SCOPE | Ratings

JSC Nikora Trade

Georgia, Retail

Issuer
BB-

Outlook
Stable

Senior unsecured debt
BB-

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Related methodology

General Corporate Rating Methodology, Feb 2025

Retail and Wholesale Rating Methodology, Jun 2025

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Rating composition

Business risk profile		
Industry risk profile	BBB	**BB-**
Competitive position	B+	
Financial risk profile		
Credit metrics	BB-	**BB-**
Liquidity	+/-0 notches	
Standalone credit assessment		**BB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	**+/-0 notches**
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	7.2x	5.9x	4.3x	4.3x
Scope-adjusted debt/EBITDA	1.9x	2.5x	3.6x	3.1x
Scope-adjusted funds from operations/debt	45%	34%	21%	25%
Scope-adjusted free operating cash flow/debt	4%	-17%	-6%	-10%
Liquidity	>200%	19%	15%	142%

Rating sensitivities

The upside scenarios for the rating and Outlook (collectively):

- Improvement of the business risk profile as displayed by an improvement of diversification
- Significant geographical expansion outside Georgia

The downside scenario for the rating and Outlook:

- Debt/EBITDA sustained above 3.5x

*All credit metrics refer to Scope-adjusted figures.

1. Key rating drivers

Positive rating drivers	Negative rating drivers
• Strong shares of organised market and good growth potential at expense of cannibalisation of unorganised market • Good profitability with expected EBITDA margin of around 6-7% • Adequate leverage despite high proportion of forex-linked leases	• Competitive pressures following integration of seven market players combining into the country's largest retailer • Weak geographical diversification with no expansion planned outside of Georgia • High upcoming capex creating pressure on free operating cash flow and leverage

2. Rating Outlook

The **Stable Outlook** reflects our view that Nikora Trade will maintain adequate credit metrics, namely a debt/EBITDA ratio of 2.5x-3.5x, despite continued expansion. This follows our view that the company will execute its large capital expenditure programme by focusing on high-impact priorities, while carefully preserving its creditworthiness and supporting a recovery in operating profitability, despite increased competitive pressure.

3. Corporate profile

Second-largest supermarket chain in Georgia

JSC Nikora Trade is a Georgian company established in 2006 and based in Tbilisi. It is part of the Nikora Group and manages retail operations under the Nikora Supermarket and Libre brands. The supermarket chain originated in 2000 and has grown significantly through organic expansion and acquisitions.

As of 2024, Nikora Trade had a 19.4% market share and is the second-largest supermarket chain in Georgia, operating 654 stores nationwide. The company continues to expand aggressively; the number of stores has nearly doubled in the past four years. Nikora Trade employs 8,528 people as of 31 December 2024. The parent company, JSC Nikora, owns 96.6% of Nikora Trade's shares.

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
29 Aug 2025	Affirmation	BB-/Stable
29 Aug 2024	Affirmation	BB-/Stable
01 Sep 2023	Upgrade	BB-/Stable

5. Financial overview (financial data in GEL '000s)

				Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024**	**2025E**	**2026E**
EBITDA interest cover	6.1x	7.2x	5.9x	4.3x	4.3x
Debt/EBITDA	1.9x	1.9x	2.5x	3.6x	3.1x
Funds from operations/debt	44%	45%	34%	21%	25%
Free operating cash flow/debt	17%	4%	-17%	-6%	-10%
Liquidity	>200%	>200%	19%	15%	142%
Return on assets	33%	29%	22%	17%	19%
EBITDA					
Reported EBITDA	85,951	99,428	94,113	87,833	105,935
Other items (incl. one-offs)	-	-	-	-	-
EBITDA	**85,951**	**99,428**	**94,113**	**87,833**	**105,935**
Funds from operations (FFO)					
EBITDA	85,951	99,428	94,113	87,833	105,935
less: interest	(14,001)	(13,718)	(15,945)	(20,634)	(24,683)
less: cash tax paid	-	(15)	(53)	(5)	(3)
Funds from operations	**71,950**	**85,695**	**78,115**	**67,193**	**81,249**
Free operating cash flow (FOCF)					
Funds from operations	71,950	85,695	78,115	67,193	81,249
Change in working capital	13,974	5,014	(21,382)	21,165	10,286
Non-operating cash flow	2,303	(2,447)	(3,513)	(1,895)	1,074
less: capital expenditures (net)	(36,083)	(53,614)	(59,907)	(70,927)	(87,610)
less: lease amortisation	(24,461)	(26,409)	(32,351)	(33,276)	(36,920)
Free operating cash flow	**27,683**	**8,239**	**(39,038)**	**(17,740)**	**(31,921)**
Interest					
Net cash interest per cash flow statement	14,001	13,718	15,945	20,634	24,683
add: other items	-	-	-	-	-
Interest	**14,001**	**13,718**	**15,945**	**20,634**	**24,683**
Debt					
Reported financial (senior) debt	162,249	189,580	231,872	313,195	327,126
less: cash and cash equivalents[1]	-	-	-	-	-
add: other debt-like items	-	-	-	-	-
Debt	**162,249**	**189,580**	**231,872**	**313,195**	**327,126**

