

## Malnad Areca Marketing Co-Operative Society Limited

June 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	150.00	CARE BBB-; Stable	Assigned

Details of facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to the long-term bank facilities of Malnad Areca Marketing Co-Operative Society Limited (MAMCOS) considers its long track record of operations of over eight decades with an experienced management, large number of members with increasing trend, presence in Areca producing region of Devangere, Shimoga, and Chikmangluru districts of Karnataka giving it a locational advantage for procurement and distribution network, diversified business sources and a moderate financial profile.

MAMCOS reported consistent growth in its total operating income (TOI) in past three years (2022-2024) supported by an increase in revenues from its areca trading segments. MAMCOS also operates deposit and lending business and while the society has been maintaining adequate short-term liquidity profile, it is exposed to bulk withdrawal of deposits. Nevertheless, these deposits have been sticky and have demonstrated high rollover rate. Similarly, loans extended by the company are exposed to default risk arising out of crop failure or adverse movement in prices.

However, above rating strengths are partially offset by its susceptibility to price volatility risk and exposure to regulatory risk and inherent risk associated with delay/ default in loan repayment by members.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increasing scale of operations over ₹1,500 crore backed by consistent additions in number of members, while maintaining total outside limits to tangible net worth (TOL/TNW) < 2x on a sustainable basis.
- Improving profit before interest, lease rentals, depreciation and taxation (PBILDT) over 4% translating in to improved gross cash accruals (GCA) over ₹20 crore on a sustained basis.
- Adequate maintenance of short-term liquidity for its lending business.

#### Negative factors

- Adversely deteriorating asset quality of the loans lent to its members.
- Adverse volatility in commodity prices leading to sustained deterioration in PBILDT margins below 2%.
- Significantly deteriorating liquidity profile due to unplanned debt-funded capex.
- Unforeseen regulatory hurdles adversely affecting its operations.

**Analytical approach:** Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that MAMCOS will continue to benefit from its long track record of operations with its experienced promoters and established relationships with clients.

### Detailed description of key rating drivers:

#### Key strengths

##### Long track record of operations of the company and experienced management

With more than eight decades of operations, society has witnessed several events both, domestic and international, and has been able to tide through the same. The Deputy Commissioner of Shimoga has been appointed as the Ex-officio President of the board since its inception. The Society was formed under the presidentship of then Deputy Commissioner of Shimoga, Mr Sheshadri on November 8, 1939. MAMCOS is one of the prominent societies since 1939 with its corporate office in Shimoga with an intension to protect the interests of Areca growers. It has its presence across major Arecanut producing districts of Karnataka, including Devangere, Shimoga, and Chikmangluru, thus providing it a location advantage.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Owing to its business vintage of over 80 years, MAMCOS has established vast distribution network through dealers and agents across India. The Society would continue to benefit from the management's long-standing experience in the long run. Initially, there were 659 registered members. Presently, it has around 31,167 members registered with the society. MAMCOS is equipped with large processing facility with expertise in grading competence helping in delivering the quality nuts to its customer.

#### **Diversified business sources**

Over the years, MAMCOS has transformed itself from an Arecanut trading society into a multifaceted organisation operating in areca trading, commission agent for areca growers, and providing deposits and loans such as produce loan, crop loan, and chemical loan among others to its members. Its umbrella of services includes marketing, storage, and processing of areca nuts for its members. It also provides various benefits such as transportation facilities, financial assistance, insurance schemes, death relief funds, and medical facilities among others. CARE Ratings observes, the society is expected to continue to benefit from its diversified business profile, both in terms of its scale and profitability going forward.

#### **Consistent improvement on TOI led by increase in Areca trading segment**

MAMCOS's major revenue comes from trading income followed by commission income and interest income on lending business. The adjusted TOI (adjusting for commission sales) increased to ₹436 crore in FY24 (UA) as compared to ₹241 crore in FY20, which is due to significant improvement in addition of members translating to higher trading revenue. The revenue from trading segment improved to ₹383 crore in FY24(UA) from ₹207 crore in FY20. The society's ability to increase its members consistently and effective procurement of Areca for trading, translating in to improved scale and margins remain a key rating sensitivity.

