April 03, 2025

Mysore Mercantile Company Limited: Ratings reaffirmed; Outlook changed 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 – Cash Credit	-	25.00	[ICRA]BBB+ (Negative); Reaffirmed and outlook changed to Negative from Stable
Long-term – Interchangeable – Cash Credit^	(2.00)	0.00	-
Long Term/Short Term-Unallocated limits	-	63.50	[ICRA] BBB+ (Negative)/ [ICRA]A2; Reaffirmed and outlook changed to Negative from Stable
Short-term Fund-based – Domestic/Export Credit Facility	100.00	0.00	-
Short-term non-fund-based – Bank Guarantee	-	11.50	[ICRA]A2; reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1; ^ Sub-limit of Domestic/ Export Credit Facility*

Rationale

The rating action on the bank limits of Mysore Mercantile Company Limited (MMCL) considers the expected moderation in its credit profile owing to a sharp contraction in revenues and earnings in the absence of molasses exports, which accounted for ~90% of the company's revenue in FY2023, post imposition of 50% export duty since January 2024. The company's revenue declined by 35% in FY2024 and is expected to decline further by 70-75% in FY2025 on account of the same. ICRA notes that the company has scaled up other business segments such as trading of sugar and coffee. Moreover, the company is focussing on scaling up its EPC segment. It has received orders worth Rs. 177.6 crore in FY2025, which needs to be executed over 18 months. However, most of these projects are in the nascent stages. Hence, timely execution of the same remains a key monitorable. Moreover, the company's operating margin declined to 16.7% in FY2024 and is expected to fall further to 7-10% in FY2025 owing to reduced scale of operations, impacting its operating leverage. The company's ability to scale up its revenues remains critical for improvement in margins, going forward. The rating, however, draws comfort from the experience of the promoters in agri-commodity trading and its comfortable financial profile in the absence of debt.

The ratings are constrained by the risks inherent to the trading of agro commodities and risks associated with the execution of civil/EPC contracts. As the company mainly deals in agricultural commodities, its operations remain susceptible to the changes in Government policies like export duty or export ban, regulations of various countries related to imports of different commodities as well as the vagaries of agro-climatic conditions. In addition to it, high customer concentration is a major concern as any offtake in the top clients may impact the revenues of the company.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in trading of agro-commodities – The company is owned by Karnataka-based Mr. H.S. Shetty and his family members, who have an extensive experience of more than four decades in various agro-commodities trading, both in domestic as well as in international markets. The company has developed a long track record of business and has a strong relationship with its customers and suppliers, which supported its business growth over the years.

Comfortable capital structure and healthy debt protection metrics – The company has no long-term debt as on December 31, 2024 and had to close its working capital limits post decline in molasses trade, indicating a comfortable capital structure and debt metrics. The company is expected to avail term loans to fund its Nature cure hospital project. Despite the same, its financial profile is expected to remain comfortable.

Credit challenges

Volatile revenues and margins – The company's revenue declined by 35% in FY2024 and is likely to fall by 70-75% in FY2025 owing to absence of molasses trading, post imposition of 50% export duty in January 2024, which made the prices uncompetitive in the export market. With decreased scale of operations, affecting the company's operating leverage. Its operating margin contracted to 16.7% in FY2024 from 22% in FY2023. The operating margin is expected to moderate further to 7-10% in FY2025. While the company is in the process of scaling up other business segments such as trading of coffee, sugar and EPC services, timely ramp-up of the same remains a monitorable. Moreover, given that the company derives a material share of its revenues from trading of agricultural commodities, it is susceptible to the Government regulations, policies and demand in export and domestic markets.

Exposed to high customer concentration – The company has high customer concentration, with the top five clients accounting for around 89% of total sales in FY2024 and 67% of total sales in 7M FY2025. Any decline in offtake from its top clients would materially impact the company's revenues and cash flows. However, the company has a long relationship with these clients, as reflected by steady business, and has not faced any receivable issues in the past.

Risks associated with construction sector – The company has been involved in the EPC project segment and is currently focussing to scale up this business. It has an unexecuted order book of ~Rs. 177 crore. The construction projects have inherent risks/limitations regarding delays in execution, cost overrun and regulatory challenges. Any delay in execution of the project or billing of the same will impact the company's revenues, profitability, and cash flow.

