July 05, 2024

National Commodities Management Services Limited: Ratings downgraded to [ICRA]BBB- (Negative)/[ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Working Capital	203.00	148.50	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Short-term non-fund based – Working Capital	117.00	46.00	[ICRA]A3; downgraded from [ICRA]A3+
Long-term – Fund based - Term Loan	16.80	17.91	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Long-term/ short-term – Unallocated Limits	3.20	0.00	-
Total	**340.00**	**212.41**	

**Instrument details are provided in Annexure-I*

Rationale

The downgrade in the ratings of National Commodities Management Services Limited (NCML/company) factors in the slower than expected improvement in business performance over the past one year and the concern that the company's operational and financial risk profile is likely to remain weak in the near-term. While there has been a substantial reduction in the company's scale of operations over the last few years owing to its efforts to reduce operations in the supply chain management (SCM) and the collateral management (CM) divisions, a lack of commensurate decline in its operating expenses has resulted in weaker cash flow generation. The company's profitability has further remained constrained by substantial provisioning costs over the years; the latter stood at ~Rs 40 crore in FY2024 (provisional financials) linked to doubtful receivables and write-off of assets (testing labs). NCML's operating profits from its continuing operations are expected to improve gradually going forward. Consequently, its credit metrics are expected to remain subdued in the near term.

Further, NCML has witnessed significant time and cost overruns in execution of its silo projects, which account for a sizeable proportion of the capital employed. Of its 7 silo projects, four silos are operational; although, two of these are operating on actual utilization basis (AUB, 60% of rentals being received) as their commercial operations date (COD) certificate is awaited from Food Corporation of India (FCI). The remaining three silos are likely to be completed in FY2025 as ~96% of the combined construction cost for these three projects has already been incurred as of March 2024. The silos would continue to remain exposed to the risk of delays in the receipt of timely payments from FCI. ICRA expects NCML to provide financial support to these silos during their initial years of operations, as coverage metrics are likely to remain subdued.

ICRA notes that NCML's external leverage at standalone level has reduced considerably due to the closure of sizeable loan with a foreign lender FMO, by paying an amount that was lower than the amount outstanding, in September 2023. In November 2023, the company availed debt of Rs 200 crore from parent- Fairfax Financial Holdings Limited (Fairfax) which was utilized for paying -off the external bank loans. The flexibility to defer interest payments along with no near-term repayments for parent loan (end date to repay the principal portion of debt is November 2028) provides comfort. Also, in absence of any significant debt-funded capex plans going forward, the reliance on any additional external debt is likely to remain low. However, its business fundamentals continue to remain weak overall. The pace of improvement in NCML's business risk profile will remain one of the key drivers of its ratings, going forward. ICRA also notes the company's continued focus on transition to a relatively asset-light model and monetisation of non-core assets. The benefits of the same on its credit risk profile are likely to be visible over the medium term and remains a monitorable.

The track record of timely financial aid from Fairfax continues to support NCML's ratings, any adverse change in the sponsor's support philosophy would be a credit negative. The ratings continue to factor in the company's track record in the agricultural commodities industry, its reputed and diversified clientele, and widespread network of warehouses.

The Negative outlook on the long-term rating reflects ICRA's expectation of a continued pressure on the credit profile of the entity with a recovery in its operational performance likely to be gradual.

Key rating drivers and their description

Credit strengths

Strong and resourceful promoter group – Fairfax Financial Holdings Limited (Fairfax; rated Baa2/stable by Moody's Investors Service) holds ~91% in NCML and enjoys strong financial flexibility as well as a long and successful track record of managing diverse businesses across multiple geographies. Additionally, Fairfax has demonstrated strong support towards NCML through significant and regular fund infusions as well as through managerial guidance. In FY2020, Fairfax infused Rs. 100 crore into NCML through CCDs, which were converted into equity in March 2023. Further, to ensure timely debt servicing, Fairfax Group subscribed to non-convertible debentures (NCDs) of Rs 200 crore issued by NCML in FY2024. Accordingly, ICRA expects the parent to continue to support NCML to meet its funding requirements, going forward.

Established track record in agri-logistics sector – Established in 2004, the company has over 15 years of experience in managing commodity businesses in the country. It is one of the leading companies in the warehousing business with warehousing capacity of over 1.3 million MT (owned and leased) and ~0.6 million MT (franchised). It owns ~40 warehouses as on date. The company is present across multiple commodity business verticals, including storage, preservation, food testing, weather intelligence, collateral management, silos, etc. The company caters to a wide spectrum of customers including large corporations as well as small-holder farmers and traders.

Long-term contract with FCI to aid stable cash inflows after commercialisation of silos – The company has entered into 30-year agreements with FCI to manage multiple silos for food grain storage. Five silos are coming up under the design, build, finance, own and operate (DBFOO) model and two under the design, build, finance, operate and transfer (DBFOT) model through the company's 100% subsidiaries. Of its total silos, four are already operational and the remaining three are likely to be completed in FY2025. The agreements provide guaranteed fixed charges (inflation linked) to be paid by FCI even if no food grains are stored in the silos. These projects would also be entitled to variable and handling charges, which would be revised every year to compensate for inflation. All the silos, when operational, are likely to provide healthy revenue visibility.