[1] No netting of cash has been applied.

6. Environmental, social and governance (ESG) profile[2]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

ESG considerations are credit-neutral for Nikora Trade.

The government of Georgia is expected to intensify regulatory oversight of unregulated retailers, particularly in terms of food safety and operational standards. While the implementation of stricter regulations may gradually increase pressure on the retail operating environment, such changes are unlikely to occur rapidly. Importantly, any regulatory tightening is anticipated to benefit organised players like Nikora Trade as it could diminish the competitiveness of the informal retail sector and support market share gains for the company.

In line with its commitment to environmental sustainability, Nikora Trade has adopted a range of energy-efficient and eco-friendly technologies across its retail facilities. These include modern refrigeration systems that use new-generation freon and consume less electricity, LED lighting and energy-saving stoves. These initiatives reflect the company's strategic focus on reducing its environmental footprint while enhancing operational efficiency.

Inventory shrinkage and obsolete stock continue to represent around 2% of sales, exerting downward pressure on gross margins. To address this, Nikora Trade recently implemented enterprise resource planning system SAP to improve working capital management. More visibility into inventory levels is expected to streamline operations, reduce waste and improve overall efficiency across the supply chain.

[2] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB-

Credit-supportive Industry risk profile: BBB

Nikora Trade's business risk profile is supported by the underlying non-discretionary retail industry's low cyclicality, low entry barriers and low substitution risk.

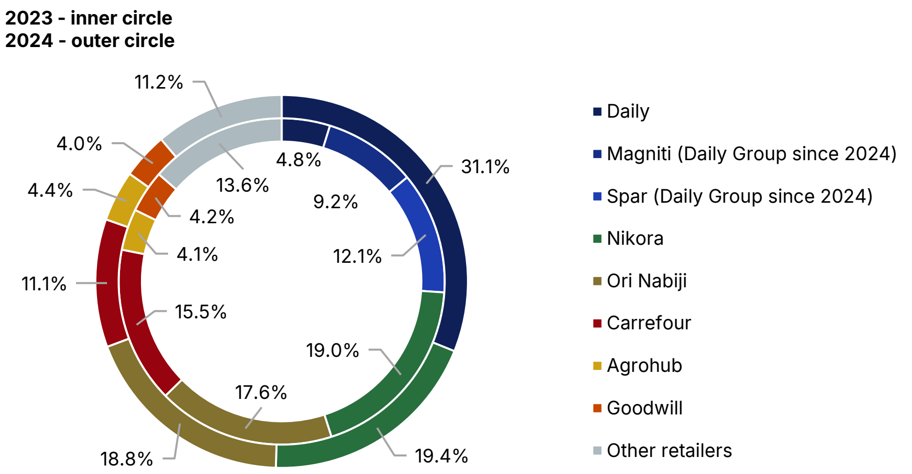
Second-largest retailer in Georgia, but small on a European scale

While the company is dominant in its domestic market, its scale remains modest in a broader European context, with revenues of GEL 1.3bn (around EUR 430m) in 2024. This aspect remains a negative driver for the business risk profile despite the opening of new stores helping to consolidate the company's position in Georgia.

Strong domestic market share

We categorise Georgia's country retail strength as 'medium-low'. The recent merger of seven domestic retail chains into the Daily Group has created the largest market player, with more than 1,700 stores and a market share of 31%. Nevertheless, Nikora Trade increased its market share to 19.4% in 2024, up from 19% in 2023 and 18.1% in 2022. The company focuses on mid-to-high-end customers, particularly in the higher-income Tbilisi region. This is reflected in Nikora Trade's slightly higher sales per square metre compared to the national average.

