

## Hathway Investment Nepal Limited: Ratings reaffirmed

October 7, 2024

### Summary of rating action

Instrument*	Last Rated Amount (NPR million)	Current Rated Amount (NPR million)	Rating action
Issuer Rating	NA	NA	[ICRANP-IR] BBB-; reaffirmed
Long-term loans; fund based	147.7	150.0	[ICRANP] LBBB-; reaffirmed
Short-term loans; fund based	352.3	360.0	[ICRANP] A3; reaffirmed
<b>Total</b>	<b>500.0</b>	<b>510.0</b>	

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

### Rating action

ICRA Nepal has reaffirmed the issuer rating of [ICRANP-IR] BBB- (pronounced ICRA NP issuer rating triple B minus) assigned to Hathway Investment Nepal Limited (Hathway). ICRA Nepal has also reaffirmed the long-term rating of [ICRANP] LBBB- (pronounced ICRA NP L triple B minus) assigned to the long-term bank limits and the short-term rating of [ICRANP] A3 assigned to the short-term bank limits of the company.

### Rationale

The ratings continue to factor in Hathway's established track record of operations (operating since 2011), its experienced management and a strong promoter profile. Hathway's promoters include individuals from the IME Group<sup>1</sup> and other individuals/institutions with long experience in the financial and capital market sector which translates into a strong market knowledge/intelligence that benefits the company. Ratings also positively factor Hathway's strong capitalization profile (partly aided by recent IPO) with TD/TNW of ~0.2 times as on mid-September-2024, despite recent uptick in debt utilization. The strong capitalisation profile offers financial flexibility to Hathway during period of moderate trading profits. Despite the volatility in turnover (linked with market activities), Hathway's consolidated<sup>2</sup> liquid asset coverage (market value of freely tradeable public shares to bank loans) continues to remain comfortable at ~162%<sup>3</sup> as of mid-September-2024 vs. ~125% in mid-March 2023 (when last rated).

The ratings, however, remain constrained by the company's significant exposure to market risk associated with the listed capital-market investments, investments in private equity and real estate. As the non-trading revenues of Hathway remains inadequate vis-à-vis debt obligations, Hathway's debt servicing ability will continue to remain vulnerable to market forces. As such, economic, political and social factors as well as regulatory policies regarding tax rates, margin loan borrowings, interest rates, etc. that could affect the depth and liquidity of the capital market, will have a direct impact on Hathway's financial profile. The rating concern also arises from the company's sizeable investment in less-liquid promoter shares of different companies which could result in a liquidity stress in unfavourable situations.

Going forward, the company's ability to maintain adequate liquidity and liquid asset coverage ratio on an ongoing basis will remain important to its debt-repayment capacity. Moderation in liquid asset coverage ratio, capitalisation levels and/or major changes in the capital market regulations, which can impact the market value or liquidity of Hathway's investment portfolio, could warrant rating downgrade. Hathway's incremental stance towards debt utilisation following the recent removal of margin lending cap for institutional investors by central bank will also remain a monitorable.

<sup>1</sup> Global IME Bank, rated A by ICRA Nepal for issuer rating is one of the companies promoted by the Group.

<sup>2</sup> consolidated refers to Hathway Investment Nepal Ltd. and its subsidiary Hathway Stock Dealer Ltd. (90% owned by Hathway)

<sup>3</sup> In consolidated view, by taking liquid assets and borrowing of Hathway Stock Dealer into account

## Key rating drivers

### Credit strengths

#### Experienced promoter profile

The key promoters of Hathway are related to IME Group. The group is among the established business houses in the country with presence across various sectors, primarily in financial sectors viz. banking, insurance, and remittance. Mr. Hemraj Dhakal, who holds ~26.4% stake in Hathway, is also the co-founder and managing director of the IME Group. The rating reaffirmation factors in the expected liquidity support from the promoter Group to Hathway during exigencies (such as weak trading performance/trading losses). Similarly, other promoters of Hathway also possess adequate knowledge and experience in investment, banking and capital market operations.

#### Strong capitalisation profile and adequate liquid assets to debt ratio

Hathway's financial profile remains good characterised by its low gearing (TD/TNW of ~0.2 times)<sup>4</sup> and indebtedness ratio (TOL/TNW of ~0.3 times)<sup>5</sup> as on mid-September-2024. A strong capital base supported by recent IPO and retention of profit over the years has improved the company's capitalisation profile and its liquidity position. The company also continues to maintain adequate liquid asset coverage ratio (with the market value of freely tradeable securities to total bank loans) of ~162% as of mid-September 2024; which remains a comfort.

