January 18, 2024

Mahindra Agri Solutions Limited: Rating downgraded to [ICRA]A; outlook continues to remain Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term - Fund Based Limits	94.25	97.05	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Long-Term - Term Loans	5.60	2.80	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Long-Term - Non-fund-Based Facilities	0.15	0.15	[ICRA]A(Negative); downgraded from [ICRA]A+(Negative)
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the rating of Mahindra Agri Solutions Limited (MASL), ICRA has consolidated the financials of MASL, along with its three operating subsidiaries – Mahindra Summit Agriscience Limited (MSAL), Mahindra HZPC Private Limited (MHZPC) and Mahindra Fruits Private Limited (MFPL).

The rating action factors in the weaker-than-expected financial performance of the company in FY2023 and H1 FY2024. The quantum of operating losses posted in FY2023 on a consolidated basis was much higher than what ICRA had factored in at the time of the last rating exercise. Additionally, while ICRA had expected the company to post operating profits at the consolidated level beginning FY2024, the same is unlikely to be achieved in the current fiscal as well. ICRA has noted the gradual improvement in the financial performance of the seeds business, corroborated by healthy revenue growth and operating breakeven achieved in FY2023. The seed potato business (housed under MHZPC, which is a joint venture between MASL and HZPC SBDA B.V), which has been scaling up gradually (aided by favourable customer response to newer superior varieties of seed potato offering), also witnessed a healthy revenue growth in FY2023 and posted positive operating profits. However, the improved performances in these businesses were negated by the headwinds in the grapes and the crop care businesses (crop care business housed under MSAL, which is a joint venture between MASL and Sumitomo Group). The crop care business in particular posted large cash losses in FY2023 due to high raw material costs and inventory build-up in the market due to weak demand. Going forward, the seeds and potato businesses are expected to remain profitable, however, the tough operating environment for crop care business is likely to sustain over the near term, which would lead to consolidated operating losses in the current fiscal as well. ICRA has also noted the delay in new molecule launches, which made the crop-care business heavily reliant on the generic products, which are intensely competitive and lead to pricing pressure. In ICRA's opinion, unless the share of specialty chemicals meaningfully improves in the future, the division's performance is expected to remain subdued. Besides, the grapes business could also encounter headwinds in the near term as the Red Sea shipping disruption adversely impacts connectivity to important markets in Europe and North America. The increase in shipping rates and insurance costs for grapes shipped through the longer alternative route to the European region, which is a key market for MASL, may impact the overall demand. Besides, certain grapes markets like Canada cannot be catered to through the longer route, given the increase in sailing time by ~15 days for the perishable item. The credit metrics of the company, at the consolidated level, remain weak on account of its continued weak financial performance, leading to depressed coverage and leverage indicators. Recurring losses along with a large asset impairment taken in the crop care business in FY2023 led to the company's net worth at the consolidated level falling in the negative territory last fiscal. ICRA has also noted the adverse cost structure of the company emanating from high fixed expenses, which would continue to remain a drag on the profits unless the existing businesses are scaled up meaningfully. The ratings also remain constrained by the company's exposure to agro-climatic conditions and volatility in commodity prices.

The rating, however, continues to positively factor in the strong parentage of MASL, which is a 98.8% subsidiary of Mahindra & Mahindra Limited (M&M, rated [ICRA]AAA/Stable/ [ICRA]A1+) and the strategic importance of the company to its parent/Group as the agri-business remains aligned to its long-term vision of delivering farm-tech prosperity. The parent/Group has provided timely financial support in the past in the form of equity, inter-corporate deposits, and optionally convertible redeemable preference shares (OCRPS), which have aided in funding the business losses and meeting the working capital needs. In the current fiscal, ICRA understands that the parent will be converting Rs.15 crore of unsecured loans outstanding into equity and infuse additional fresh equity of Rs.25 crore into MASL. Besides, it is also expected to infuse Rs.18 crore as unsecured loans into MSAL and another Rs.12 crore will be infused as unsecured loans by the JV partner, Sumitomo Group to fund the losses at the crop care business. ICRA expects timely support from the parent/Group to be forthcoming, if required. The rating also factors in MASL's presence across the agricultural value chain, as reflected in its presence in fruits (grapes) and seeds businesses at the standalone level and crop care and potato seeds business through its JVs. The rating also factors in MASL's high financial flexibility with ability to raise funds at competitive rates of interest, given the strong parentage.

