



Press Release

Indo Farm Equipment Limited [IFEL]

January 14, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Current Ratings	Rating Action
1.	Long Term Facilities	145.00* (Increased from INR120.00 Crore)	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Revised from IVR A- /Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Short Term Facilities	10.20 (Reduced from INR35.20)	IVR A2 (IVR Single A Two)	Revised from IVR A2+ (IVR Single A Two Plus)
	Total	155.20		

**Long term facilities of INR145.00 Crore includes proposed facility of INR2.07Cr*

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings takes into account the decline in overall revenue in FY20 due to headwinds arising out of ongoing Covid-19 pandemic since last quarter of FY20. The revision in the rating also reflects muted demand of tractors in the domestic market due to ongoing farmer's agitation coupled with expected lower cranes sales due to slow recovery in construction & Infra Sector in the first half of FY-21.

Further, current rating continues to derive strength from the experienced promoters and management, long track record of operation of the company, Comfortable debt Matrices, and strong dealer network scattered across various parts of India and best in class technology & Innovation. The rating however is constrained by elongated working capital cycle and the stiff competition from large established player.



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Key Rating Sensitivities:

Upward Factor

- Significant & sustained improvement in scale of operation for both tractors and cranes could lead to a positive rating action

Downward Factor

- Any further increase in inventory holding period and/or further decline in the sales can lead to a negative rating action

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters and management

Mr. Ranbir Singh Khadwalia has promoted the IFEL and its commercial operation commenced from its own plant from 2000. He had over two decades of experience in manufacturing and marketing of various engineering products before venturing into this field. The legacy is being taken forward by his two sons Mr. Anshul Khadwalia and Mr. Shubham Khadwalia to propel the business forward. Further, the key managerial personnel of the company are also well-qualified and experienced in the domain

Long track record of operation

Incorporated in 1994, the company commenced commercial production of tractors in October 2000. Within a year of operation, the company had successfully indigenized the engine components, manufacturing and assembly. The Company had started its operations with a single model of 50 HP and now manufactures the largest range of tractors from 22 HP to 100 HP and 110 HP tractor model is under development. For enhancing the capacity utilization of the plant in 2008, the company diversified into manufacturing and marketing of PICK-N-Carry of 9 tonnes-30 tones capacity.

Comfortable debt Metrics; However, scale of operation remains modest

Overall gearing ratio and Long term Debt to equity ratio stood comfortable at 0.74x (FY19-0.78x) and 0.10x (FY19: 0.13x) as on March 31, 2020. The interest coverage ratio stood at 1.99x in FY20 and long term debt to GCA was at 1.43x as on March 31, 2020. In FY20 the overall revenue declined to INR231.78 crore (FY19:INR302.79 crore)



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Strong dealer network scattered across various parts of India

It operates on a pan –India basis and is a well-recognized brand, associated with quality and dependability. The company operates through 15 regional offices and a widespread 300 plus strong dealer network for sales and services. Indo Farm stands as one of the largest and reliable tractor manufacturer and dealers with hi-tech tractors ranging from 22 HP to 110 HP. The group built its reputation through manufacturing high-end tractors and distribution of best farm tractor spare parts in India and some other parts of the world.

Best in class technology & Innovation

Indo Farm Equipment Limited (IFEL) employs best in the class technology and innovation which gives it edge over market competitors. IFEL creates tractors that are well-suited for both farm usage and transportation. The company has dedicated R & D staff that has created innovative product designs in the market.

Key Rating Weaknesses

High and elongated working capital cycle

Indo Farm's operating cycle is high 369 days in FY20. The elongated cycle is majorly attributable to a high inventory holding period of 259 days in FY20. Indo farm undertakes in-house manufacturing of the majority of components and in-house manufacturing of large range of models of tractors from 22HP to 110 HP with variants in 2WD & 4WD and cranes from 9Tonnes to 30Tonnes with variants in 2WD & 4 WD. Further, the situation is aggravated in Feb & March-20 due to outbreak of Covid-19 that resulted in holding high inventory levels at the year end.

Stiff competition from large established player

The tractor industry of India plays an important role in the agriculture sector as agriculture accounts for 25% of the GDP. The Indian tractor industry is the largest in the world, accounting for one third of the global production. IFEL faces a stiff competition from large established players in the industry due to its small scale of operation. The level is less than 1% of industry's sales volume.



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Analytical Approach & Applicable Criteria:

Standalone Approach

Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Adequate liquidity is characterized by comfortable gross cash accruals of INR. 13.47 Cr against repayment obligation of INR4.19 Crore in FY20. Liquidity is further supported by current ratio of 1.61x in FY20 and average working capital utilization of 88.76% for the last twelve months ended Sep-20.

About the Company

Indo Farm Equipment Limited (IFEL) is an ISO certified company located at Baddi, Himachal Pradesh and is into manufacturing of world class tractors, cranes, engines, and diesel gensets and has now launched Harvester Combine Agricom 1070 for wetland paddy harvesting. Incorporated in 1994, it commenced commercial production of tractors in October 2000. IFEL is spread over an area of 35 acres and it had started its operations with a single model of 50 HP and now manufactures the largest range of tractors from 22 HP to 100 HP and 110 HP tractor model is under development.

Financials: (Standalone)

(INR Crore)

For the year ended/ As On*	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	302.79	231.78
EBITDA	31.48	27.37
PAT	9.41	3.76
Total Debt	143.23	137.40
Tangible Net-worth	183.49	186.86
EBITDA Margin (%)	10.40	11.81
PAT Margin (%)	3.08	1.61
Overall Gearing Ratio (x)	0.78	0.74

* Classification as per Infomerics' standards



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Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (October 24, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Fund Based Facility – Term Loan	Long Term	7.93 (Reduced from Rs. 8.38 Crore)	IVR BBB+/Stable Outlook	IVR A- /Stable	--	--
2	Fund Based Facility -Cash Credit	Long Term	137.07* (Increased from Rs.111.62 crore)	IVR BBB+/Positive Outlook	IVR A- /Stable	--	--
3	Short Term Facility – Bank Guarantee , ILC/FLC & Forward Contract	Short Term	10.20 (Reduced from Rs.35.20 crore)	IVR A2	IVR A2 +	--	--
		Total	155.20				

*Includes proposed facility of INR2.07Cr

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Size of Facility (INR Crore)	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Rating Assigned/ Outlook
Long Term Fund Based Facility – Term Loan	7.93	NA	NA	Apr-2025	IVR BBB+/Stable
Long Term Fund Based Facility - Cash Credit	137.07*	NA	NA	--	IVR BBB+/Stable
Short term Facility Bank Guarantee , ILC/FLC & Forward Contract	10.20	NA	NA	--	IVR A2

**Includes proposed facility of INR2.07Cr*

Note: FDB/FBE/BRD of INR 25.00 is a sub-limit of Cash Credit which was part of Short term facility in the last press release dated October 24th, 2019.

Annexure 2: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Lender-IFEL-14-01-21.pdf>