

Hathway Investment Nepal Limited: [ICRANP] A3 assigned

March 22, 2021

Summary of rated instruments:

Instrument*	Rated Amount (NPR million)	Rating action
Short-term loans; fund based	700.00	[ICRANP] A3; assigned
Total	700.00	

*Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has assigned a short-term rating of [ICRANP] A3 (pronounced ICRA NP A three) to the short-term fund-based limits of NPR 700.0 million of Hathway Investment Nepal Limited (Hathway).

Rationale

The rating assigned factors in Hathway's adequate experience in the Nepalese capital market (operating since 2011). The rating also takes comfort from the financial strength and experience of its promoters (including individuals associated with the IME group¹, which has a strong presence in the Nepalese business arena, including financial sector entities). The rating assigned also considers Hathway's strong capitalisation and low gearing. ICRA Nepal also notes Hathway's comfortable liquidity position, given its sizeable investments in listed and liquid securities (which remain adequate vis-à-vis the debt obligations), and the adequate headroom in the existing drawing power against the sanctioned bank limits. The rating is also comforted by Hathway's good track record of profitability, including trading profits in the last four to five years (profits reported in four out of the last five years ending FY2020).

The rating assigned, however, remains constrained by the significant market risk associated with the equity market and the sizeable real estate investments of Hathway in relation to its net worth. Sizeable investments in real estate as well as thinly traded promoter shares could stretch the company's liquidity profile during market downturn. Moreover, notwithstanding the general improvement witnessed in the stock market participation and infrastructure in the last 12-18 months, the liquidity in the capital market remains relatively moderate (specially to absorb the supply from large institutional players like Hathway), which can result in higher impact cost while selling the investments. However, this risk is mitigated to some extent by the limited share of Hathway's holdings in most of its investee companies.

Post Covid-19, the market regulator closed the trading activities on stock exchanges for a fairly long period of three months (between 22 March 2020 and 29 June 2020). Similar shutdown also occurred in the aftermath of April 2015 earthquake where the stock exchange was closed for about a month (between 23rd April 2015 and 24th May 2015). Such events could also significantly impact the company's liquidity, given its limited non-trading revenues which increase its reliance on trading activities for meeting the operating expenses and debt obligations. The ability to manage the downside risk, amid the market volatility, remains critical to Hathway's incremental financial profile.

Going forward, the company's ability to maintain adequate portfolio liquidity, lower the proportion of illiquid investments and maintain comfortable cover on the bank loan against the liquid investment will remain key rating sensitivities. Any major changes in capital market regulations, which can impact market value or liquidity, will also be key rating sensitivities.

¹ Global IME Bank, rated A- by ICRA Nepal for issuer rating is one of the company promoted by the group.
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Key rating drivers

Credit strengths

Adequate track record and experienced promoters

Operating since 2011, Hathway is among the first private investment company in the country recognised as an institutional investor by the Securities Board of Nepal (SEBON). The key promoters of Hathway include individuals related to IME group, which is one of the established business houses in Nepal with strong presence across the Nepalese business arena including financial sector entities. Mr. Hemraj Dhakal, the chairman of the company, is the co-founder and managing director of the IME Group. Hathway's long standing experience in the capital market supported by the strong promoter group remains a comfort. Hathway has an adequate track record of operations in the Nepalese capital market, with a good track record of profitability (including trading profits), which remains a rating positive.

Good capitalisation profile and low gearing

Hathway remains adequately capitalised with a net worth of ~NPR 851 million in FY2020 (excluding fair value and tax reserves). The company's equity has been used to finance its long-term investments (including a majority of relatively illiquid promoter shares and real estate holdings), which has lowered its reliance on bank loans for long-term investments. The adequate capitalisation of Hathway has translated into a comfortable gearing level, with both Total debt to tangible net worth (TD/TNW) and total outside liabilities to total net worth (TOL/TNW) below 1 time as of FY2019 and FY2020 end. The gearing also remains comfortable from the perspective of the fair value of liquid securities. As of mid-February 2021 (7MFY2021), the fair value of these shares to bank borrowing stood at ~205%, with trailing 52 weeks average of ~180%.