Figure 1: Organised retail market shares in Georgia



Sources: SARAS, TBC Capital, Nikora Trade, Scope

Retail market stabilising

After years of rapid growth, Georgia's retail market stabilised recently, influenced by the absence of extraordinary events such as the Covid pandemic, inflation spikes and migration surges. Household spending continues to drive growth, supported by a growing middle class. Although migrant spending plateaued, tourism and restaurant spending continues to support the sector. Looking ahead, we expect growth to remain steady at around 4%–5%, with inflation no longer the dominant factor. Instead, rising incomes and evolving consumer preferences will shape dynamics.

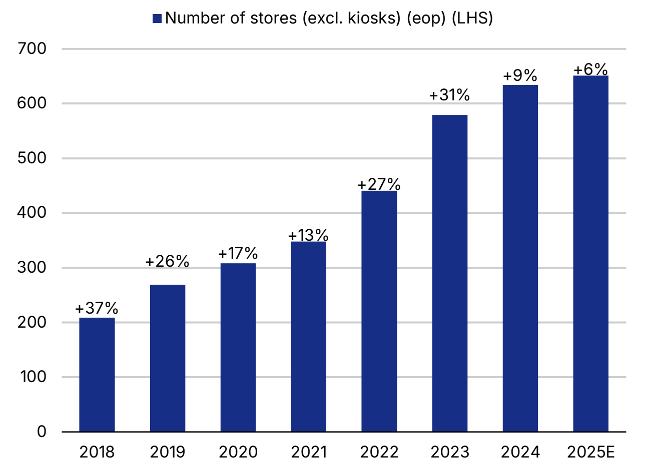
Continued shift from unorganised to organised market

Georgia's retail market is shifting gradually from the unorganised to the organised sector. This is driven by evolving consumer preferences, competitive pricing and urbanisation. Consumers increasingly favour organised retail due to better product quality, food safety, service standards and transparency. In 2024, the organised sector reached a 41% share of the total retail market, and this share could rise to 45% by 2025, primarily through geographic expansion.

Expansion outside of Tbilisi

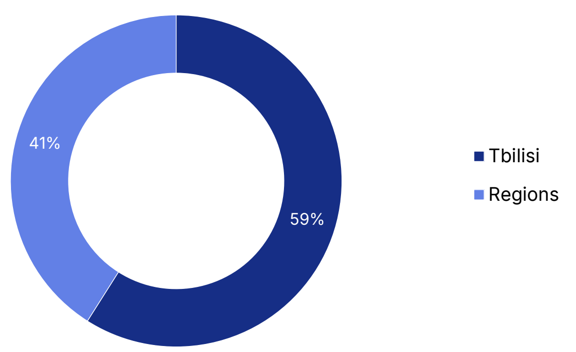
The organised retail market in Georgia continues to expand into regional areas, which accounted for about 41% of total revenues recently. This growth is evident in a higher number of store openings in the regions compared to Tbilisi recently. Nikora Trade plans to continue growing mainly organically by opening up to 100 stores a year but will carefully choose locations to ensure new stores have an adequate return on investment. Future growth will focus on regions outside of Tbilisi, although Tbilisi also still has growth potential due to recent strong construction activity.

