



## Press Release

### Indo Farm Equipment Limited (IFEL)

March 14, 2022

#### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	141.43 (Decreased from 145.00)	IVR A-/ Stable Outlook (IVR Single A Minus with Stable Outlook)	Revised from IVR BBB+/ Stable Outlook (IVR Triple B Plus with Stable Outlook)	Simple
Short Term Bank Facilities	10.20	IVR A2+ (IVR A Two Plus)	Revised from IVR A2 (IVR A Two)	Simple
<b>Total</b>	<b>151.63</b> <b>(Rupees One Hundred Fifty One crore and Sixty Three lakh only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The revision in the rating assigned to Indo farm Equipment Limited's (IFEL's) bank facilities considers the improvement in its overall performance during FY21 and 9MFY22. Further, the ratings continue to derive strength from the experience of its promoters and management, long track record of operations of the company, comfortable debt protection metrics and widespread dealer network. The ratings are, however, constrained by its elongated working capital cycle mainly on account of its high inventory holding period, stiff competition from the large established tractor players and cyclicity in the tractor industry.

#### Key Rating Sensitivities

##### Upward Factor

- Significant and sustained growth in scale of operations and profitability leading to improvement in debt protection metrics.



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### **Downward Factor**

- Any decline in scale of operation and/or profitability leading to deterioration in debt protection metrics and capital structure on a sustained basis.
- Any further increase in inventory holding period leading to further elongation of operating cycle and/or impacting liquidity position.

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### **Experienced promoters and management**

IFEL is promoted by Mr. Ranbir Singh Khadwalia. He has around four decades of experience in manufacturing and marketing of various engineering products. The legacy is being taken forward by his two sons, Mr. Anshul Khadwalia and Mr. Shubham Khadwalia. Further, the key managerial personnel of the company are also well-qualified and experienced in the domain.

##### **Long track record of operations**

Incorporated in 1994, IFEL 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 110 HP. For enhancing the utilization of the plant, in 2008 the company diversified into manufacturing and marketing of Pick-N-Carry cranes of 9-30 tonnes capacity.

##### **Widespread dealer network**

IFEL operates on a pan India basis and is a well-recognized brand in the industry. The company operates through 15 regional offices and a 275 plus dealer network for sales and services, spread across the country.

##### **Improvement in the performance in FY21 and 9MFY22**

IFEL's total operating income has increased by 8% in FY21 to Rs.251.76 crore from Rs.231.78 crore in FY20. The sales from tractor segment have increased by around 7% in FY21 and cranes segment also witnessed a growth of around 13% in FY21. IFEL derives around 66% of its sales from tractors and around 30% from cranes. Although, the performance was muted



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in H1FY21 due to COVID-19 related lockdown, the sales picked up post easing of the restrictions in H2FY21. The company has generated around 67% of its full year FY21 revenues during H2FY21. Consequently, the EBITDA improved by around 14% in FY21 to Rs.29.61 crore, while the PAT margin improved from 1.52% in FY20 to 2.52% in FY21. The GCA also improved to Rs.13.57 crore.

With further easing of COVID-19 related restrictions, IFEL's total operating income increased by around 30% in 9MFY22, from Rs.160.20 crore in 9MFY21 to Rs.208.60 crore in 9MFY22. The EBITDA and PAT margins were at 12.04% and 3.30 respectively in 9MFY22.

### **Comfortable debt protection metrics**

IFEL's overall gearing ratio and long-term debt to equity ratio adjusted for the exposure in Barota Finance Ltd. (BFL; its wholly owned subsidiary) stood comfortable at 0.70x and 0.24x respectively as on March 31, 2021 as against 0.63x and 0.09x respectively as on March 31, 2020. The overall gearing has marginally deteriorated due to addition of GECL loans. IFEL has invested around Rs.22.00 crore in BFL in the form of equity share capital, optionally convertible debentures, and unsecured loans as on February 28, 2022. Apart from this, IFEL has also extended an unconditional and irrevocable corporate guarantee of Rs.120.00 crore towards the borrowings of BFL as on February 28, 2022.

With improvement in the EBITDA, the interest coverage ratio improved from 1.89x in FY20 to 2.10x in FY21. Further, the TOL/TNW adjusted for the exposure in BFL was comfortable at 0.86x as on March 31, 2021 as against 0.80x as on March 31, 2020. The total debt/ GCA, however, continued to remain high at 11.80x in FY21 due to the low GCA levels.

