Press Release

Indo Farm Equipment Limited

July 24, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	137.47	IVR A- / Stable (IVR A Minus with Stable Outlook)	IVR A- / Stable (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	15.20	IVR A2+ (IVR A Two Plus)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**152.67**	**Rupees One Hundred Fifty Two Crore and Sixty Seven Lakhs Only**			

Details of Facilities/Instrument are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed long term rating at IVR A-/Stable and short-term rating at IVR A2+ for the bank loan facilities of Indo Farm Equipment Limited (IFEL).

The rating continues to draw comfort from the established track record of operations and experienced management, widespread dealer network, comfortable debt protection metrics and financial risk profile and profitability margins during FY2024. However, these strengths are partially offset by elongated working capital cycle, stiff competition in the industry, exposure to group company and cyclical nature of industry.

The ‘Stable’ outlook indicates low likelihood of rating change over the medium term. IVR believes IFEL business risk profile will be maintained over the medium term. The company performance remained satisfactory in FY2024.

IVR has principally relied on the standalone audited financial results of IFEL upto 31 March 2023, FY2024 (refers to period April 1st, 2023, to March 31, 2024) unaudited certified provisional results and projected financials for FY2025, FY2026 and FY2027, and publicly available information/ clarifications provided by the company’s management.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 420 crore and profitability margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing
- Reduction in financial exposure to group company

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing
- Liability arising on account of corporate guarantee given to group company and further increase outstanding guaranteed borrowings

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Established track record of operations and experienced management:**
  The company commenced its commercial operations from 2000 and has a successful track record of more than two decades in the manufacturing of agricultural and construction equipment. Overall activities of IFEL are managed by 3 directors with Mr. Ranbir Singh Khadwalia being the Managing Director. He has experience of more than 3 decades in the existing line of business. He is ably supported by other directors who have effective experience in existing line of business as well as supported by qualified and well experienced management team.

- **Widespread dealer network:**
  IFEL operates on a pan India basis and is a well-recognized brand in the industry. It is also engaged in exports to more than 8 countries in the world. The company operates through 15 regional offices and a 150 plus dealer network for sales and services, spread across the country.

- **Improved profitability margins:**
  The company's operating profit and net profit margins improved to 12.92% and 3.81% respectively in FY2024 (Provisional) as compared to 12.05% and 3.50% respectively in FY2023, mainly due to increase in sale of construction equipment.

- **Comfortable debt protection metrics and financial risk profile:**
In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR) remained comfortable at 2.66x and 1.41x respectively in FY2024 (Provisional). The adjusted tangible networth remained comfortable at Rs. 271.29 crore in FY2024 (Provisional). Overall adjusted gearing stood comfortable at 0.62x FY2024 (Provisional). The total operating income (TOI) stood at Rs. 352.46 crore in FY2024 (Provisional) from Rs. 346.62 crore in FY2023.

Key Rating Weaknesses:

- **Elongated working capital cycle**
The company's operating cycle stood at 245 days in FY2024 (Provisional) as compared to 224 days in FY2023. The elongated cycle is majorly attributable to a high inventory holding period of 195 days in FY2024 (Provisional). The company manufactures a wide range of models both in the tractor and crane segments. The company has high level of backward integration and manufactures majority of the components in house i.e., casting components, machining, hydraulic components, gears, sheet and heavy metal fabrication etc., leading to a high inventory holding period. Further, the sale of tractors is linked to harvest time for the next sowing season for which the company has to maintain an adequate inventory prior to harvest season in order to meet surge in demand.

- **Stiff competition in the industry**
The Indian tractor industry is the largest in the world, accounting for one third of the global production. IFEL faces stiff competition from large established players in the industry like Mahindra & Mahindra Ltd., Tractors and Farm Equipment Ltd. etc. IFEL produces less than 1% of the industry's sales volume. However, with its presence in the 22 HP-100 HP segment, IFEL is able to cater to a wide range of customers.

- **Exposure to group company**
IFEL provides comfort to group company in the form of investments, advances and corporate guarantee given to it. The company has invested Rs ~25 crore (equity of Rs. 20 crore and advances of Rs. ~5 crore) and extended a corporate guarantee of Rs 195 crore in the group company "Barota Finance Limited (BFL)" and holds 100% of its shareholding. BFL is an NBFC provides custom finance solutions to farmers to help them own agricultural equipment.

- **Cyclical nature of the industry**
  Around 94% of the company's revenue comes from the tractor division and mobile crane division. The demand for tractors in India is determined by multiple variables, such as monsoon, crop prices, farmers sentiments and availability of finance. This can have an impact on the company's earnings and cash accruals in periods of unfavorable monsoons. The demand for mobile cranes in India is expected to improve in coming years due to increasing infrastructural and industrial activities in the country. Though IFEL is likely to remain exposed to such vagaries in demand, the Government of India's commitment towards rural development, agri mechanization and infrastructure development, while focusing on improving the country's infrastructure with enhanced budgetary allocations, is likely to aid a growth in volumes over the medium to long-term.

Analytical Approach: For arriving at the ratings, IVR has analysed IFEL's credit profile by considering the Standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria for Assigning Rating Outlook
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company has an adequate liquidity position. There are secured term loans from banks, amounting to Rs. 34.29 crore, as on 31st March 2024. Against a current portion of long-term debt (CPLTD) of Rs 11.83 crore in FY2024 (Provisional), the company had a cash accrual of Rs. 23.65 crore in FY2024 (Provisional). The company projected to generate cash accruals of Rs. 33.00 crore in FY2025 against a CPLTD of Rs. 13.37 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Indo Farm Equipment Limited (IFEL) was incorporated in the year 1994 and commenced its commercial production of tractors in October 2000 and in 2008, the company diversified into manufacturing and marketing of Pick-N-Carry cranes of 9 tonnes – 30 tonnes capacity and commenced production of mobile tower cranes. It is currently engaged in the manufacturing of tractors, cranes, harvester combines, engines and diesel gensets at its plant located in Baddi, Himachal Pradesh. It has annual installed capacity of 12,000 tractors and 720 cranes at its existing plant. It sells tractors and cranes under the brand names of Indo Farm and Indo Power respectively.

IFEL has formed a non-banking financial company (NBFC), Barota Finance Limited (a wholly owned subsidiary), to provide tractor financing to its customers. Barota Finance received NBFC license in April 2017 and commenced operations in October 2017.

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	346.62	352.46
EBITDA	41.77	45.54
PAT	12.17	13.46
Total Debt	170.49	167.11
Adjusted Tangible Networth	245.86	271.29
EBITDA Margin (%)	12.05	12.92
PAT Margin (%)	3.50	3.81
Overall adjusted Gearing Ratio (x)	0.69	0.62
Interest Coverage Ratio (x)	2.57	2.66

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (12 June 2023)	Date(s) & Rating(s) assigned in 2022-23 (12 Mar 2022)	Date(s) & Rating(s) assigned in 2021-22
1.	Fund Based	Long Term	137.47	IVR A-/Stable	IVR A-/Stable	IVR A-/Stable	-
2.	Non-Fund Based	Short Term	15.20	IVR A2+	IVR A2+	IVR A2+	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	135.00	IVR A-/Stable
Term Loan	-	-	Sep 2025	2.47	IVR A-/Stable

Bank Guarantee	-	-	-	1.50	IVR A2+
ILC/FLC	-	-	-	13.50	IVR A2+
Forward Contract Limit	-	-	-	0.20	IVR A2+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Indo-Farm-24july24.pdf

Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis: Not Applicable

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.