

February 02, 2023

Mahindra HZPC Private 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
Long Term - Fund Based CC	35.0	35.0	[ICRA]A-(Negative); reaffirmed and outlook revised to Negative from Stable
Long Term Fund Based Unallocated	5.0	5.0	[ICRA]A-(Negative); reaffirmed and outlook revised to Negative from Stable
Total	40.0	40.0	

*Instrument details are provided in Annexure-1.

Rationale

The revision in the outlook on the long-term rating of Mahindra HZPC Private Limited (MHZPC) factors in a deterioration in the credit profile of its immediate parent, Mahindra Agri Solutions Limited (MASL, rated [ICRA]A+(Negative)), as reflected by weaker-than-expected financial performance in FY2022 and H1 FY2023. Additionally, MHZPC's financial performance has remained weak, as reflected by losses in FY2022. While ICRA had expected MASL 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 revision in the outlook also takes into consideration MHZPC's weaker financial performance in FY2022 compared to ICRA's estimates last year, characterised by lower realisations, resulting in lower operating income and cash losses in FY2022. The seed potato industry has high 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 and agro-climatic conditions.

The rating, however, continues to positively factor in 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. The rating also derives comfort from the parent company (MASL), which is a 98.8% subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA/Stable/ [ICRA]A1+) and the strategic importance of MHZPC to its Group as the agri-business remains aligned to its long-term vision of delivering farm-tech prosperity. Further, ICRA estimates an improvement in the financial risk profile of MHZPC from FY2023, backed by commercialisation of few imported varieties, having higher profit margins. ICRA notes that though the company faced significant losses in the initial years of its operations, which continued till recently, regular financial support from its holding companies supported its operations, which is likely to continue in the future.

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 team 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 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, which continued till recently. The company reported losses in the recent years except in FY2021, though an improvement has been witnessed, as reflected by a reduction in losses and a consequent improvement in the financial risk profile of the entity. Moreover, ICRA notes that due to commercialisation of a few imported varieties starting in FY2023, the profit margin of the company is likely to improve going ahead, which would result in an improvement in its financial risk profile.

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 consuming. 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 the demand-supply dynamic 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. However, ICRA notes that the company's working capital intensity is improving on a yearly basis due to reduction in the overall debtors.

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 utilisation of working capital limits remained moderate, as reflected by an average utilisation of 63% during the 9-month period ending in December 2022. The company does not have any repayment obligation, and no major capex has been planned in the near term. While the 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 – MHZPC's long-term rating outlook could be revised to Stable if there is an improvement in the credit metrics and liquidity position of its parent, MASL. Further, a steady growth in MHZPC's revenues along with an improvement in profitability as well as strengthening of its financial risk profile may result in a revision of the outlook.

Negative factors – Any deterioration in the credit profile of MHZPC's parent or weakening of linkages with the Mahindra Group will be a credit negative. Further, pressure on the rating could emerge if MHZPC's financial performance deteriorates on a sustained basis. The rating could also be impacted by any major debt-funded capital expenditure, or a stretch in the working capital cycle, weakening its liquidity.

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 Agri Solutions Limited (MASL) The rating assigned to MHZPC factors in the very high likelihood of its parent, MASL, 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 standalone financial profile of the company

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 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

	FY2021	FY2022
Operating Income (Rs. crore)	44.3	40.71
PAT (Rs. crore)	-1.4	-4.2
OPBDIT/OI	3.6%	-2.1%
PAT/OI	-3.1%	-10.4%
Total Outside Liabilities/Tangible Net Worth (times)	27.1	22.2
Total Debt/OPBDIT (times)	16.5	-16.1
Interest Coverage (times)	0.9	-0.4

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

Source: Company; ICRA Research

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 (Rs. crore)	Date and Rating on	Date & Rating		
						FY2022	FY2021	FY2020
						Feb 02, 2023	Dec 20, 2021	Nov 11, 2020
1	Fund-based working capital limit- CC	Long-term	35.0	-	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loans	Long-term	-	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Unallocated	Long-term	5.0	-	[ICRA]A- (Negative)	[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

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, is 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 working capital limit - CC	NA	NA	NA	35.0	[ICRA]A-(Negative)
NA	Unallocated	NA	NA	NA	5.0	[ICRA]A-(Negative)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Manish Pathak

+91 124 4545397

manishp@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Sandeep Aggarwal

+91 124 4545377

sandeep.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, 2023 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.