

PRESS RELEASE

NEPAL WAREHOUSING COMPANY LIMITED

July 2024

Rating

Instrument/Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN D (Is)	Downgraded from IRN BB- (Is)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has downgraded the issuer rating to IRN D (Is) from IRN BB- (Is). Issuer with this rating is in default or expected to be in default soon in servicing of financial obligations.

Detailed Rationale

The downgrade of issuer rating assigned to Nepal Warehousing Company Limited (NWCL) factors in the ongoing mismatch of cash flows resulting in delays in servicing of debt obligation exceeding the period as outlined in Infomerics Nepal's [Default Recognition Policy](#). Furthermore, Infomerics Nepal also notes project implementation risk and subsequent stabilization risk. The rating is also constrained by low financial profile and exposure to commodity price fluctuation.

However, the rating notes experienced promoters and board of directors supported by proficient and experienced management team and the company being the first public agro-commodity warehousing. Going forward, the track record of timely debt servicing of debt obligation and the ability of the company to improve its scale of operations and profitability will remain key rating sensitivity.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and management team with established track record in the agro-commodities industry

NWCL is promoted by both institutions as well as individuals. Nimbus group is the major promoter with an ultimate holding of ~29% post-IPO. The group has a long experience in the trading and manufacturing of agricultural commodities and animal feed products through its various companies. Pro-biotech Industries Limited is the first pellet feed industry in Nepal manufacturing livestock, poultry and fish feed with supply all over Nepal. Apart from Nimbus group, NWCL also remain supported by other strong players in financial markets like Shikhar Insurance (8.73%), Nepal Infrastructure Bank (7.27%), NMB Bank Limited (2.91%), IME General Insurance (2.91%). In addition to this, NWCL is managed under the overall guidance of its Board of Directors, having an extensive experience in the agro based business among other varied sectors. Mr. Ananda Kumar Agrawal (Bagaria), Chairman, having over 24 years of experience. Mr. Agrawal is also the managing director of Nimbus Holdings which deals in a varied business of agricultural products since 1998.

Nepal's first public agro-commodity warehousing

NWCL is the first public agro-commodity warehouse, based on the latest scientific innovation and technology develop with a total capacity of 55,000 MT. Besides commodity warehousing, NWCL has diversified service offerings which include auction facilities, warehouse receipt financing, bulk transportation through its bulkers, weighing facilities among others. The offerings of NWCL are all geared up towards meeting the need of farmers, millers and traders as well as upcoming avenues on commodity exchange market.

Key Rating Weaknesses

Modest financial profile and leveraged capital structure

NWCL's low scale of operation is evidenced by the total operating income of NPR 7 Mn in 9MFY24, albeit, increased from NPR 3Mn in FY23. The EBITDA margin and profitability margin stood negative in both FY23 and 9MFY24. Interest Coverage Ratio and DSCR stood negative in FY23 and 9MFY24. Overall gearing ratio stood at 1.86x in 9MFY24 slightly improved from 1.97x in FY23. Current ratio remains moderate at 1.72x in 9MFY24 and 1.10x in FY23.

Exposure to project implementation risk with subsequent stabilization risk

The company has commissioned its one of the storage units in Sunsari District having a capacity of 15,000 MT in FY22. Furthermore, NWCL has launched the storage unit in Parsa having a capacity of 25,000 MT in February 2024. The commissioning of two of the three units by NWCL has reduced the implementation risk. As of June 2024, the physical progress of the storage unit of Kapilvastu is 80% with financial progress of ~57%. The storage unit of Kapilvastu is expected to come into operation by September 2024. The total project cost of NPR ~1,627.50 Mn was revised to ~NPR 1,870.00 Mn mainly on account of increase in civil work. The debt equity ratio for the same shall be maintained at 64:37 or better. Though the implementation risk for two units has reduced, it still exists for other one unit which is yet to be operational. Also, the risk of stabilisation of operation also remains a major challenge to the company.

Exposure to commodity price fluctuation, agro-climatic risk

The market exhibits high degree of volatility. Their price depends on various parameters such as government policies, climatic conditions, global demand-supply dynamics among others. Any sharp deviation in the prices can have a significant impact on the operations of NWCL. The group is also susceptible to agro-climatic risk since the product is an agricultural commodity and would impact the profitability.

Applicable Criteria:

[Default Recognition Policy & Issuer Rating Methodology](#)

Past Rating Rationale:

[Nepal Warehousing Company Limited: Issuer Rating Assigned](#)

About the Company:

NWCL was incorporated in June 2017 as a private limited company and converted into public limited company in August 2018. The principal objective of NWCL is to provide commodity storage services, auction management services, laboratory test services and commodities fleet management services, through its storage unit based on Sunsari, Parsa and Kapilvastu districts. NWCL is one of its first kind operating in a large scale in the agro based warehousing and other related services in Nepal with a combined storage capacity of 55,000 MT.

Financial Indicators (Standalone)

For the year ended* As on	FY23	9MFY24
	Audited	Provisional
Total Operating Income (NPR Mn)	3.00	7.00
EBITDA Margin (%)	Neg	Neg
Interest Coverage Ratio (x)	Neg	Neg
Total Debt/ EBITDA (x)	Neg	Neg
Current Ratio (x)	1.10	1.72
Overall Gearing Ratio (x)	1.97	1.86

*Classification as per Infomerics Nepal standards



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About Infomerics Credit Rating Nepal Limited:

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