The Negative outlook on the long-term rating reflects ICRA's expectation of a subdued performance by MASL in FY2024, which would keep the leverage and coverage indicators at depressed levels. The company's ability to meaningfully improve the consolidated earnings in the next fiscal (FY2025) will remain a key monitorable from the credit perspective.

Key rating drivers and their description

Credit strengths

Status as a subsidiary of M&M Limited with strategic importance – MASL's status as a 98.8% subsidiary of M&M Ltd. imparts considerable financial flexibility to the company. The company remains strategically important to its parent/Group given that the agri business remains aligned to its long-term vision of delivering farm-tech prosperity. The parent/Group has provided timely financial support in the past in the form of equity, inter-corporate deposits, and optionally convertible redeemable preference shares (OCRPS) which have aided in funding the business losses and meeting the working capital needs. In the current fiscal, ICRA understands that the parent will be converting Rs.15 crore of unsecured loans outstanding into equity and infuse additional fresh equity of Rs.25 crore into MASL. Besides, it is also expected to infuse another Rs.18 crore as unsecured loans into MSAL and another Rs.12 crore will be infused as unsecured loans by the JV partner, Sumitomo Group to fund the losses at the crop care business. ICRA expects timely support from the parent/Group to be forthcoming, if required.

Presence across agricultural value chain – The consolidation of M&M's entire agri-business (except micro irrigation) into MASL in FY2016 led to its enhanced presence across the agricultural value chain, as reflected in its presence in fruits (grapes) and seeds businesses at the standalone level. At the consolidated level, MASL is also present in crop care (MSAL) and potato seeds and mini tubers (Mahindra HZPC Private Limited) segments, through its JVs. The crop-care business was transferred to MSAL from MASL in FY2019 to scale up the business by bringing in a foreign partner having access to innovator companies.

High financial flexibility, as demonstrated by ability to raise funds at competitive rates – MASL enjoys high financial flexibility with ability to raise funds at competitive rates of interest, given the strong parentage.

Credit challenges

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

Weaker-than-expected financial performance; credit metrics remain subdued, net worth slipped to negative in FY2023 – The credit metrics of the company, at the consolidated level, remain weak on account of its continued weak financial performance, leading to depressed coverage and leverage indicators. ICRA has also noted the adverse cost structure of the company emanating from high fixed expenses, which would continue to remain a drag on the profits unless the existing businesses are scaled up meaningfully. Recurring losses along with a large asset impairment taken in the crop care business in FY2023 has led to the net worth at the consolidated level slipping into the negative territory last fiscal.

Industry headwinds, delay in new molecule launches, intense competition in generics expected to result in operating losses at MSAL over the near term – MSAL posted large cash losses in FY2023 due to high raw material costs and inventory build-up in the market, which led to weak demand. The tough operating environment for crop care business is expected to sustain over the near term, given the industry headwinds, which would lead to losses. ICRA has also noted the delay in new molecule launches. As a result, the crop-care business became heavily reliant on the generics products, which are intensely competitive and lead to pricing pressure. In ICRA's opinion, unless the share of specialty chemicals meaningfully increases in the future, the division's performance is expected to remain subdued, going forward.

Liquidity position: Adequate

Notwithstanding the losses expected in the current fiscal, MASL's liquidity position has been assessed as **adequate**. In FY2024, the company has repayment obligations of Rs. 2.80 crore at the consolidated level and nominal capex commitments towards maintenance requirements, which can be met from the unutilised credit lines/funding commitments from the parent. In addition, MASL's liquidity profile is supported by the financial flexibility that it enjoys for being a strategically important entity of the Mahindra Group.

Rating sensitivities

Positive factors – The outlook can be revised to Stable if the company is able to meaningfully increase the profits and cash accruals at the consolidated level, improving its overall credit profile and liquidity position.

