

November 11, 2020

Mahindra HZPC Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Cash Credit	30.00	30.00	[ICRA]BBB+ (Stable); reaffirmed
Long-term Fund Based – Term Loan	10.00	10.00	[ICRA]BBB+ (Stable); reaffirmed
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into account Mahindra HZPC Private Limited's (MHZPC) strong parentage as well as the managerial and financial support it derives from its holding companies—Mahindra Agri Solutions Limited (MASL; rated [ICRA]A+) and HZPC SBDA B.V. (HZPC). Further, the rating factors in the improvement in the financial risk profile of MHZPC, supported by reduction in operating losses and continued financial support from its parent entities in the form of equity infusions. The rating favourably factors in the experienced management of MASL as well as the technical support from HZPC. Though the company faced significant losses in the initial years of its operations, regular equity infusions 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. Furthermore, the rating continues to be constrained by the company's exposure to risks associated with a volatile market and high working capital intensity of operations owing to a high inventory-holding period.

The Stable outlook on the [ICRA]BBB+ 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 possesses as 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 the 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 the technical know-how 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

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

Weak financial profile of MHZPC – Due to the initial years of operations, the financial performance of MHZPC is weak and its scale of operations remains low. This is characterised by the company's operating income of Rs. 24.0 crore in FY2020. Further, it reported OPBDITA losses in FY2020, although the losses narrowed when compared to FY2019.

Exposure to market risks – MHZPC is exposed to demand-supply dynamics of the potato market. Since the produce has limited shelf life and involves carrying costs, the output is required to be sold even in weak market conditions.

High working capital intensity – The company has high working capital requirements due to its high inventory holdings, which impacts 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 as a part of the Mahindra Group. MHZPC's working capital limits utilisation remained moderate as reflected by average utilisation of 66% during the 12-month period ending in September 2020. ICRA expects MHZPC to continue to require funding support from its holding companies in the near to medium term.

Rating sensitivities

The assigned rating would remain sensitive to any changes in the credit profile of the holding companies.

Positive triggers – Substantial growth in revenues and profitability as well as strengthening of the financial risk profile would accelerate the transition towards a higher rating. Any change in credit profile of the parent company will also be a trigger.

Negative triggers – Downward pressure on the rating could emerge if the financial performance of the company deteriorates, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity. Furthermore, any indication of decline or delay in support from the holding companies or MHZPC's importance to the Mahindra Group will be a credit negative. Any change in credit profile of the parent company will also be a trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
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 (Positive)], 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 of the 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 company-owned manufacturing unit/aeroponics facility in Punjab.

Key financial indicators

	FY2019	FY2020
Operating Income (Rs. crore)	15.77	24.57
PAT (Rs. crore)	-16.43	-6.17
OPBDITA/OI (%)	-78.78%	-9.61%
PAT/OI (%)	-104.16%	-25.11%
Total Outside Liabilities/Tangible Net Worth (times)	-5.56	223.05
Total Debt/OPBDIT (times)	-2.65	-10.10
Interest Coverage (times)	-4.44	-0.93

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding [^]	Rating	FY2020	FY2019	FY2018
					11-Nov-2020	23-Aug-2019	12-Apr-2018	-
1	Fund based-Working Capital Facilities	Long Term	30.00		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-
2	Fund based-Term Loan	Long Term	10.00	7.50	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-

Amount in Rs. crore

[^]as on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	30.00	[ICRA]BBB+ (Stable)
NA	Term Loan	February 2016	NA	FY2022	10.00	[ICRA]BBB+ (Stable)

Source: MHZPC

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

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