

January 18, 2024

## Mahindra HZPC Private Limited: Rating downgraded to [ICRA]BBB+; outlook remains Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	35.0	35.0	[ICRA]BBB+(Negative); downgraded from [ICRA]A- (Negative)
Long-term Unallocated	5.0	5.0	[ICRA]BBB+(Negative); downgraded from [ICRA]A- (Negative)
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The long-term rating downgrade of Mahindra HZPC Private Limited (MHZPC) factors in the deterioration in the credit profile of its immediate parent, Mahindra Agri Solutions Limited (MASL, rated [ICRA]A), as reflected by its weaker-than-expected financial performance in FY2023 and 6M FY2024, leading to losses and a consequent deterioration in its financial risk profile. The Negative outlook takes into consideration MASL's continued weaker financial performance considering expected losses in FY2024 as per ICRA estimates. Additionally, MHZPC's financial performance has remained weak due to low accruals, though its profitability is likely to improve, going forward. The rating continues to factor in MHZPC's high working capital intensive operations owing to a high inventory holding period. Moreover, the gestation period involved in the 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 derive comfort as MHZPC is a part of the Mahindra Group, which is led by 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. MASL, the immediate parent of MHZPC and a 98.8% subsidiary of M&M, provides managerial and financial support to the company. The rating favourably factors in the experienced management of MASL as well as technical support from HZPC, which is a global player in potato seeds business. Further, ICRA expects continuous improvement in the financial risk profile of MHZPC in the near-term, backed by commercialisation of few imported varieties, having higher profit margins. ICRA expects that MHZPC would keep receiving financial support from its holding companies in the future years, on a need basis, as witnessed in the past years.

### Key rating drivers and their description

#### Credit strengths

**Status of being a part of a strong Group, led by M&M Limited** – MHZPC is a part of the Mahindra Group, which is led by Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA/Stable/[ICRA]A1+). Additionally, MHZPC is supported by its immediate parents, MASL (having an experienced management team in the agriculture business in India) and HZPC Group (an established global player in potato seed business based in The Netherlands). Consequently, the company enjoys strong financial flexibility, which supports its business and funding requirements.

**Strong management and financial support from the parents** – 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, which is likely to remain in the future.

**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 despite some improvement** – The financial performance of MHZPC remained weak in the past as the company was in its initial years of operations, which continued till FY2022. Subsequently in FY2023, the company achieved break-even and reported profit and positive accruals due to commercialisation of few imported varieties, with higher profit margins, as per ICRA's expectations. However, MHZPC's financial profile remains weak due to small scale and low accruals resulting in weak debt protection metrics. Nevertheless, ICRA notes that the company's profitability is likely to increase, going forward, which would improve its debt coverage metrics.

**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.

**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.

**Exposed 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 with agricultural production and the monsoons.

### Liquidity Position – Adequate

MHZPC's liquidity position is likely to remain adequate on the back of positive fund flow of operations of more than Rs. 1.0 crore in FY2024 and reasonable buffer in its working capital limits due to low average utilisation, as reflected by an average utilisation of 61% during the 12-month period ending in May 2023. 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. Further, the company enjoys strong financial flexibility for being a part of the Mahindra Group.

### Rating sensitivities

**Positive factors** – MHZPC's long-term rating outlook could be revised to Stable if there is a sustained increase in MHZPC's revenues and profitability along with an improvement in the credit profile of its parent, MASL.

**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	<a href="#">Corporate Credit Rating Methodology</a>
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. Further, the company is a part of the Mahindra Group, which is led by Mahindra & Mahindra Limited.
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 (audited)

	FY2022	FY2023
Operating income	41.1	58.3
PAT	-4.2	1.0
OPBDIT/OI	-2.1%	5.3%
PAT/OI	-10.3%	1.8%
Total outside liabilities/Tangible net worth (times)	22.1	16.5
Total debt/OPBDIT (times)	-15.8	6.9
Interest coverage (times)	-0.4	2.6

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore

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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Dec 31, 2023 (Rs. crore)	Date and Rating on Jan 18, 2024	Date & Rating		
						FY2023	FY2022	FY2021
						Feb 02, 2023	Dec 20, 2021	Nov 11, 2020
1	Fund-based – Cash Credit	Long-term	35.0	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Term Loans	Long-term	-	-		-	-	[ICRA]BBB+ (Stable)
3	Unallocated	Long-term	5.0	-	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term 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	Long-term Fund-based – Cash Credit	NA	NA	NA	35.0	[ICRA]BBB+(Negative)
NA	Long-term Unallocated	NA	NA	NA	5.0	[ICRA]BBB+(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](mailto:jayanta@icraindia.com)

**Priyesh Ruparelia**

+91 22 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Manish Pathak**

+91 124 4545397

[manishp@icraindia.com](mailto:manishp@icraindia.com)

**Sandeep Aggarwal**

+91 124 4545377

[sandeep.aggarwal@icraindia.com](mailto:sandeep.aggarwal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

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



### Branches



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