#### **Moderate financial risk profile**

The net worth base as on March 31, 2024 was at ₹83.39 crore, remained moderate translating in to higher TOL/TNW at 4.37x FY24 (FY23: 4.56x). However, the TOL also majorly includes deposits from members, which accounted for about 63% of the total debt as on March 31, 2024. The growth in society's equity share capital is supported by growth in the number of registered members and the increase in the number of loans to its members, as about 10% of the amount lent is to be invested into capital. Per CARE Ratings' observation, with expected improvement in scale and stable profitability margins, the net worth base is expected to improve.

#### **Key weaknesses**

##### **Susceptibility to price volatility risk and exposure to regulatory risk**

The price volatility risk is attributed to agro-climatic risk which is dependent on adequate and favourable climatic condition. Also, areca nut prices are linked to international prices. Society's major revenue segment comes from trading income followed by Commission income and interest income on lending business. The profit from the trading business tapered down in FY24 as compared to high profits earned from trading segment in FY23, owing to volatility in prices of areca nut in FY24. While it has a dedicated and long-standing relationship with its client base, it is sensitive to price fluctuations. The industry also faces high regulatory risk because of restrictive government policies in the form of increase in import duties and imposition of multiple taxes.

##### **Inherent risk associated with delay/ default in loan repayment by members**

MAMCOS extends financial assistance in the form of loans to its members at simple interest for a tenor of one year backed by encumbrance on the agriculture land and lien on the produce, the loan with interest is recovered when the member brings his agricultural produce to the society. The society holds the right to sell the pledged produce in case of default by the borrower. The society's advances to members were at ₹148 crore as on March 31, 2024, which includes ₹3.76 crore of overdue amount accounting for 2.56% of the total amount lent to members. Hence, there exists inherent risk associated with delay/ default in loan repayment by members. Timely collection / recovery of these loans thereby maintaining the quality of such assets is a key monitorable.

##### **Liquidity: Adequate**

Society's liquidity profile is healthy aided by nil repayment obligations and expected cash accruals in the range of ₹12 crore to ₹15 crore over next three years. The company had ₹100 crore of fixed deposits from its members and savings account balance of ₹84 crore from its members against which the company's advances to members was at ₹148 crore as on March 31, 2024. Deposits raised by the society have roll rate of 99%. Due to inherent seasonality involved with agri trading business, WC utilisation levels increase in January to June and subsequently taper down in non-season months. As on March 31, 2024, the society has free cash and cash equivalent of ₹28 crore maintained in savings bank accounts indicating a liquidity cushion of 3.8 months as against the average maturity of FD of ₹8.33 per month.

## Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Wholesale trading](#)

[Financial Ratios – Non financial Sector](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural food & other products	Other agricultural products

MAMCOS, with its registered office in Shimoga, came into existence in 1939 with an intention to protect the interests of Areca growers. The society was formed under the presidentship of then Deputy Commissioner of Shimoga, Mr Sheshadri on November 8, 1939. Initially, there were 659 members. Presently, it has around 31,167 members registered with the society.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	920.28	1,016.25
PBILDT	28.90	22.09
PAT	14.55	5.54
Overall gearing (times)	3.68	3.53
Interest coverage (times)	1.93	1.43

A: Audited; P: Provisional; Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:** Brickworks has continued the ratings assigned to the bank facilities of MAMCOS as 'Issuer not-cooperating' category vide press release dated November 09, 2023, on account of non-availability of requisite information from the company

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	100.00	CARE BBB-; Stable
Fund-based - LT-Working capital limits		-	-	-	50.00	CARE BBB-; Stable

**Annexure-2: Rating history for last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	100.00	CARE BBB-; Stable	-	-	-	-
2	Fund-based - LT-Working capital limits	LT	50.00	CARE BBB-; Stable	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Working capital limits	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

### Contact us

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### About us:

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### Disclaimer:

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