Susceptible to changes in Government policies and agro-climatic conditions –Import and export of agricultural commodities are susceptible to Government regulations. Any adverse change in import/export duties on agricultural commodities may affect the product's competitiveness. The imposition of export duty of 50% on molasses in January 2024 is one such instance. As MMCL is involved in agro-commodity trading, the company also remains exposed to agro-climatic risks, changing crop patterns and associated cyclicality in the business.

Liquidity position: Adequate

The liquidity of the company is adequate with free cash balance of ~Rs.50 crore as on December 31, 2024. It does not have any major repayment obligations. However, the company's retained cash flows are expected to be negative in FY2026, given the expected scale-up of operations. The company plans to incur Rs. 18-20 crore capex per annum in FY2026 and FY2027.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant increase in MMCL's revenues and profitability on a sustained basis while maintaining adequate liquidity and comfortable debt coverage metrics.

Negative factors – Pressure on MMCL's ratings could arise if inadequate scale-up of operations impacts its earnings and cash flows on a sustained basis. Any significant stretch in the working capital cycle or any unanticipated large debt-funded capex/ investments, impacting the company's liquidity position, could also be a trigger for ratings downgrade. Specific credit metrics that could result in ratings downgrade include an interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The consolidated financial statements of the company have been analysed in the current rating exercise, given the increased financial and business linkages of the parent and subsidiary companies and given the plans to move the EPC business to MMCL, going forward. The list of entities consolidated is included in Annexure II.

About the company

MMCL was incorporated in 2000 by Karnataka-based Mr. H.S. Shetty and his family members. It was mainly involved in export of molasses. However, post imposition of the export duty on molasses exports in January 2024, it has started focussing on trading in other agri commodities such as maize, coffee, ghee, sugar, etc. The company also executes EPC contracts (solar and wind power generation projects). It has wind and hydro power plants and also rents out liquid storage tanks.

Key financial indicators (audited)

MMCL	FY2023	FY2024
Operating income	532.1	344.1
PAT	76.7	35.8
OPBDIT/OI	22.0%	16.7%
PAT/OI	14.4%	10.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.2
Total debt/OPBDIT (times)	0.0	0.1
Interest coverage (times)	50.8	36.5

Source: Company, ICRA Research; Amount in Rs. crore

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

	Current rating (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	April 03, 2025	Date	Rating	Date	Rating	Date	Rating
Fund Based – Cash Credit	Long-term	25.00	[ICRA]BBB+ (Negative)	-	-	Jan 17, 2024	-	-	-
				-	-	Jun 27, 2023	[ICRA]BBB+ (Stable)	-	-
Unallocated limits	Long-term/ Short-term	63.50	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	-	-	-	-	-
Bank Guarantee	Short-term	11.50	[ICRA]A2	-	-	-	-	-	-
Fund based – Domestic/Export Credit Facility	Short-term	-	-	-	-	Jan 17, 2024	[ICRA]A2	-	-
				-	-	Jun 27, 2023	[ICRA]A2	-	-
Fund-based – Interchangeable – Cash Credit	Long-term	-	-	-	-	Jan 17, 2024	[ICRA]BBB+ (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Interchangeable – Cash Credit	Simple
Long Term/Short Term-Unallocated limits	NA
Short-term Fund-based –Domestic/Export Credit Facility	Simple
Short-term non-fund-based – Bank Guarantee	Very Simple

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 are available on ICRA's website: [Click here]

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance/ Sanction	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Long-term Fund-based – Cash Credit^	NA	NA	NA	25.00	[ICRA]BBB+(Negative)
NA	Short Term Non Fund-based-Bank Guarantee	NA	NA	NA	11.50	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	63.50	[ICRA]BBB+(Negative)/ [ICRA]A2

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company name	Consolidation approach
Chikku Energy Private Ltd	Full consolidation
Mysore Green Co Pvt Ltd	Full consolidation
Mysore Science and Technology Services Private Ltd	Full consolidation

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