#### Long track record of operations

Hathway, established in 2009 and operating since 2011, has an adequate track record of operations in the country's capital market. The company is also recognised as an institutional investor by the Securities Board of Nepal (SEBON). A decade-long experience has translated into good market intelligence and adequate portfolio management skills which has helped the company register good profits over the years.

### Credit Challenges

#### Exposure to market risk

Hathway invests majorly in capital-market instruments (mainly listed equities), real estate and private equity, among others. As these sectors remain exposed to market risks, Hathway's portfolio valuation, profitability and liquidity profile remains vulnerable to market volatility. With relatively low cash flows from non-trading activities, dependence on trading profits for meeting operational and debt-servicing liquidity requirement remains high, which in turn depends on capital market dynamics. Any prolonged correction in the capital market could have a significant impact on the company's profitability and investment valuation.

#### Regulatory risk

The capital market remains exposed to various policies implemented by regulatory bodies such as the SEBON, the NRB and the Central Government. As such, Hathway's financial profile and outlook remains sensitive to changes that could affect market sentiment, investment climate, liquidity and depth of the capital market viz. change in capital gain tax rates, trading commission, interest rates, etc.

#### Sizeable investments in relatively less-liquid promoter shares

From FY2022, Hathway has focused on long-term and private equity investments and has transferred its active trading portfolio of listed equity shares to its subsidiary viz. Hathway Stock Dealer Limited (HSDL). As such, Hathway's standalone investment portfolio comprises of relatively less-liquid promoter shares of various listed/ unlisted securities. Share of such investments is ~89%<sup>6</sup> of Hathway's total investments as on mid-September-2024 compared to ~42.1% as on mid-July-2020. Until Hathway's investment becomes liquid/freely tradeable upon listing and expiry of the lock-in period, Hathway's liquidity profile will remain dependent on HSDL's portfolio of freely tradeable securities.

<sup>4</sup> TD/TNW- Total Debt/Total Net-worth

<sup>5</sup> TOL/TNW- Total Outside Liabilities/Total Net-worth

<sup>6</sup> promoter shares of listed companies valued at 40% of market price of ordinary share while those of non-listed companies valued at book value

### 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](#)

### Links to last rating rationale:

[Rationale\\_Hathway\\_IR-BLR-Surv.-April-2023.pdf](#)

## About the company

Hathway Investment Nepal Limited is an investment company which was registered as a public company in 2009 and commenced its operation from 2011. Hathway invests/trades in various listed, unlisted securities, and real estate, among others. The company's registered and corporate office is in Hathway Complex, Lainchaur, Kathmandu. The major stake is held by Mr. Hem Raj Dhakal (26.4%), SR Hydro & Investment Pvt. Ltd (24.6%), Mr. Ambika Prasad Poudel (7.6%) and Nimisha Investment Pvt. Ltd (4.9%).

## Key financial indicators

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)	FY2024 (Provisional)	2M FY2025 (Provisional)
Operating income-OI (NPR million)	3,522	1,277	156	279	49
OPBDITA/OI (%)	23.1%	18.2%	39.4%	74.3%	88.5%
Total debt/Tangible net worth (TNW; times)	0.0*	0.1	0.2	0.2	0.2
Total outside liabilities/TNW (times)	0.1	0.2	0.3	0.3	0.3
Total debt/OPBDITA	0.0*	0.8	6.9	1.9	1.6
Interest coverage (times)	19.9	8.4	1.4	4.5	6.4
Current ratio	18.4	1.9	0.3	1.5	1.4

Source: Company data

(\* - As the company settled its short-term loans during the year end, debt related financial ratios couldn't be ascertained.)

## Annexure-1: Instrument Details

Instrument	Last Rated Amount (NPR Million)	Current Rated Amount (NPR Million)	Rating Action
<b>Long-term Limits</b>			
Fund based; Term-loan	147.7	150.0	[ICRANP] LBBB-; reaffirmed
<b>Total long-term limits (A)</b>	<b>147.7</b>	<b>150.0</b>	
<b>Short-term Limits</b>			
Fund based; Demand Loan/Margin/Overdraft	280.0	360.0	[ICRANP] A3; reaffirmed
Fund based; Short-term limits	72.3		
<b>Total short-term limits (B)</b>	<b>352.3</b>	<b>360.0</b>	
<b>Grand total (A+B)</b>	<b>500.0</b>	<b>510.0</b>	

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### **About ICRA Nepal Limited:**

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