generation. Thus, the Group's operating profit from continuing operations is expected to improve gradually, going forward, and its credit metrics are expected to remain subdued in the near term.

The NCML Group's profitability has remained constrained by a substantial one-time provisioning cost over the past few years, linked to the impairment of investment in surrendered silos, and doubtful receivables with limited recoveries. As per the management, the Group has gradually exited its loss-making businesses (CM and SCM) and is now focusing on profitable growth across its diversified business verticals (testing and inspection, weather intelligence, silos, etc.). ICRA notes the Group's continued focus on receivables management, transition to a relatively asset-light model and monetisation of non-core assets. The benefit of the same on its credit risk profile is likely to be visible over the medium term and remains a monitorable.

NFPL derives synergistic benefits as its operations are aligned with those of the parent, which is one of the major players in the agricultural commodity business. Portfolio vulnerability remains high for the company, given the marginal credit profile of the underlying borrowers. This is also reflected in the gross non-performing advances (GNPAs) of 2.9% as on March 31, 2023 (6.1% adjusted for the lending to the parent). However, NFPL benefits, to some extent, 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 case of default by the customers.

The rating also takes into consideration NFPL's moderate capitalisation, with a low gearing of 0.04x and a net worth of Rs. 128.8 crore as on March 31, 2023. Moreover, ICRA has taken note of NFPL's modest scale of operations with assets under management (AUM) of Rs. 131.3 crore as on March 31, 2023. ICRA also notes that a large part of the current net worth (Rs. 95 crore) was given to the parent in the form of intercorporate loans, significantly reducing the capital available for business.

As for profitability, NFPL's profitability indicators have remained modest with a return on average assets (RoA) of 3.0% and a return on average net worth (RoNW) of 3.1% in FY2023 (2.0% and 2.4%, respectively, for FY2022).

Key rating drivers and their description

Credit strengths

Operational synergies with the parent – NFPL is a wholly-owned subsidiary of NCML. Established in 2004, the company has over 15 years of experience in managing commodity businesses in the country. It is currently one of the leading companies in the warehousing business with warehousing capacity of over 1.0 million MT (owned and leased) and capacity of 0.3 million MT (franchised). The Group is present across multiple commodity business verticals, including procurement, storage, preservation, testing, weather intelligence, collateral management, etc. NFPL derives operational synergies from the NCML Group as it has common sourcing with the parent. Further, it 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 liquidate securities easily in case of defaults by borrowers.

Moderate capitalisation profile – NFPL's capitalisation profile remains moderate with a low gearing of 0.04x on a net worth of Rs. 128.8 crore as on March 31, 2023 compared to 0.00x and Rs. 124.8 crore, respectively, as on March 31, 2022. ICRA also notes that a large part of the current net worth (Rs. 95 crore) was given to the parent in the form of intercorporate loans, significantly reducing the capital available for business. Nevertheless, given the low external debt and muted business outlook due to the weakening Group performance, the capital is expected to remain sufficient over the short to medium term.

Credit challenges

Modest scale of operations – NFPL's overall AUM grew by 9.4% on in FY2023 to Rs. 131.3 crore as on March 31, 2023. Its loan book consisted of short-term warehouse receipt financing (WRF) and long-term loan against property (LAP) (together constituting 27.7% of overall AUM) as on March 31, 2023 and loans to its parent (72.3% of overall AUM as on March 31, 2023). As a part of an earlier strategy, the LAP book has been running down. Overall, the company's ability to leverage the Group's synergies and grow the business volumes profitably while maintaining strict underwriting standards would be a key rating sensitivity.

Modest profitability indicators – NFPL's average yield remained range-bound at 11-12% in FY2023 and FY2022. With negligible borrowings, the net interest margin (NIM) improved to 10.5% in FY2023 from 9.6% in FY2022. At the same time, the operating expenses remained high at 6.5% in FY2023 (6.4% in FY2022). Despite this, the improvement in the NIM and nil credit costs led to a moderate improvement in the profitability with RoA and RoNW of 3.0% and 3.1%, respectively, in FY2023 compared to 2.0% and 2.4%, respectively, in FY2022. Going forward, the profitability indicators are expected to remain range-bound with limited growth in business volumes, provided the company is able to control fresh slippages.

At the Group level, there has been a sharp drop in NCML's debt protection indicators on account of the steep fall in revenues and accruals over the last few years. Even as the coverage indicators (TD/OPBITDA and interest coverage) have remained weak, the company has been able to repay its debt and interest obligations on time, aided by funding support from Fairfax, release of funds from the SCM division and its other monetisation efforts. The impact of the company's continued efforts towards transitioning to an asset-light model, monetisation of non-core assets and recoveries against doubtful receivables remains a monitorable. With revenue inflow starting from the silos, the overall operating profit is likely to improve as they operate at a

healthy margin. However, NCML is expected to remain dependent on funding support from the promoters to an extent, to help meet its upcoming debt repayments in a timely manner as the operational cash flows are expected to improve gradually.

Relatively high portfolio vulnerability, but partially mitigated by 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 the 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 somewhat mitigated by the ease of liquidation of the commodities stored at the parent’s warehouses. ICRA notes that NFPL had previously taken measures to tighten its credit underwriting norms such as lending incrementally to repeat customers as well as a reduction in the loan-to-value (LTV) ratio to 60-65% from 70-75%. 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 remained weak with GNPA of 2.9% (recognised on 180 days past due basis and 6.1% on adjusted basis) and net NPAs (NPNAs) of 2.6% as on March 31, 2023 compared to 2.8% and 2.5%, respectively, as on March 31, 2022.