### **Key Rating Weaknesses**

#### **Elongated working capital cycle**

The company's operating cycle was high at 322 days in FY21 as compared to 313 days in FY20. The elongated cycle is majorly attributable to a high inventory holding period of 263 days in FY21. The company manufactures a wide range of models both in the tractor and crane segments, as also manufacturing majority of the components in-house, 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



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season in order to meet surge in demand. The situation has further aggravated due to the pandemic.

### **Stiff competition in the tractor industry**

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 like Mahindra & Mahindra Ltd., Tractors and Farm Equipment Ltd. etc. IFEL produces less than 1% of industry's sales volume. However, with its presence in the 22 HP-110 HP segment, IFEL is able to cater to a wide range of customers.

### **Tractor industry remains cyclical**

About 66% of the company's revenue comes from the tractor division. The tractor industry's cyclicity exposes it to fluctuations in the demand scenario with sensitivity to monsoons and farmer sentiments. This can have an impact on the company's earnings and cash accruals in periods of unfavorable monsoons. Though IFEL is likely to remain exposed to such vagaries in demand, the Government of India's commitment towards rural development and agri-mechanisation, 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:** Standalone

### **Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on Rating Outlook](#)

### **Liquidity: Adequate**

IFEL's liquidity position remains adequate marked by current ratio standing at 1.50 times in FY21. Its working capital limits are moderately utilized at 85.13% in the last twelve months ended January 2022. Going forward, the company's GCA is expected to remain in the range of Rs.20 crore to Rs.30 crore during FY22 to FY24 with low repayments. Further, there is no major capex envisaged by the company in the next 3 years.



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### About the Company

Incorporated in 1994, IFEL is engaged in the manufacturing of tractors, cranes, harvester combines, engines and diesel gensets at its plant located in Baddi, Himachal Pradesh. IFEL sells tractors and cranes under the brand names of Indo Farm and Indo Power respectively. As on March 31, 2021, the company had annual installed capacities of 12,000 tractors and 720 cranes. IFEL largely caters to north India with around 50% of its sales concentrated to Haryana, Uttar Pradesh and Punjab. IFEL is promoted by Mr. R. S. Khadwalia, who is the Chairman & Managing Director of the company.

IFEL has formed a non-banking financial company, BFL, to provide tractor financing to its customers. BFL received NBFC license in April 2017 and commenced operations in October 2017.

### Financials (Standalone)

(Rs. crore)

For the year ended / As On*	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	231.78	251.76
EBITDA	25.95	29.61
PAT	3.55	5.68
Total Debt	137.40	160.15
Tangible Net Worth (Adjusted)	218.42	227.74
<b>Ratios</b>		
EBITDA Margin (%)	11.20	11.76
PAT Margin (%)	1.52	2.25
Overall Gearing Ratio (x) (Adjusted)	0.63	0.70

\*As per Infomerics' standards

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil



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### Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1	Term Loan	Long Term	6.43	IVR A-/ Stable	IVR BBB+/ Stable (January 14, 2021)	IVR A-/ Stable (October 24, 2019)	-
2	Open Cash Credit	Long Term	135.00	IVR A-/ Stable	IVR BBB+/ Stable (January 14, 2021)	IVR A-/ Stable (October 24, 2019)	-
3	Letter of Credit	Short Term	8.50	IVR A2+	IVR A2 (January 14, 2021)	IVR A2+ (October 24, 2019)	-
4	Bank Guarantee	Short Term	1.50	IVR A2+	IVR A2 (January 14, 2021)	IVR A2+ (October 24, 2019)	-
5	Forward Contract Limit	Short Term	0.20	IVR A2+	IVR A2 (January 14, 2021)	IVR A2+ (October 24, 2019)	-

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### About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.



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

For more information visit [www.infomerics.com](http://www.infomerics.com)

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	September 2025	6.43	IVR A-/ Stable
Open Cash Credit	-	-	-	135.00	IVR A-/ Stable
Letter of Credit	-	-	-	8.50	IVR A2+
Bank Guarantee	-	-	-	1.50	IVR A2+
Forward Contract Limit	-	-	-	0.20	IVR A2+

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/Indo-Farm-Equipment-lenders-mar22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** 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](http://www.infomerics.com).