

Nepal Warehousing Company Limited: Ratings downgraded to LD/D

February 20, 2024

Summary of rating action:

Instrument (Amounts in NPR million)	Last rated amount	Current rated amount	Rating Action
Long-term limits (Term Loan - TL)	940	940	[ICRANP] LD; downgraded from [ICRANP] LBB-
Short-term limits (Letter of Credit - within TL)	(100)	(100)	[ICRANP] D; downgraded from [ICRANP] A4
Total	940	940	

Rating action

ICRA Nepal has downgraded the long-term loan rating of Nepal Warehousing Company Limited (NWCL or the company) to **[ICRANP] LD** (pronounced ICRA NP L D) from [ICRANP] LBB- (pronounced ICRA NP L double B minus) and also downgraded the short-term loan rating to **[ICRANP] D** (pronounced ICRA NP D) from [ICRANP] A4 (pronounced ICRA NP A Four).

Rationale

The ratings downgrade is mainly on account of the delay in servicing of the debt obligations by NWCL. As reported, there have been delays of over 30 days in servicing the debt obligations (which were due on mid-October 2023 and mid-January 2024) by the company. Accordingly, the rating action has been taken based on ICRA Nepal's [Default Recognition Policy](#). The delay mainly stems from the low scale of revenue from the operational unit and delays in commissioning of remaining units. Going forward, a track record of timely debt servicing will be the key rating sensitivity.

The rating action also takes note of the company's recently published financial highlights for H1FY2024, which were materially weak as against ICRA Nepal's earlier estimates. The company has faced unexpected delays in completion of its proposed warehousing facilities (partial operation started for only one out of three proposed units), while the debt repayment has already started from mid-January, 2022. Hence, the nominal revenues and high debt burden has led to muted debt servicing indicators (DSCR of -0.3 times for H1FY2024). The company's liquidity profile also remains weak as evident from the sharp spike in working capital intensity (net working capital to operating income ratio - NWC/OI of ~286% in FY2023 and ~467% in H1FY2024) amid low scalability in revenues. The company is likely to be continually exposed towards offtake and stabilisation risks during the initial years.

Key rating drivers

Credit strengths

Experienced promoters – Nimbus Group is the major promoter of NWCL, holding ~30% stake as of mid-January 2024. The Group has long experience in the agro-based business (around two decades). One of its major group companies viz. Probiotech Industries Private Limited (Probiotech) has ~22% shareholding in NWCL, along with commitment to outsource its warehousing requirements at Parsa unit. Apart from the Nimbus Group, NWCL also has financial sector promoters, including Shikhar Insurance Company Limited (**rated [ICRANP-IR] A+**) with ~9% stake, Nepal Infrastructure Bank Limited (**rated [ICRANP-IR] BBB**) with ~7% stake and NMB Bank Limited (**rated [ICRANP-IR] A@**) with ~3% stake as of mid-January 2024, among others. The experienced promoters from agro-based business as well as from financial sector, coupled up the company's project focusing the priority segment i.e. agriculture, could support it in the longer term.

Credit challenges

Project largely in execution stages, while debt repayments have started, leading to delays in debt servicing – NWCL’s proposed storage facilities in Sunsari, Parsa and Kapilvastu (total capacity of 55,000 metric tonnes - MT) have been delayed by over a year, against its earlier timeline estimates. While Sunsari and Parsa units have been completed, only Sunsari unit is operational at ~30% capacity. The Parsa unit is expected to come into operation from Q3FY2024 while the unit located at Kapilvastu is expected to reach completion by end of FY2024. However, the debt repayment has already started from mid-January, 2022. Given the weak initial demand for the warehousing facilities, revenues have been nominal so far and most of the booked revenues are yet to be realised in cash. Amid this backdrop, operating/net profitability has also been negative given the high interest burden on the full debt volume (also incurred for units which are not yet operational). Hence, the company has reported delays of over 30 days in serving the bank obligations for Q1FY2024 and Q2FY2024 (Ongoing delays for 69 days) and the debt servicing indicators are likely to remain muted over the near to medium term. Any further unanticipated cost escalations and delays in project execution could put further pressure on the debt servicing capacities of the project.

Stabilisation risk in initial years – The project would be exposed to stabilisation risks once fully commissioned, as large-scale warehousing remains an untested business concept in Nepal. The rental charges from farmers, traders and agro-based producers for grain warehousing services is likely to remain the key revenue driver for the company. Additionally, NWCL would also be providing warehousing receipt financing, auctioning and transportation, post-harvest solution such as cleaning, grading, drying, sorting, standardising and laboratory testing of grains etc. Since warehousing segment is likely to remain the major revenue contributor, its ability to attract adequate customers and ensure optimal capacity utilization of warehousing infrastructure at the company’s proposed tariff structure, would remain crucial. Lower capacity utilization or realization pressure could warrant support from promoter group until the project achieves stabilization and hence remains a key monitorable.

Risk of losses due to lower quality of grains – NWCL will also be offering warehouse receipt financing to farmers, including assuming the risk for any quality issues with the stored grains. To facilitate this financing, the company will issue receipts for the grains stored by the farmers, which can be used to secure loans from banks. In the event that quality of the stored grains could not be maintained as expected, there would be risk of losses towards the company.

Link to the previous detailed rating rationale:

[Rationale_Nepal-Warehousing-Company-Ltd_BLR-Surveillance_January-2023](#)

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Link to the applicable criteria

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in June 2017 as a private limited company and converted into public limited company in August 2018, Nepal Warehousing Company Limited (NWCL) is an agri-warehousing company with proposed total installed capacity of 55,000 MT. The total capacity is segregated among three locations viz. Sunsari (15,000MT), Parsa (25,000 MT) and Kapilvastu (15,000). The Sunsari unit has recently come into partial operations from November 2022, while the Parsa unit has reached completion and Kapilvastu units is still under construction phase. The company is promoted mainly by the Nimbus Group which has long presence in agri-based industries of Nepal.

Key financial indicators

	FY2023 (Audited)	H1FY2024 (Provisional)
Operating income (OI; Revenues in NPR million)	3	7
OPBDITA/OI (%)	-851%	-235%
Profit after tax/OI (%)	-1108%	-1394%
Return on capital employed (RoCE)	-6%	-9%

	FY2023 (Audited)	H1FY2024 (Provisional)
Total debt/Tangible net worth TNW (times)	1.9	1.7
Total outside liabilities/TNW (times)	2.0	1.9
Total debt/OPBDITA (times)	-40.2	-29.9
OPBDITA/Interest (Interest coverage; times)	-2.8	-0.3
DSCR (times)	-0.6	-0.3
Net working capital/OI (%)	286%	467%

Source: Company's published financial highlights; detailed information was not provided by the company for rating surveillance.

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