Credit challenges

Weak financial risk profile; transition to asset-light model to help reduce leverage over medium term – There has been a sharp deterioration in NCML's debt protection indicators on account of steep fall in revenues and accruals along with elevated debt levels over the last few years. The company consolidated revenues declined to ~Rs 220 crore in FY2024 (provisional) against ~Rs 257 crore in FY2023. While the consolidated debt levels have reduced (Rs 490 crore as of March 31, 2024, from Rs 712 crore as of March 31, 2023, excluding lease liabilities), an uptick in operating margins resulting in an improvement in the debt protection metrics remains a monitorable. Though, with the revenues increasing from the silos, the overall operating profits are likely to improve as they operate at a healthy margin. 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 to be seen.

Silos susceptible to project, approval and counter-party risks – There have been significant slippages in executing the silo projects, leading to time and cost overruns. While earlier the delays were caused by multiple factors such as Covid disruptions, farmers' strikes, and delays in receiving requisite approvals, among others, the project execution has been expedited over the past two fiscals with four silos being operational as on date. Any further time and cost overruns for the remaining silos will have an impact on the profitability, cash flows and remain a monitorable.

Exposure to volatility in commodity prices – As the company is involved in procuring, storing, preserving and lending against commodities, its margins are exposed to volatility in prices, which can change on account of amendments in regulations, agroclimatic conditions and fluctuations in the global demand–supply situation.

Liquidity position: Stretched

NCML's liquidity remains stretched, evident by free cash and liquid investments of ~Rs. 15 crore at a consolidated level (as of March 31, 2024). The company is expected to incur limited capex of ~Rs 10-15 crore in FY2025 towards the completion of its under-construction silos. It has consolidated long-term debt repayment obligations of ~Rs. 11-13 crore each in FY2025 and FY2026 towards the existing bank loans. The parent NCDs of Rs 200 crore, availed in November 2023, have no near-term repayments; it is also expected to enjoy some flexibility in servicing interest obligations on the loan extended by its parent entity. The company is expected to meet its debt servicing requirements from cash accruals, planned demonetization of fixed assets and funding support from its parent Fairfax, as and when required.

Rating sensitivities

Positive factors – The rating can be upgraded over the medium term, in case of significant improvement in profitability as well as the financial risk profile of the company.

Negative factors – The rating may be downgraded in case of deterioration in the credit risk profile of Fairfax, or slippages in receiving timely and adequate financial support from Fairfax. Also, further delays in completion of the silo projects or weaker than expected recovery in operational performance will be a credit negative.

Analytical approach

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

About the company

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 at 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 lies with Fairfax India Holdings Corporation (91%) now through a Mauritius-based entity- FIH Mauritius Investments, following the exit of some of its early shareholders.

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 Baa2 (Stable) by Moody's.

Key financial indicators (audited)

NCML Consolidated	FY2022	FY2023
Operating income	294.4	257.1
PAT	-64.4	-185.5
OPBDIT/OI	-4.2%	1.0%
PAT/OI	-22.0%	-72.0%
Total outside liabilities/Tangible net worth (times)	1.4	1.9
Total debt/OPBDIT (times)	-59.4	282.8
Interest coverage (times)	-0.4	0.1

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

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 5, 2024	Sep 29, 2023	Sep 18, 2023	Feb 03, 2023	Dec 15, 2022	Dec 16, 2021
1	Fund based bank facilities	Long term	148.50	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)
2	Non-fund based bank Facilities	Short term	46.00	[ICRA]A3	[ICRA]A3+	[ICRA]A3+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
3	Term Loan	Long term	17.91	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	-
4	Unallocated Limits	Long term/Short term	0.0	-	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]BBB (Negative)/ [ICRA]A3+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A- (Negative)/ [ICRA]A2+	[ICRA]A (Negative)/ [ICRA]A2+
5	Non convertible Debentures	Long term	-	-	[ICRA]BBB (Negative); Withdrawn	[ICRA]BBB (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Short-term non-fund based – Working Capital	Very Simple
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 – Working Capital	NA	NA	NA	148.50	[ICRA]BBB- (Negative)
NA	Short-term non-fund based – Working Capital	NA	NA	NA	46.00	[ICRA]A3
NA	Long-term – Fund based - Term Loan	FY2021	NA	FY2026	5.91	[ICRA]BBB- (Negative)
NA	Long-term – Fund based - Term Loan	FY2022	NA	FY2027	12.00	[ICRA]BBB- (Negative)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	NCML Ownership	Consolidation Approach
National Commodity Management Services Limited	100.00% (rated entity)	Full Consolidation
NCML Finance Private Limited	100.00%	Full Consolidation
NCML Mktyard Private Limited	100.00%	Full Consolidation
NCML Basti Private Limited	100.00%	Full Consolidation
NCML Varanasi Private Limited	100.00%	Full Consolidation
NCML Faizabad Private Limited	100.00%	Full Consolidation
NCML Batala Private Limited	100.00%	Full Consolidation
NCML Chhehreatta Private Limited	100.00%	Full Consolidation
NCML Deoria Private Limited	100.00%	Full Consolidation
NCML Palwal Private Limited	100.00%	Full Consolidation
NCML Bettiah Private Limited	100.00%	Full Consolidation
NCML Bhattu Private Limited	100.00%	Full Consolidation
NCML Jalalabad Private Limited	100.00%	Full Consolidation
NCML Sonepat Private Limited	100.00%	Full Consolidation
NCML KB Private Limited	100.00%	Full Consolidation
NCML Madhepura Private Limited	100.00%	Full Consolidation
NCML Saran Private Limited	100.00%	Full Consolidation
NCML Motihari Private Limited	100.00%	Full Consolidation
NCML Agribusiness Consultants Private Limited	100.00%	Full Consolidation

Source: Annual Report

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