

PRESS RELEASE

NEPAL SHIPPING AND MULTI MODAL TRANSPORT PRIVATE LIMITED

January 2023

Ratings

Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Long Term Bank Facilities	458.91	IRN B+	Assigned
Short Term Bank Facilities	191.09	IRN A4	Assigned
Total	650.00		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the long term rating of IRN B+ (Single B Plus) to the long term bank facilities of NPR 458.91 Mn and the short term rating of IRN A4 (A Four) to the short term bank facilities of NPR 191.09 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Nepal Shipping and Multi Modal Transport Private Limited (NSMM) derives strength from the parentage of experienced promoter group “Prabhu” coupled with experienced promoter and management team. Further, the ratings also factor in the diversified operations and wide network with presence across multiple segments like non-vessel owning common carrier (NVOCC) and cargo service businesses. These rating strengths are partially offset by nascent track record of operations with concentrated business portfolio, susceptibility to risks inherent in the logistics industry arising from volatility in export-import trade volumes, lack of regulatory intervention, intense competition in the industry, growing but modest scale of operation and below averages financial risk profile. Going forward, the company's ability to improve its operating profitability despite the challenges posed by national and international regulations will remain a key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Parentage of experienced Prabhu Group with experienced promoter and experienced management team

NSMM is a part of Prabhu Group and derives its strength from promoters having strong presence in Nepal through their group entities in banking and finance, entertainment, technology, remittance, business, hospitality, insurance etc. NSMM is chaired by Mr. Devi Prakash Bhattachan having over 26 years of experience in different industry. Further, the promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of the company.

Wide network with presence across varied segments

NSMM is an emerging shipping business house in Nepal, with 943 containers (owned container 590 and leased 353 as of Mid-Oct 2022) with capacity of twenty foot equivalent (TEU) and forty foot equivalent (FEU) for container vessels. NSMM is in business through thirty-seven different agents, including one domestic agent, in twenty-two different countries operating from forty-three different ports/hubs. Also, in last two years ending FY22, it moved over 4,000 containers from twenty-two different nations, with Malaysia reporting the highest movement. Operating as NVOCC, the company's offerings in services like full container load (FCL) shipment, less than container load (LCL) Shipment, custom clearance, cargo track & trace, along with other inland and airways services are further expected to boost the operational profile.

Key Rating Weaknesses

Nascent track record of operations with concentrated business portfolio

NSMM operates its business under NVOCC as it deals with cargo transport for individuals and business corporations without owning ships. NSMM buy or lease space in containers, so they are responsible for consolidation and loading containers. NSMM has an operational track record of around 4 years'. Majority of its total operating income comprises agent sales commission.

Small but improving scale of operation and high leverage

NSMM has experienced a healthy growth in revenue with a CAGR of 110% in last four years ending FY22 (albeit on a low base) with y-o-y growth of ~33% in FY22. Despite the improvement in the total operating income, the EBITDA margin has slightly declined to 13.65% in FY22 from 15.67% in FY21. Also, with the increase in debt over a relatively small operational base, the overall gearing remained high at 6.11x with stretched total debt to EBITDA of ~7.78x as of mid-July 2022. Nonetheless, continuous equity infusion from its promoters remain a comfort. The liquidity profile of NSMM marked by full utilization against its sanction limits during FY22 and 5MFY23. Despite, moderate working capital intensity of 29% in FY22, its reliance on short term working capital remained high on account of limited profit accruals and periodic capex.

Volatility in Exim trade volume

As the NVOCC industry is directly linked with international EXIM trade, hence any sharp decline in it could weaken the business by limiting profitability per equivalent unit. The revenues are also impacted by a fall in worldwide export-import traffic. In addition to this, the low entry barriers would further intensify the price based competition thereby restricting profitability.

Regulatory and Industry risk

The shipping industry in Nepal faces several challenges in absence of proper government regulations. Despite government announcement to make the transport business cost-effective, transparent and economical, it has not been able to properly regulate these industries. Hence in absence of proper rules, regulation and registration mechanism, shipping companies like NSMM has not been able to expand its outreach towards owning & operating own shipping fleet. This however has been compensated to some extent, with operation of NVOCC, to handle its international shipping needs. In addition to this, lack of infrastructure with limited port facilities for ships to dock & unload cargo, limited market access as Nepal being a landlocked country having small market size combined with poor infrastructure and lack of regulations could further impact the business risk profile of NSMM.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Incorporated in August 2018, Nepal Shipping and Multi Modal Transport Private Limited (NSMM) is a private limited company emerged in the international shipping and multimodal transport industry with the purpose to operate container liner and bulk-breakbulk segments to meet the transportation requirement of the country. Its corporate office is located in Kathmandu-28, Nepal. It is a part of Prabhu Group. Mr. Devi Prakash Bhattachan (55%) is the major individual shareholder and M/s Simple Holdings Private Limited (34%) is the single institution shareholder as of mid-July 2022.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22
	Audited	Audited	Unaudited
Total Operating Income (in NPR Mn.)	106	374	496
EBITDA Margin (%)	Neg	15.67	13.65
Interest Coverage Ratio (x)	Neg	1.16	1.21
Current Ratio (x)	1.61	3.31	1.53
Overall Gearing Ratio (x)	Neg	15.60	6.11

*Classification as per Infomerics Nepal standards

Annexure:1 Detail of Facilities:

Name of Facilities	Type of Facilities	Amount (NPR Mn.)	Rating
Fund Based Bank Facilities- Term Loan (TL)	Long Term	458.91	IRN B+
Fund Based Bank Facilities-Working Capital Loan	Short Term	50.00	IRN A4
Non Fund Based Bank Facilities-LC/BG	Short Term	141.09	IRN A4
Total Facilities		650.00	

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About Infomerics Credit Rating Nepal Limited:

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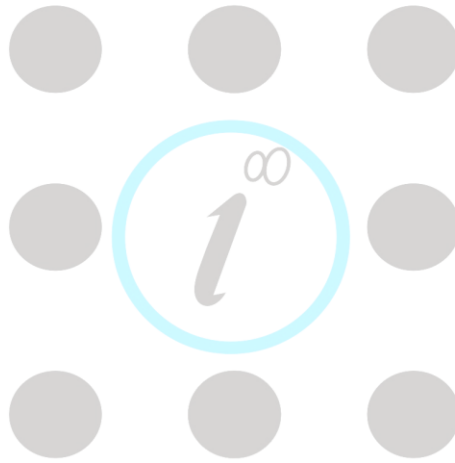
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