

Seed Energy Limited: Rating upgraded to [ICRANP-IR] BB

December 23, 2024

Summary of rating action

Instrument	Rated Amount	Rating Action
Issuer Rating	NA	[ICRANP-IR] BB; upgraded from [ICRANP-IR] BB-

Rating action

ICRA Nepal has upgraded the issuer rating of Seed Energy Limited (Seed/the company) to [ICRANP-IR] BB (pronounced as ICRA NP issuer rating double B) from [ICRANP-IR] BB- (pronounced as ICRA NP issuer rating double B minus). Issuers with this rating are considered to have moderate risk of default regarding timely servicing of financial obligations. The rating is only an opinion on the general creditworthiness of the rated entity and not specific to any debt instrument.

Rationale

The rating upgradation of Seed Energy Limited, an investment company, factors in the increase in the company's base line revenue (mainly through rentals) to cover the operating expense coupled with the company's entirely equity funded portfolio growth and diversification. While the company's track record of generating meaningful profits from its investments remains untested, the unrealized capital gain based on market prices of share of some of the investee company remains positive. As the company plans to fund its future growth plans entirely through equity (including proposed IPO) and internal accruals, the incremental credit profile of the company is likely to remain adequate. The rating also takes note of near operational stage of two investee companies viz. Multi Energy Development Private Limited and Peoples Energy Limited. The rating also positively factors in the prior experience of its directors and management team in multiple sectors including the financial sector, hydropower, and capital market. The company's modus-operandi, akin to that of private equity fund with focus on shareholder's/investor's wealth maximization, is also likely to shield the company from volatility associated with company focused solely on secondary market investment.

Nonetheless, the rating is constrained by its limited operational track record and minimal return on capital reported by the company so far. The financial/credit profile of the investee company of Seed are generally moderate and therefore its incremental financial profile (especially profitability) will depend on the secondary market prices/valuation of the investee companies. Seed's ability to support these investee companies till they are profitable and/or form a suitable exit strategy remains to be seen. The rating also takes note of sectoral concentration risk given ~25% investment in hydropower sector as of mid-July 2024.

Going forward, company's ability to demonstrate and maintain investment profit over a reasonable period will remain key rating sensitivities. Also, any major changes in the capital market regulations, which can impact on the company's exit strategies from investee companies, will remain a rating monitorable.

Key rating drivers

Credit strengths

Completely equity funded, base-line revenue to cover operating expenses; unrealized capital gain on some investment – The company's current investment portfolio remains entirely equity funded, and the company has no near-term plans to take on material debt. This remains a positive as the company has limited track record of investment profits. However, the company's base line revenue comprising mainly of the rental yield from self-owned building largely covers its baseline operating expense which remains a positive from operational liquidity standpoint. Although the company is yet so successfully exit from any of its investment, it has reported some unrealized capital gain on some of its investment which remains a positive. The company also has a lending portfolio of interest-bearing short-term advances which contributes to

the base-line revenue of the company, albeit with a counterparty risk. However, given the limited track record of profitability and moderate base-line revenue, any significant uptake of debt could stretch the company's financial position.

Experienced owners and management team – Seed has a diversified promoter profile comprising of individuals/ private institutions from diverse sectors as at mid-July 2024. Additionally, directors have prior experience in sectors like investment management, real estate, banks, education, hotels & restaurants, etc. Furthermore, the company's management team is led by Mr. Ashish Shrestha, who has over two decades of experience across capital markets, management consulting and hydropower sector. The prior hands-on experience of directors and management team remain credit positive.

Credit challenges

Limited track record and subdued profitability so far – Incorporated in 2017, Seed has a relatively limited track record in terms of business growth and profitability. As the company has been building its investment portfolio so far and has not exited from any of its major investment, the profitability profile remains subdued (despite unrealised gain reported in some investee companies). The company's ability to demonstrate investment profits over a reasonable timeframe by forming suitable exit plans and strengthen the base-line revenue for the company to enhance operational liquidity will remain key monitorable going forward.

Sectoral concentration of investment portfolio and sizeable proportion of illiquid assets – The company has a sizeable portion of its investment in hydropower sector (~25% as at mid-July 2024) which is likely to increase further going forward (equity commitment of ~NPR 400 million in another hydropower project). While the outlook for the hydropower sector (including revenue assurance and prospect of capital gain upon listing) remains positive, the sectoral concentration of funds in this sector is high. Seed also has a sizeable amount of relatively illiquid equity investment (unlisted or within the locked-in period) in its portfolio which could limit its ability to exit from investment during unfavourable credit or market conditions.

Exposure to market and regulatory risk – Seed concentrates its investment in capital-market instruments (mainly listed or proposed to be listed equities). As these sectors remain exposed to market risks, Seed's portfolio valuation, profitability and liquidity profile remains vulnerable to market volatility. Further, the capital market remains exposed to various policies implemented by regulatory bodies such as the SEBON, the Nepal Rastra Bank (NRB) and the Central Government. Hence, any major regulatory changes and/or prolonged correction in the capital market could have a significant impact on the company's profitability and investment valuation. Also, the majority of Seed's equity investments are in the hydropower sector which are subjected to lock-in period, any change in which, could have an impact of the liquidity and valuation position of players like Seed.

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

Links to applicable criteria:

[Issuer rating methodology](#)

Link to previous rating rationale:

[Rationale_Seed Energy Limited_Fresh issuer rating_Decemembr 2023](#)

About the company

Incorporated in 2017 as a private limited and converted to a public limited on July 2022, SEED Energy Limited is an equity financed investment company. Seed has diversified its investment across energy, real estate, hospitality and manufacturing sector, mainly in the form of equity. The registered and corporate office of the company is in Lalitpur, Nepal. As at mid-Oct 2024, its paid-up capital is NPR 990 million which is held by five institutional investors (holding a total of ~21% stake) with the remaining stake held across 64 individual shareholders. As at mid-July 2024, ~6% of its overall corpus is invested in liquid assets (listed securities/fixed deposits) while the rest is tied up in relatively illiquid investments such as real estate, locked-in promoter shares and loans and advances.

Annexure-1: Instrument details

Amount in NPR million	FY2021	FY2022	FY2023	FY2024	3MFY2025
	Audited				Provisional
Operating Income (OI)	1	8	15	36	12
OPBDITA/OI (%)	-55%	42%	30%	47%	72%
Total debt/Tangible net worth (TNW; times)	-	-	-	-	-
Total Outside Liability/TNW (times)	0.00	0.00	0.01	0.01	0.00
Total Debt/OPBDITA (times)	-	-	-	-	-
Interest coverage (times)	NA*	NA	NA	NA	NA
DSCR (times)	NA	NA	NA	NA	NA
NWC/OI (%)	1,257%	685%	334%	2%	7%
Return on capital employed (RoCE)	-0.3%	1.3%	0.6%	1.6%	3.2%

*Not applicable; debt free entity

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