Figure 2: Nikora Trade's store network expansion



Source: JSC Nikora Trade, Scope

Figure 3: Organised FMCG market revenue distribution



Source: JSC Nikora Trade, Scope

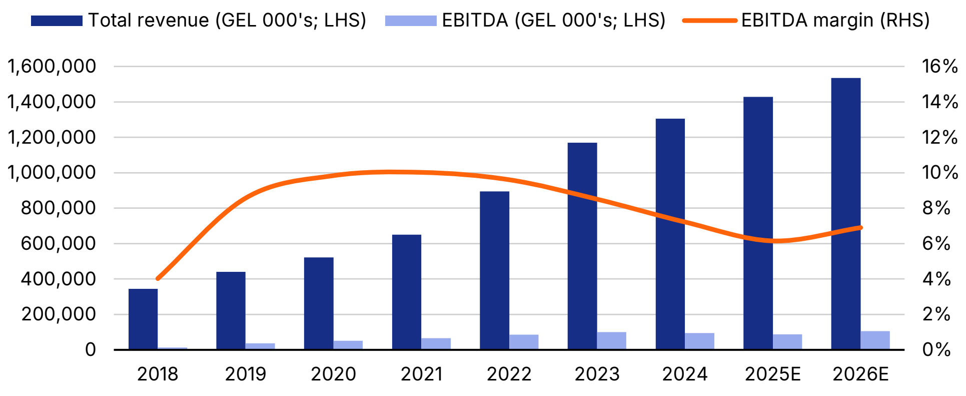
Weak diversification

The company operates only in Georgia and has no plans to expand abroad. Furthermore, Nikora Trade is heavily concentrated in Tbilisi (67% of revenues), higher than the entire organised market average. This ties the company's performance to that of its home market, which has the potential to affect it negatively in the event of adverse macroeconomic shifts.

EBITDA to dip further due to competitive pressures

After reaching a record high of 10.0% in 2021, the EBITDA margin gradually fell to 7.2% in 2024, primarily due to increasing salary costs. Although these pressures have eased given that inflation has moderated recently, the EBITDA margin is expected to dip further to nearly 6% in 2025 due to competitive pressures, before recovering to around 7% in 2026 on the back of a realignment of pricing strategies affecting gross margin.

Figure 2: Revenues, EBITDA and EBITDA margin



Sources: Nikora Trade, Scope estimates

8. Financial risk profile: BB-

Revenue growth to decelerate

We project Nikora Trade's sales growth at 9%-10% in 2025, broadly aligned with the organised retail market's expected revenue increase. Revenue growth is anticipated to moderate to 7%-8% in 2026, reflecting a slowdown in Georgia's GDP expansion.

Capex to be focused on high-impact priorities

Capital expenditure will be managed conservatively, with spending contingent on free operating cash flow, financing availability and covenant compliance. The company's investment priorities will be focused on the construction of logistics centres, whose completion will increase efficiencies and profitability. Despite these investments, we expect that the company will remain committed to financial discipline and avoiding excessive leverage.

Elevated leverage

External financing to support the issuer's growth targets, paired with a slight decline in EBITDA due to competitive pressures, will temporarily exert pressure on leverage, with the debt/EBITDA ratio forecasted to increase to above 3x in 2025 (2024: 2.5x). However, leverage should stabilise to around 3.0x going forward as improved cash generation is forecast on the back of topline growth and margin recovery. The current leverage covenant (defined as net debt [excl. IFRS 16 leases]/EBITDA) threshold of 4.0x and 3.5x from 2027 leaves sufficient leeway for further indebtedness. However, we expect that the company will preserve a cautious stance by executing capex in amounts that would not necessitate the accumulation of significant new debt.

Forex risk manageable

The company is vulnerable to foreign exchange risk, given that, as of 30 June 2025, 74% of leases are denominated in US dollar. The exchange rate of the dollar against the Georgian lari has been volatile, though it has moderated over the past three years. Volatility was particularly high during 2020–2022, when the yearly average exchange rate fluctuated by up to 11%. However, we do not foresee material adverse effects on the company's financial figures if such a scenario reoccurs.

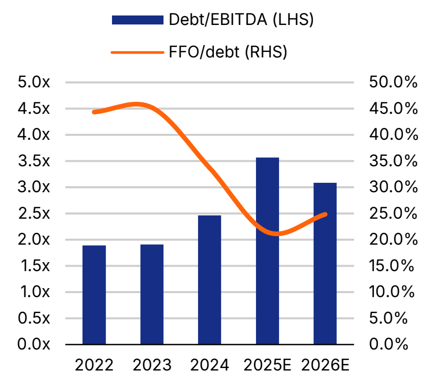
Falling interest coverage

Funds from operations/debt is expected to fall and remain within 20%-25%, from 34% in 2024, due to lower operating profitability, elevated debt and a higher interest burden. The latter will also take its toll on the EBITDA interest coverage, which we project will decline and remain below 5.0x (2024: 5.9x) due to higher debt costs that will not be offset by anticipated growth in EBITDA in the short term.

