

January 19, 2023

Mahindra Agri Solutions Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	90.40	94.25	[ICRA]A+; reaffirmed and outlook revised to Negative from Stable
Term Loans	9.10	5.60	[ICRA]A+; reaffirmed and outlook revised to Negative from Stable
Non-fund-Based Facilities	0.50	0.15	[ICRA]A+; reaffirmed and outlook revised to Negative from Stable
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at Mahindra Agri Solutions Limited's (MASL) rating, ICRA has consolidated the financials of MASL, along with its three operating subsidiaries – Mahindra Summit Agriscience Limited (MSAL), Mahindra HZPC Private Limited (MHZPC) and Mahindra Fruits Private Limited (MFPL).

The revision in the outlook on the long-term rating of MASL factors in the weaker-than-expected financial performance in FY2022 and H1 FY2023. While ICRA had expected the company to post operating profit at the consolidated level for the first time in FY2022, the same did not materialise and is unlikely to be achieved in the current fiscal as well due to the challenging external environment since H2 FY2022. The grape business, which in H2 FY2022 was already reeling under the impact of the pandemic-induced lockdown restrictions in the key market of China, suffered a blow again in H1 FY2023 due to the Russia-Ukraine war. Exports to Russia, a leading destination for exports from India, was impacted and led to a supply glut to the European countries, which accounted for the major part of MASL's grape exports. The seeds business, which has exhibited strong revenue growth, aided by favourable customer response, posted losses in FY2022 due to continued investments in research and development. The crop care and seed potato businesses, which are housed in separate joint venture (JV) entities namely MSAL¹ and MHZPC² (rated [ICRA]A-/Stable), also posted losses in FY2022 due to inflation in raw material prices and subdued realisations of potato seeds, respectively. While MASL's performance remained subdued since H2 FY2022, some green shoots have emerged off late as reopening of the Chinese economy and resumption of exports to Russia are expected to materially increase the earnings trajectory of the grapes business from Q4 FY2023. Besides, scaling up of the seeds business is likely to support the overall earnings, going forward. MASL's continuous weak financial performance forced it to depend on borrowings to fund losses, resulting in a deterioration in coverage and leverage indicators. ICRA has also noted the adverse cost structure of the company emanating from high fixed expenses, which would continue to remain a drag on the profits unless the existing businesses are scaled up meaningfully. The ratings also remain constrained by the company's exposure to agro-climatic conditions and volatility in commodity prices.

¹ Mahindra Summit Agriscience Limited

² Mahindra HZPC Private Limited

The rating, however, continues to positively factor in the strong parentage of MASL, which is a 98.8% subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA/Stable/ [ICRA]A1+) and the strategic importance of the company to its parent/Group as the agri-business remains aligned to its long-term vision of delivering farm-tech prosperity. The parent/Group has provided timely financial support in the past in the form of equity, inter-corporate deposits, and optionally convertible redeemable preference shares (OCRPS). In FY2022, the parent/Group has further infused Rs.40 crore³ through inter-corporate deposits, which have aided in funding the losses and meeting the incremental working capital needs. ICRA expects timely support from the parent/group to be forthcoming, if required. The rating also factors in MASL's presence across the agricultural value chain, as reflected in its presence in fruits (grapes) and seeds businesses at the standalone level and crop care and potato seeds business through its JVs. The rating also factors in MASL's high financial flexibility with ability to raise funds at competitive rates of interest, given the strong parentage.

Key rating drivers and their description

Credit strengths

Status as a subsidiary of M&M Limited with strategic importance – MASL's status as a 98.8% subsidiary of M&M Ltd. imparts considerable financial flexibility to the company. The company remains strategically important to its parent/Group given that the agri business remains aligned to its long-term vision of delivering farm-tech prosperity. The parent/Group has provided timely financial support in the past in the form of equity, inter-corporate deposits and OCRPS. In FY2022, the parent/Group has further infused Rs.40 crore through inter-corporate deposits, which have aided in funding the losses and meeting the incremental working capital needs. ICRA expects timely support from the parent/group to be forthcoming, if required.

Presence across agricultural value chain – The consolidation of M&M's entire agri-business (except micro irrigation) into MASL in FY2016 led to its enhanced presence across the agricultural value chain, as reflected in its presence in fruits (grapes) and seeds businesses at the standalone level. At the consolidated level, MASL is also present in crop care (MSAL) and potato seeds and mini tubers (Mahindra HZPC Private Limited), through its JVs. The crop-care business was transferred to MSAL from MASL in FY2019 to scale up the business by bringing in a foreign partner having access to innovator companies.

High financial flexibility as demonstrated by ability to raise funds at competitive rates – MASL enjoys high financial flexibility with ability to raise funds at competitive rates of interest, given the strong parentage.

Credit challenges

Exposure to agro-climatic conditions and volatility in commodity prices – The revenues and profit margins of the company's businesses are exposed to industry cyclicity with certain business divisions having linkages to agricultural production and monsoons. Also, adverse movements in the prices of commodities, dealt by the company, could have a negative impact on its revenues and profit margins, considering its limited ability to pass on the price hike owing to intense competition.

Weaker-than-expected financial performance; credit metrics remain subdued – The credit metrics of the company, at the consolidated level, remain weak on account of its continued weak financial performance. As a result, it had to depend on borrowings to fund the losses, resulting in a deterioration in coverage and leverage indicators. ICRA has also noted the adverse cost structure of the company emanating due to high fixed expenses, which would continue to remain a drag on the profits unless the existing businesses are scaled up meaningfully.

