

Mahindra Agri Solutions Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	85.0	85.0	[ICRA]A+ (Stable); Re-affirmed
Long-term Loan	15.0	15.0	[ICRA]A+ (Stable); Re-affirmed
Total	100.0	100.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) assigned to the Rs. 85.0-crore¹ fund-based facilities and the Rs. 15.0-crore term loan of Mahindra Agri Solutions Limited (MASL or the company)². The outlook on the rating is Stable.

Rationale

The rating re-affirmation continues to factor in the strong parentage of MASL and the operational and financial flexibility enjoyed by it as a 98.4% subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA (Stable) / [ICRA]A1+). The agri-business is one of the core businesses of the Mahindra Group and is aligned to its long-term vision of delivering farm-tech prosperity. Besides, MASL's board is represented by the top management personnel of its parent company—M&M, thus, reflecting the strategic importance of MASL within the Mahindra Group.

The financial profile (characterised by operating losses) of the merged agri-business, however, remains weak on account of the nascent stage of operations of some of the business segments, exposure to agro-climatic conditions, volatility in commodity prices, and product failures. ICRA notes that the operating losses have widened in FY2018 primarily on account of sharp reduction in the realisations from grape exports due to surplus supply in Europe, change in the cropping pattern, which impacted its seeds business, and the impact of the goods and services tax (GST) implementation on the crop care business. The working capital intensity of operations also remains high, owing to the high receivable and inventory holding period for some of the business segments. Notwithstanding the above, ICRA notes the initiatives taken by the management, which include among others, expansion of its customer base, better product-mix, increase in the share of in-house manufactured products, introduction of a channel management function, focus on agri-data analysis to avoid unexpected losses, scaling down of unviable business divisions and the reduction in inventory-holding period so as to protect profitability from volatility in commodity prices – are all positives. These are expected to help reduce the losses in the near term.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

However, given the nascent stage of operations of majority of its businesses, MASL is expected to remain in an investment phase (towards research and development (R&D) advertisements, sales promotion, etc.) over the next two-three years as it ramps up the scale of operations of various divisions. The company is thus expected to continue to witness operating losses over the next two–three years. ICRA, however, draws comfort from the support from the parent entity, which has demonstrated a track record of adequately supporting MASL in meeting its funding requirements.

Outlook: Stable

ICRA believes MASL will continue to remain one of the core businesses and aligned to the long-term vision of the Mahindra Group. The outlook may be revised to Positive if substantial growth in revenues and profitability, and better working capital management, strengthens the financial risk profile of the company. The outlook may be revised to Negative if the financial performance deteriorates more than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Enjoys financial and operational flexibility being a part of the Mahindra Group – Being a 98.4% subsidiary of M&M and one of the core businesses of the Mahindra Group, MASL enjoys financial and operational flexibility as reflected in the equity infusion by M&M of Rs. 260 crore during FY2017 for consolidation of the agri-business into MASL.

Presence of the company across the entire agricultural value chain – Consolidation of M&M’s entire agri-business (except micro-irrigation) into MASL has led to its enhanced presence across the entire agricultural value chain, as a result of which the company is in a position to offer end to end solutions to the various needs of the farmers under one roof and leverage synergies across various divisions.

Credit challenges

Weak financial profile and high working capital intensity of operations – MASL’s financial profile is characterised by operating losses which are expected to continue for the next two to three years as it remains in an investment phase (towards R&D, advertisements, sales promotion, etc.) and ramps up its scale of operations of various divisions. Furthermore, the working capital intensity of some of the business divisions continues to remain high on the back of high inventory and receivables cycle.

Large funding requirement as several divisions are in cash-consuming phases – Considering the nascent stage of operations of some of its business divisions, MASL has been incurring cash losses and is expected to continue to do so for the next two-three years. Consequently, MASL will require support to fund its scheduled debt repayments, working capital and capital expenditure requirements necessary to maintain and increase its scale of operations.

Exposure of business to agro-climatic conditions and volatility in commodity prices – The revenues and margins of the company are exposed to industry cyclicity with certain business divisions having linkages to agricultural production and monsoon. Also, adverse movements in the price of commodities, dealt in by the company, could have an adverse impact on the firm’s revenues and profit margins, considering the company’s limited ability to pass on the price hike owing to intense competition.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company:

Mahindra Agri Solutions Limited is a 98.4% subsidiary of M&M. MASL, in its present form, is a result of the consolidation of the agri-solutions business of the Mahindra Group comprising crop care, seeds, pulses, edible oil, Samridhhi centres and its recently launched dairy business with effect from April 1, 2016. MASL was formerly known as Mahindra Shubhlabh Services Limited and was primarily involved in the exports of grapes and trading of some other fruits in the domestic market. To reflect the increased scope of activities post consolidation of the agri business, the name of the company was changed to MASL in February 2016.

MASL also has a 60:40 joint venture (JV) called Mahindra Greenyard Private Limited (since April 2014) with Greenyard Foods (formerly known as UNIVEG), a Belgium-based fresh produce company, wherein it undertakes domestic sales of fruits (other than grapes). Through this JV, high quality fruits (including apples, kiwis, oranges and bananas) are imported from across the world and sold in the domestic market. Fruits from this JV are marketed under the 'Saboro' brand.

MASL also acquired M&M's 59.95% equity stake held in Mahindra HZPC Private Limited, a JV between M&M and HZPC, a Holland-based company, with effect from April 1, 2016. Mahindra HZPC Private Limited is involved in the business of growing and selling potato seeds and mini tubers in the domestic market.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	479.6	469.5
PAT (Rs. crore)	-26.8	-50.6
OPBDITA/ OI (%)	-5.1%	-12.9%
RoCE (%)	-95.6%	-58.9%
Total Debt/ TNW (times)	-4.8	0.2
Total Debt/ OPBDITA (times)	-1.0	-0.4
Interest Coverage (times)	-132.6	-69.6
NWC/ OI (%)	-9.6%	22.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) February 2018	Date & Rating April 2018	Date & Rating in FY2018	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 December 2015
1	Fund-based Limits	85.0	NA	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A- (Stable)
2	Term Loan	15.0	11.0	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	-

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	Long-term, Fund-based Facilities	NA	NA	NA	85.0	[ICRA]A+ (Stable)
NA	Long-term Loan	October 2017	7.85%	October 2024	15.0	[ICRA]A+ (Stable)

Source: Mahindra Agri Solutions Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah

+91 22 6114 3442
kinjal.shah@icraindia.com

Rushit Doshi

+91 22 6114 3422
rushit.doshi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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