Liquidity position: Adequate

NFPL’s liquidity profile is adequate, which is reflected by the availability of cash and liquid investments of Rs. 3.7 crore as on March 31, 2023. The liquidity position is further supported by the low gearing of 0.04x with outstanding debt of only Rs. 5 crore as on March 31, 2023. Also, given the business linkages and operational synergies of the company with the Group, ICRA expects support from the parent to be forthcoming as and when required.

Rating sensitivities

Positive factors – ICRA could change the outlook to Stable if there is a sustainable and significant improvement in the credit and financial risk profile of the Group.

Negative factors – 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 importance of the company for the group and/or a 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 ICRA’s Credit Rating Approach for Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation

About the company

NFPL was formed by acquiring T G Finance, a non-functional non-banking financial company (NBFC), on February 12, 2016. NFPL is a 100% subsidiary of NCML, which is primarily held by Fairfax India Holdings Corporation (91% as on March 31, 2023) with two nominees from Fairfax on its board. The company is involved in WRF for the commodities stored at its parent’s

warehouse along with some proportion of MPST/LAP, which together accounted for 27.65% of the overall AUM as on March 31, 2023. The company has also given a loan to its parent (72.35% of overall AUM as on March 31, 2023).

NFPL reported a profit after tax (PAT) of Rs. 4.0 crore in FY2023 on a total gross asset base of Rs. 135.6 crore as on March 31, 2023 compared to a PAT of Rs. 3.0 crore in FY2022 on a total gross asset base of Rs. 127.5 crore as on March 31, 2022. Its net worth stood at Rs. 128.8 crore as on March 31, 2023 (Rs. 124.8 crore as on March 31, 2022). The reported gross and net NPA stood at 2.9% and 2.6%, respectively, as on March 31, 2023 compared to 2.8% and 2.5%, respectively, as on March 31, 2022.

Key financial indicators – NFPL (standalone)

	FY2020	FY2021	FY2022	FY2023
	Audited	Audited	Audited	Audited
Total income	31.1	18.7	15.8	14.7
Profit after tax	4.7	4.2	3.0	4.0
Net worth	117.7	121.9	124.8	128.8
Gross loan book	158.4	149.4	119.9	131.3
Total assets	202.1	167.5	127.5	135.6
Total managed assets	202.1	167.5	127.5	135.6
Return on managed assets	1.9%	2.3%	2.0%	3.0%
Return on net worth	4.1%	3.5%	2.4%	3.1%
Gearing (times)	0.7	0.3	0.0	0.04
Gross NPAs	0.9%	0.4%	2.8%	2.9%
Net NPAs	0.3%	0.1%	2.5%	2.6%
Net NPA/Net worth	0.3%	0.2%	2.4%	2.6%

Source: NFPL, ICRA Research; Amount in Rs. crore

National Commodities Management Services Limited

Incorporated in 2004, National Commodities Management Services Limited is one of the country's leading agri-logistics companies in the private sector, present across supply chain management, warehouse services, collateral management, testing and certification, weather intelligence and consultancy services. NCML operates a chain of warehouses in more than 100 locations across the country through owned, leased or franchised 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 Financial Holdings Limited, Canada (Fairfax) 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 Baa3 (Stable) by Moody's.

Key financial indicators – NCML (consolidated)

	FY2021	FY2022	FY2023
Operating income	509.3	294.4	257.1
PAT	-57.8	-64.4	-185.5
OPBDIT/OI	-4.2%	-4.2%	1%
PAT/OI	-11.3%	-21.9%	-72.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.4	1.9
Total debt/OPBDIT (times)	-31.9	-59.4	282.8
Interest coverage (times)	-0.6	-0.4	0.1

Source: NCML, ICRA Research; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2024)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					Sep 27, 2023	Dec 16, 2022	Dec 27, 2021	Dec 29, 2020	Oct 30, 2020
1	Long-term fund based/CC	Long term	100.0	5.0	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	-
2	Long-term fund based/CC	Long term	-	-	-	[ICRA]A- (Negative); withdrawn	[ICRA]A (Negative)	[ICRA]A (Stable)	-
3	Commercial paper	Short term	-	-	-	-	-	-	[ICRA]A1; withdrawn
4	NCD	Long term	-	-	-	-	-	-	[ICRA]A (Stable); withdrawn

Source: ICRA Research

*Amount outstanding as on March 31, 2023

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based/CC	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/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	WCDL/CC - 1	NA	NA	NA	30.0	[ICRA]BBB (Negative)
NA	WCDL/CC - 2	NA	NA	NA	30.0	[ICRA]BBB (Negative)
NA	Proposed cash credit	NA	NA	NA	40.0	[ICRA]BBB (Negative)

Source: NFPL, ICRA Research

Annexure II: List of entities considered for consolidated analysis

Company Name	NCML Ownership	Consolidation Approach
National Commodity Management Services Limited	100%	Full Consolidation
NCML Finance Private Limited	100% (rated entity)	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 Research; Note: ICRA has taken a consolidated view of the parent (NCML), its subsidiaries and associates while assigning the rating

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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.

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Branches



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