Adequately diversified liquid investments

Hathway's portfolio of liquid investments (~43% of total investment at fair value as of mid-February 2021), remains well diversified across the scrips and sectors. As of mid-February 2021, ~11% of the total investment is made in its largest holding of listed stock, while the top-10 investment in listed stock accounted for less than 50% of the fair value of liquid investments. Hathway's holding in the investee companies remains on the lower side, which coupled with adequate trading volume in these stocks, allows easy liquidation if needed. This reduces the risk on Hathway's financial profile that could arise from a sharp decline in price of any single company.

Credit Challenges

Exposure to market risk given sizeable equity investments

Given the sizeable investment of Hathway in the equity market instruments and the real estate sector, its investment portfolio, drawing power and liquidity position remain vulnerable to the market risk. At the same time, Hathway's non-trading revenues (rental, dividend, etc) remain relatively modest, which increases its dependence on stock market trading for meeting the operational expenses and payment of bank obligations. This dependence also increases the vulnerability of Hathway's revenue profile to the underlying market conditions. Given the volatile nature of business, Hathway's trading revenue and profitability remain dependent on the capital market trend as evident from its subdued revenue profile and debt coverage ratios of ~1 time in FY2019 and FY2020, where the stock market was in a declining trend.

Sizeable proportion of illiquid investment in relation to net worth could affect financial flexibility during market downturn

As of mid-February 2021, ~57% of Hathway's total investment (at fair value) comprises real estate investments and investment in thinly traded promoter shares of listed companies. The fair value of these investment accounted for 112% of the net worth (excluding fair value changes and tax reserves). This investment remains relatively less liquid and therefore offers limited cushion to tide over any liquidity concerns that could arise during the market downturn.

Market depth remains moderate despite recent improvement

Although the general market liquidity is also improving in the last ~12 months, with significant improvement in the stock market infrastructure and market participation, the market depth in general remains moderate for large institutional

players. Moreover, the sustainability of recent improvement in market breadth and depth remains to be seen. Lack of adequate number of large institutional traders/market makers could result in inadequate market liquidity to dispose of the investment in a timely manner. However, this risk is partly mitigated since Hathway equity holdings are not high in relation to the overall equity base of the investee company.

Regulatory risk and industry cyclicality

Capital market remains exposed to various policies implemented by regulatory bodies such as SEBON, NRB² and central government. Policies related to, but not limited to, brokerage commission, margin loans and capital gain tax can have significant effect in market performance and overall liquidity. Therefore, any significant change in the regulatory policies, related to the capital market with a bearing on investor's sentiment, could accordingly impact Hathway's revenue and profitability. Moreover, the capital market is also exposed to the political and economic environment, and general investment climate.

Analytical approach

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Hathway Investment Nepal Limited is a private equity investment company registered as a public company. The company was registered in 2009 and commenced its operation from 2011. Hathway trades various listed and unlisted securities and real estate, among others. The company also provides private equity fund to small and medium enterprises.

Hathway's registered and corporate office is in Hathway complex, Lainchaur, Kathmandu. The business is chaired by Mr. Hem Raj Dhakal, who holds 30.1% stake in the company. Other key shareholders include SR Hydro & Investment Pvt. Ltd (28.1%), Mr. Ambika Prasad Poudel (9.2%) and Nimisha Investment Pvt. Ltd (5.7%). The remaining stake is held by 32 other individuals.

Key financial indicators

	FY2019 (Audited)	FY2020 (Audited)	7MFY2021 (Provisional)
Operating income-OI (NPR million)	696.7	983.9	1,305.7
OPBDITA/OI (%)	7.1%	7.7%	19.7%
Total debt/Tangible net worth (TNW; times)	0.8	0.4	0.3
Total outside liabilities/TNW (times)	0.9	0.5	0.4
Total debt/OPBDITA	15.5	6.0	1.7
Interest coverage (times)	0.8	1.0	12.3
Current ratio	1.2	1.3	1.8

Source: Company data

Annexure-1: Instrument Details

Instrument	Current Rated Amount (NPR Million)	Rating Action
Short Term Limits		
Demand Loan	260.00	[ICRANP] A3; assigned
Overdraft Loan	440.00	
Total	700.00	

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About ICRA Nepal Limited:

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