Negative factors – Pressure on the rating could emerge if the company is unable to achieve breakeven at the operating level (consolidated) in the near term, increasing the indebtedness and worsening the liquidity position. Besides, any indication of MASL's reduced importance to the Mahindra Group or a deterioration in the credit profile of Mahindra & Mahindra Ltd. will also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent Company: Mahindra & Mahindra Limited The rating assigned to MASL factors in the very high likelihood of its parent, M&M (rated [ICRA]AAA (Stable) / [ICRA]A1+), extending financial support to it, given its strategic importance to the M&M Group. ICRA also expects M&M to be willing to extend financial support to MASL 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 M&M having extended timely financial support to MASL in the past, whenever a need has arisen.
Consolidation/Standalone	The rating is based on MASL's consolidated financial profile, for which ICRA has consolidated the financials of MASL, MSAL, MFPL and MHZPC – enlisted in Annexure 2. As MASL does not prepare consolidated financials, the consolidation has been done by ICRA based on public disclosures on important inter-group transactions and investments. The consolidation does not include Mahindra Fresh Fruits Distribution Holding Company (Europe) BV (MFFDHC) as the financials were not made available to ICRA. However, ICRA notes that no financial support has been extended to MFFDHC in the past.

About the company

Mahindra Agri Solutions Limited is the consolidated entity of the Mahindra Group's agri-solutions business (comprising crop care, seeds, pulses, edible oil, Samriddhi centres and dairy business), which was carried out in FY2016. MASL, formerly known as Mahindra Shubhlabh Services Limited, was primarily involved in grape exports and trading of some other fruits in the domestic market. The company's name was changed to its present form in February 2016 to reflect the increased scope of activities post consolidation of the agri business. In FY2019, MASL exited from its commodity businesses (viz. pulses, edible oil and banana cultivation) and transferred its crop-care business to a new JV, MSAL. Besides, in FY2020, the company discontinued its Saboro cafe business and transferred its MyAgriGuru app and Samriddhi centre businesses to M&M, as a part of the Group's strategy to consolidate all its agri-support activities under the farm implements business.

MFPL, a wholly-owned subsidiary, used to undertake domestic sales of fruits (other than grapes), marketed under the Saboro brand. This business has been closed in FY2022. Besides, MASL acquired M&M's 59.95% equity stake in MHZPC, a JV between M&M and HZPC (a Holland-based company), with effect from April 1, 2016. MHZPC sells potato seeds and mini tubers in the domestic market.

Key financial indicators (Audited)

MASL	Standalone		Consolidated** (MASL+ MHZPC+ MSAL+MFPL)	
	FY2022	FY2023	FY2022	FY2023
Operating Income (Rs. crore)	226.6	253.4	444.9	502.4
PAT (Rs. crore)	(15.9)	(71.1)	(23.6)	(86.7)
OPBDIT/OI (%)	(1.8%)	(1.8%)	(2.4%)	(4.4%)
PAT/OI (%)	(7.0%)	(28.0%)	(5.3%)	(17.3%)
Total Outside Liabilities/Tangible Net Worth (times)	4.8	(12.0)	6.5	(16.2)
Total Debt/OPBDIT (times)	(28.3)	(26.6)	(14.8)	(7.9)
Interest Coverage (times)	(0.6)	(0.5)	(1.0)	(1.7)

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; **Consolidation done by ICRA based on elimination of important inter-group transactions based on public disclosures*

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 of Mar 31, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 18, 2024	Jan 19, 2023	Nov 05, 2021	Oct 20, 2020
1	Fund-based Facilities	Long-term	97.05	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
2	Term Loan	Long-term	2.80	9.43	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A (Positive)
3	Unallocated Limits	Long-term	-	-	-	-	-	[ICRA]A (Positive)
4	Non fund based	Long-term	0.15	-	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Term Loans	Simple
Non-fund-Based Facilities	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-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 Limits	NA	NA	NA	97.05	[ICRA]A (Negative)
NA	Term Loans	Oct 2017	NA	Oct 2024	2.80	[ICRA]A (Negative)
NA	Non-fund-Based Facilities	NA	NA	NA	0.15	[ICRA]A (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Mahindra Summit Agriscience Limited	60.00%	Full Consolidation
Mahindra HZPC Private Limited	59.95%	Full Consolidation
Mahindra Fruits Private Limited	100.00%	Full Consolidation

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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.

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