Free operating cash flow to remain negative

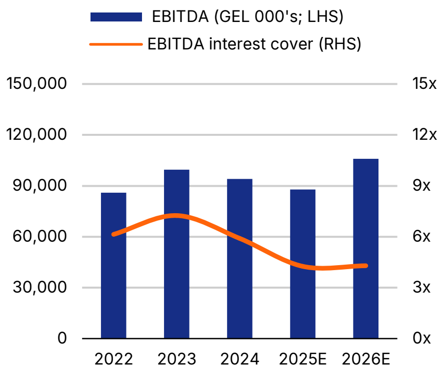
We expect that elevated capital expenditure will keep free operating cash flow low or even negative. This will be despite the anticipated improvement in working capital management linked to a faster inventory turnover after the successful implementation of the SAP system.

Figure 5: Leverage



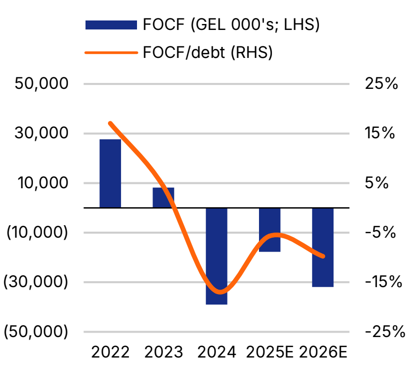
Sources: Nikora Trade, Scope estimates

Figure 6: Interest cover



Sources: Nikora Trade, Scope estimates

Figure 7: Cash flow cover (FOCF/debt)



Sources: Nikora Trade, Scope estimates

Adequate liquidity

Nikora Trade relies on rolling over short-term debt rather than maintaining large revolving credit facilities, a common practice in emerging markets like Georgia, which helps reduce costs but increases refinancing risk.

Accessible cash and cash equivalents at the end of 2024 amounted to GEL 3.5m, which we estimate at 20% of the reported value as most of the cash is required for the daily operations of the brick-and-mortar shops. However, this will not cover cash uses, which include GEL 6.6m of projected negative FOCF and GEL 6.9m of maturing short-term debt for 2025. However, despite the expected moderate deterioration in credit metrics in 2025, the company's strong local reputation, consistent bank support, and ability to manage liquidity through flexible capital expenditure justify the 'adequate' liquidity assessment. This is further supported by last year's successful issuance of a GEL 60m bond, which has eased refinancing pressures with no large maturities coming due before 2029.

Table 3. Liquidity sources and uses (in GEL 000's)

	2024	2025E	2026E
Unrestricted cash (t-1)	3,527	3,485	45,446
Open committed credit lines (t-1)	10,600	-	-
FOCF (t)	(39,038)	(17,740)	(31,921)
Short-term debt (t-1)	35,664	4,864	-
Liquidity	**19%**	**15%**	**142%**

Sources: Nikora Trade, Scope estimates

9. Supplementary rating drivers: +/- 0 notches

Credit-neutral supplementary rating drivers

Supplementary rating drivers are credit-neutral. We deem the company's transparency as adequate and have not identified any drivers which would case the rating to be notched in either direction.

10. Debt ratings

Senior unsecured debt rating: BB-

We have also affirmed senior unsecured debt rating at BB-. The recovery analysis is based on a hypothetical default scenario in 2025, which results in an above-average recovery rate. However, given the unsecured nature of the bonds and the risks associated with emerging markets, we have not notched up the senior unsecured debt rating above that of the issuer.

Appendix 1. Peer comparison

	JSC Nikora Trade	Tegeta Motors LLC	Axial KFT	Unix Auto KFT	Vöröskő KFT
Issuer rating/Outlook	BB-/Stable	BB-/Negative	BB/Stable	BB/Stable	BB/Stable
Last reporting date	31 December 2024	31 December 2024	31 December 2024	31 December 2023	31 December 2023
Business risk profile	**BB-**	**BB-**	**BB-**	**BB**	**BB-**
Financial risk profile	**BB-**	**BB-**	**BB+**	**BBB+**	**BB+**
EBITDA interest cover	5.9x	3.3x	8.2x	11.1x	24.3x
Debt/EBITDA	2.5x	3.1x	1.5x	1.1x	2.2x
FFO/debt	34%	22%	48%	79%	43%
FOCF/debt	-17%	-8%	59%	53%	29%
Standalone credit assessment	**BB-**	**BB-**	**BB**	**BB**	**BB**
Supplementary rating drivers	+/- 0 notches	+/- 0 notches	+/- 0 notches	+/- 0 notches	+/- 0 notches

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