³ Of which Rs.35 crore was infused into MASL and Rs.5 crore was infused into MSAL

Liquidity position: Adequate

Notwithstanding the losses expected in the current fiscal, MASL's liquidity position has been assessed as **adequate**. The company has repayment obligations of Rs. 2.80 crore at the consolidated level and nominal capex commitments towards maintenance requirements, which can be met from the unutilised credit lines. In addition, MASL's liquidity profile is supported by the financial flexibility that it enjoys for being a strategically important entity of the Mahindra Group.

Rating sensitivities

Positive factors – MASL's outlook could be revised to Stable if there is a meaningful increase in revenues and earnings, resulting in an improvement in credit metrics and liquidity position.

Negative factors – MASL's rating could be downgraded if there is pressure on revenues or a further decline in profitability, leading to pressure on liquidity and deterioration in the credit metrics. Further, any deterioration in the credit profile of the parent or weakening of linkages with the parent may cause a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit support from Parent or Group
Parent/Group Support	Parent Company: Mahindra & Mahindra Limited The rating assigned to MASL factors in the very high likelihood of its parent, M&M (rated [ICRA]AAA (Stable) / [ICRA]A1+), extending financial support to it given its strategic importance to the M&M Group. ICRA also expects M&M to be willing to extend financial support to MASL out of its need to protect its reputation from the consequences of a Group entity's distress. There also exists a consistent track record of M&M having extended timely financial support to MASL in the past, whenever a need has arisen.
Consolidation/Standalone	The rating is based on MASL's consolidated financial profile, for which ICRA has consolidated the financials of MASL, MSAL, MFPL and MHZPC – enlisted in Annexure 2. As MASL does not prepare consolidated financials, the consolidation is done by ICRA based on public disclosures on important inter-group transactions and investments. The consolidation does not include Mahindra Fresh Fruits Distribution Holding Company (Europe) BV (MFFDHC) as the financials were not made available to ICRA. However, ICRA notes that no financial support has been extended to MFFDHC in the past.

About the company

Mahindra Agri Solutions Limited is the consolidated entity of the Mahindra Group's agri-solutions business (comprising crop care, seeds, pulses, edible oil, Samriddhi centres and dairy business), which was carried out in FY2016. MASL, formerly known as Mahindra Shubhlabh Services Limited, was primarily involved in grape exports and trading of some other fruits in the domestic market. The company's name was changed to its present form in February 2016 to reflect the increased scope of activities post consolidation of the agri business. In FY2019, MASL exited from its commodity businesses (viz. pulses, edible oil and banana cultivation) and transferred its crop-care business to a new JV, MSAL. Besides, in FY2020, the company discontinued its Saboro cafe business and transferred its MyAgriGuru app and Samriddhi centre businesses to M&M, as a part of the Group's strategy to consolidate all its agri-support activities under the farm implements business.

MFPL, a wholly-owned subsidiary, used to undertake domestic sales of fruits (other than grapes), marketed under the Saboro brand. This business has been closed in FY2022. Besides, MASL acquired M&M's 59.95% equity stake in MHZPC, a JV between M&M and HZPC (a Holland-based company), with effect from April 1, 2016. MHZPC sells potato seeds and mini tubers in the domestic market.

Key financial indicators

MASL	Standalone		Consolidated** (MASL+ MHZPC+ MSAL+MFPL)	
	FY2021	FY2022	FY2021	FY2022
Operating Income (Rs. crore)	252.0	226.6	539.4	444.5
PAT (Rs. crore)	(56.7)	(15.9)	(26.5)^	(20.6)^
OPBDIT/OI (%)	(7.1%)	(1.8%)	(2.3%)	(2.4%)
PAT/OI (%)	(22.5%)	(7.0%)	(4.9%)	(4.6%)
Total Outside Liabilities/Tangible Net Worth (times)	3.4	4.8	4.1	5.4
Total Debt/OPBDIT (times)	(5.2)	(28.3)	(10.5)	(14.9)
Interest Coverage (times)	(3.0)	(0.6)	(1.4)	(1.0)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; **Consolidation done by ICRA based on elimination of important inter-group transactions based on public disclosures

^ICRA has reversed the investment impairment for its subsidiaries amounting to Rs.28.82 crore and Rs.4.90 crore taken in standalone FY2021 and FY2022 financial statements as the said subsidiaries have not taken any asset impairment in its financial statements

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jan 19, 2023	Nov 05, 2021	Oct 20, 2020	Jul 26, 2019	May 24, 2019
1	Fund-based Facilities	Long-term	94.25	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
2	Term Loan	Long-term	5.60	12.23	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
3	Unallocated Limits	Long-term	-	-	-	-	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A+ (Stable)
4	Non fund based	Long-term	0.15	-	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	-	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Term Loans	Simple
Non-fund-Based Facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	94.25	[ICRA]A+ (Negative)
NA	Term Loans	Oct 2017	NA	Oct 2024	5.60	[ICRA]A+ (Negative)
NA	Non-fund-Based Facilities	NA	NA	NA	0.15	[ICRA]A+ (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Mahindra Summit Agriscience Limited	60.00%	Full Consolidation
Mahindra HZPC Private Limited	59.95%	Full Consolidation
Mahindra Fruits Private Limited	100.00%	Full Consolidation

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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