



Mahindra Shubhlabh Services Limited

Instrument	Amount	Rating Action
Long term, fund based limits	Rs.25.00 crore (enhanced from Rs.23.00 crore)	Upgraded to [ICRA]A- (Stable) from [ICRA]BBB+ (Stable)

ICRA has upgraded the long-term rating outstanding on the Rs.25.00 crore* (enhanced from Rs.23.00 crore), long-term, fund-based limits of Mahindra Shubhlabh Services Limited ("MSSL"/"the Company") to [ICRA]A- (pronounced ICRA A minus)[†] from [ICRA]BBB+ (pronounced ICRA triple B plus). The outlook on the rating is stable.

The rating upgrade reflects improvement in financial profile of the Company marked by significant improvement in the capitalization and coverage indicators on account of conversion of unsecured loans (extended by the parent – Mahindra & Mahindra Limited (M&M)) to equity capital and healthy accretion to reserves. The rating upgrade also factors in the strengthened business profile of the company by virtue of healthy volume scale up and enhanced supply side arrangements. ICRA also expects de-risking of business model over medium to long-term on back of efforts towards diversifying the product basket, widening customer base, foray into newer geographies and adoption of multi-location sourcing. During 2013-14, M&M converted unsecured loans extended to MSSL amounting to Rs.4.0 crore into equity which reflects the parents' continued financial support. The rating hence derives comfort from MSSL's strong parentage being a wholly-owned subsidiary of M&M (rated [ICRA]AAA (stable)/ A1+) aiding its operational and financial flexibility.

The rating strengths are however partially offset by the moderate scale of operations of the company despite healthy scale up during 2013-14 (aided by revival in exports to Europe); highly fragmented nature of industry resulting in high competitive intensity; and exposure to cyclicalities in industry with strong linkages to agricultural production - about 65-70% of grapes presently being sourced from single location accentuates agro-climatic risks. The rating is also constrained on account of continued high dependence of the company's revenues on the performance of European market and a small customer base enhancing the order volatility risk. While ICRA takes note of the aforesaid measures which should augur well for de-risking the business, the execution of the same needs to be seen.

The Company's ability to sustain the revenue growth run-rate and improve the profit margins while diversifying the business mix and maintain healthy debt protection metrics despite its planned capital expenditure plan will be key credit monitorables going forward.

Company Profile

Mahindra Shubhlabh Services Limited (MSSL) was established in the year 2000 as an agro-services and agri-retail business. It started out with contract farming and contract servicing for the farmers. However in 2006, post failure of the business model, it restructured its model to start trading in four segments – seeds (involved in trading of seeds of field crops as well as vegetables), crop care products (involved in trading of crop care products such as insecticides, pesticides, fertilizers, etc.), seed potatoes (involved in the cultivation and supply of seed potatoes in the domestic market), and fruits & vegetables (supply chain management for fruits and vegetables for export as well as domestic markets). In 2011, under a scheme of arrangement between MSSL and its parent company, Mahindra & Mahindra Limited (M&M), the non-fruits business (comprising the Agri Inputs business - seeds, seed potato and crop care) of MSSL has been demerged into M&M with effect from January 1, 2010. Thus, post this, MSSL's operations are now restricted to the fruits and vegetables (F&V) business. Currently, the product basket of the company includes exports of grapes, and sale of bananas, apples, oranges and pears in the domestic market. The company also has tie-ups with Capespan, Dole Fresh Fruit, Jaguar the fresh Company etc who are some of the largest distributors of F&V supplying to the top retail chains globally, for supply of F&V to the European markets.

* 100 Lakh = 1 Crore = 10 Million

[†] For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications



Recent Results

As per un-audited results, the Company reported profit before tax of Rs.5.2 crore on an operating income of Rs.87.5 crore for the six months ended September 30, 2014. For the full year 2013-14, the Company reported a profit after tax (PAT) of Rs.6.8 crore on an operating income of Rs.145.4 crore as against a PAT of Rs.3.4 crore on an operating income of Rs.85.2 crore in 2012-13.

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