Indo Farm Equipment Limited (IFEL)

June 12, 2023

Ratings

Facilities	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facility – Term Loan	4.39 (Reduced from INR6.43 crore)	IVR A- / Stable (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Facility – OCC / ODBD	135.00	IVR A- / Stable (IVR A Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Non-Fund Based Facility – ILC / FLC	13.50 (Increased from INR8.50 crore)	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Short Term Non-Fund Based Facility – BG	1.50	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Short Term Non-Fund Based Facility – Forward Contract Limit	0.20	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**154.59**	**(Rupees One Hundred Fifty-Four Crore and Fifty-Nine Lakh Only)**		

Details of facilities are in Annexure 1

Detailed Rationale

The reaffirmation to the long term and short-term bank facilities of Indo Farm Equipment Limited (IFEL) factors in experienced promoters and management, long track record of operations, widespread dealer network, improvement in the operating performance and comfortable debt protection metrics. The ratings are, however, constrained by elongated working capital cycle, stiff competition in the tractor industry and cyclical nature of the industry.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

- 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.
- Increase in the outstanding guaranteed borrowings, under corporate guarantee of IFEL, in excess of INR120.00 crore.

List of Key Rating Drivers with Detailed Description

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 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 started its operations with a single model of 50 HP, and now manufactures the largest range of tractors from 22 HP to 100 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 140 plus dealer network for sales and services, spread across the country.

Improvement in the operating performance

IFEL's total operating income has increased by ~5% in FY23 (P) to Rs.346.20 crore from Rs.330.87 crore in FY22 (A). The increased operating income is mainly attributable to improved sale of crane segment which grew by ~13% in FY23 (P) to Rs.118.93 crore from Rs.72.13 crore in FY22 (A). IFEL derives around 59% of its sales from tractors and around 34% from cranes. Consequently, the EBITDA improved to 11.65% in FY23 (P) from 10.80% in FY22 (A). Similarly, PAT margin improved to 3.34% in FY23 (P) from 2.69% in FY22 (A). The GCA also improved to Rs.21.44 crore in FY23 (P) from Rs.17.79 crore in FY22 (A).

Comfortable debt protection metrics

IFEL's overall gearing ratio and long-term debt to equity ratio adjusted for the exposure in terms of investment in equity shares and unsecured loans in Barota Finance Ltd. [BFL; its wholly owned subsidiary which is rated as IVR A-(CE) vide press release dated January 25, 2023] stood comfortable at 0.70x and 0.22x respectively as on March 31, 2023 (Provisional) as against 0.74x and 0.26x respectively as on March 31, 2022 (Audited). IFEL has invested around Rs.25.00 crore in BFL in the form of equity share capital and unsecured loans as on March 31, 2023. Apart from this, IFEL has also extended an unconditional and irrevocable corporate guarantee towards the borrowings of BFL.

With improvement in the interest expenses, the interest coverage ratio slightly deteriorated to 2.48x in FY23 (P) from 2.71x in FY22 (A). Further, the TOL/TNW adjusted for the exposure in BFL was comfortable at 0.88x as on March 31, 2023 (Provisional) as against 0.99x as on March 31, 2022 (Audited). The total debt/ GCA improved to 7.87x in FY23 (P) as against 9.85x in FY22 (A) on account of increased GCA and decreased debt levels.

Key Rating Weaknesses:

Elongated working capital cycle

The company's operating cycle was at 242 days in FY23 (P) as compared to 254 days in FY22 (A). The elongated cycle is majorly attributable to a high inventory holding period of 214 days in FY23 (P). The company manufactures a wide range of models both in the tractor and crane segments. The Company is having 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 tractor 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.

Cyclical nature of the industry

About 59% of the company's revenue comes from the tractor division. The tractor industry's cyclicality 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 unfavourable 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 for rating outlook]

Liquidity – Adequate

The liquidity position of the Company is adequate marked by sufficient cash accruals as against its repayment obligations. The Company's average fund based working capital limit utilisation stood at ~91% for the 12 months ended March 2023. Further, the company has adequate gearing headroom on the back of its comfortable capital structure as the adjusted TNW of the company stood at Rs.241.98 crore as on March 31, 2023 (Provisional). The current ratio of the Company stood at 1.43x as on March 31, 2023 (Provisional). The cash and cash equivalent of the Company stood at Rs.2.47 crore as on March 31, 2023 (Provisional).

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, Barota Finance Limited (BFL), to provide tractor financing to its customers. BFL received NBFC license in April 2017 and commenced operations in October 2017.

Financials (Standalone):

(INR Crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	330.87	346.20
EBITDA	35.73	40.32
PAT	8.92	11.57
Total Debt	175.22	168.78
Adjusted Tangible Net Worth	236.21	241.98
Ratios		
EBITDA Margin (%)	10.80	11.65
PAT Margin (%)	2.69	3.34
Adjusted Overall Gearing Ratio (x)	0.74	0.70

**Classification as per Infomerics' standards*

Status of Non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
						March 14, 2022	January 14, 2021
1.	Fund Based Bank Facilities – Term Loan	Long Term	4.39	IVR A-/ Stable	--	IVR A-/ Stable	IVR BBB+/ Stable
2.	Fund Based Bank Facilities – OCC / ODBD	Long Term	135.00	IVR A-/ Stable	--	IVR A-/ Stable	IVR BBB+/ Stable
3.	Non-Fund Based Bank Facilities – ILC / FLC	Short Term	13.50	IVR A2+	--	IVR A2+	IVR A2
4.	Non-Fund Based Bank Facilities – BG	Short Term	1.50	IVR A2+	--	IVR A2+	IVR A2
5.	Non-Fund Based Bank Facilities – Forward Contract Limit	Short Term	0.20	IVR A2+	--	IVR A2+	IVR A2

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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.

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

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	4.39	IVR A- / Stable
OCC / ODBD	--	--	Revolving	135.00	IVR A- / Stable
ILC / FLC	--	--	--	13.50	IVR A2+
BG	--	--	--	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/Len-IFEL-jun23.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 https://www.infomerics.com/.