

December 20, 2021

Mahindra HZPC Private Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based CC	30.00	35.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Long Term - Fund Based TL	10.00	-	-
Long Term Fund Based Unallocated	-	5.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Total	40.00	40.00	

*Instrument details are provided in Annexure-1,

Rationale

Mahindra HZPC Private Limited's (MHZPC) rating upgrade takes into account the upgrade in the credit rating of its parent, Mahindra Agri Solutions Limited (MASL; upgraded to [ICRA]A+ (Stable) in November 2021). The rating continues to be strongly supported by the regular financial support extended by its parent entities in the form of equity infusion.

The rating continues to consider the strong parentage of MHZPC along with the managerial and financial support it derives from its holding companies, MASL and HZPC SBDA B.V. (HZPC). The rating favourably factors in the experienced management of MASL as well as technical support from HZPC. Further, the rating considers the improvement in the financial risk profile of MHZPC, supported by reduction in operating losses in FY2021, which is expected to sustain in the future. Though the company faced significant losses in the initial years of its operations, regular equity infusion from the holding companies supported it.

However, the rating remains constrained by the weak financial profile of the company, characterised by cash losses and highly working capital-intensive operations owing to a high inventory-holding period. The gestation period involved in potato seed business remains long owing to the process of variety-wise approval and development of various generations of seed potato, which takes time. Besides, the rating continues to be constrained by the company's exposure to risks associated with a volatile market.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company will continue to benefit from the strong linkages with its holding companies and the financial flexibility it enjoys for being a part of a strong promoter group.

Key rating drivers and their description

Credit strengths

Strong parentage – MHZPC is supported by a strong domestic sponsor as well as an established global player. While MASL has an experienced management in the agriculture business, HZPC is an established global player in terms of seed potato.

Strong management and financial support from holding companies – MHZPC is a part of the Mahindra Group. The senior management of holding companies have board representation in MHZPC, providing strategic support. In addition, there has been a demonstrated track record of timely financial support to MHZPC.

Access to technical know-how and varieties – MHZPC has access to technical knowhow of HZPC and has also launched some varieties developed by its holding company. Further, regular training and knowledge sharing support enable the company in product and market development.

Credit challenges

Weak financial profile though some improvement has been witnessed – The financial performance of MHZPC remained weak in the past due to its initial years of operations, however, there has been an improvement in its business performance in FY2021 and H1 FY2022, leading to reduction of losses and a consequent improvement in the financial risk profile of the entity. The company reported an OPBDITA of Rs. 1.57 crore in FY2021 against losses in FY2020.

Long gestation period involved in seed potato business – The process of variety-wise approval from the Central Potato Research Institute (CPRI) is long and time taking. Further, developing various generations of seed potato takes additional time, which increases the gestation period for new entrants.

Exposure to market risks and agro-climatic conditions – MHZPC is exposed to demand-supply dynamics of the potato market. As the produce has limited shelf life and involves carrying costs, the output is required to be sold even in weak market conditions. Further, the revenues and profit margins are exposed to industry cyclicity having linkages to agricultural production and the monsoons.

High working capital intensity – The company has high working capital requirements due to its high inventory holdings, which impact its liquidity. As the produce from the previous harvesting season needs to be stored in cold storage till the next planting season, the inventory holding period remains high and seasonal.

Liquidity position: Adequate

MHZPC's liquidity position is likely to remain adequate and is augmented by the financial flexibility enjoyed by the company for being a part of the Mahindra Group. MHZPC's working capital limits utilisation remained moderate, as reflected by an average utilisation of 72% during the 12-month period ending in August 2021. While need for further financial support is not envisaged at present, ICRA expects timely support from the parent to be forthcoming, if required.

Rating sensitivities

Positive factors – An improvement in the credit profile of the parent company will be a positive trigger. Further, a substantial growth in revenues and profitability as well as strengthening of the financial risk profile would accelerate the transition towards a higher rating.

Negative factors – Any deterioration in the credit profile of the parent company or weakening of linkage with the Mahindra Group will be a credit negative. Further, pressure on the rating could emerge if the financial performance of the company deteriorates, or if any major capital expenditure, or a stretch in the working capital cycle, weakens its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit parent or group support
Parent/Group Support	Parent Company: Mahindra Agri Solutions Limited The rating assigned to MHZPC factors in the very high likelihood of its parent, MASL [rated [ICRA]A+ (Stable)], extending financial support to it because of close business linkages between the two. ICRA also expects MASL to be willing to extend financial support to MHZPC 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 MASL having extended timely financial support to MHZPC in the past, whenever a need has arisen.
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Operational since September 2014, MHZPC is a joint venture between MASL (a Group company of Mahindra & Mahindra Limited) and HZPC SBDA B.V. (formerly known as Participatie Maatschappij Buitenland B V). MASL has a 59.95% share in the entity. Though this share was earlier held by Mahindra & Mahindra Limited (M&M), MASL acquired M&M's stake on April 1, 2016. MASL is a 98.4% subsidiary of M&M. HZPC, founded in 1898 and rooted in The Netherlands, is one of the global leading players in seed potato trading, innovative breeding and concept development. MHZPC is in the business of growing potato seeds and mini tubers, which are then sold to farmers for further growing potatoes. It procures tissue culture from CPRI and HZPC, which is then divided to produce tissue culture plant at the company-owned manufacturing unit/aeroponics facility in Punjab.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	24.6	44.3
PAT (Rs. crore)	-6.2	-1.4
OPBDIT/OI (%)	-9.6%	3.5%
PAT/OI (%)	-25.1%	-3.1%
Total Outside Liabilities/Tangible Net Worth (times)	223.1	27.1
Total Debt/OPBDIT (times)	-10.1	12.8
Interest Coverage (times)	-0.9	0.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in Dec 20, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 11, 2020	Aug 23, 2019	Apr 12, 2018
1 Working capital limit	Long-term	35.00		[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
2 Term Loans	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
3 Unallocated	Long-term	5.00		[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based CC	Simple
Long Term Fund Based Unallocated	Not Applicable

ICRA has classified various instruments based on their complexity as "Simple", "Very Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
HDFC Bank	Cash Credit	NA	NA	NA	10.00	[ICRA]A-(Stable)
Axis Bank	Cash Credit	NA	NA	NA	25.00	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	5.00	[ICRA]A-(Stable)

Source: MHZPC

Annexure-2: List of entities considered for consolidated analysis- Not applicable

ANALYST CONTACTS

Jayanta Roy

+91 033 7150 1100

jayanta@icraindia.com

Priyesh Ruparelia

+91 022 6169 3328

priyesh.ruparelia@icraindia.com

Manish Pathak

+91 124 4545 397

manishp@icraindia.com

Prerna Aggarwal

+91 124 4545 891

prerna.aggarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.