August 06, 2021

John Deere Financial India Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	200.0	630.0	[ICRA]AAA (Stable); Reaffirmed
Commercial Paper	400.0	400.0	[ICRA]A1+; Reaffirmed
Total	**600.0**	**1,030.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings continue to factor in John Deere Financial India Private Limited's (JDFIPL) strong parentage, with the company being a wholly-owned step-down subsidiary of Deere & Company (Deere; rated A2(Stable) by Moody's) through John Deere India Private Limited (JDIPL). In addition to a shared name, there is close integration with the parent Group for the implementation of business policies and risk management practices. Further, as JDFIPL is a captive financier for farm equipment manufactured and sold by JDIPL in India, ICRA expects management and financial support from the Group to be forthcoming, as and when required. Also, JDFIPL's financial profile is characterised by comfortable capitalisation for the current scale of operations (gearing of 3.7x and CRAR of 20.4% as of March 31, 2021) with an adequate liquidity profile, supported by sizeable unutilised bank lines and an inter-corporate deposit (ICD) line from JDIPL (the immediate parent). Moreover, although the pricing pressure because of competition coupled with relatively high credit costs and operating expenses constrained JDFIPL's profitability till FY2020, it reported an improvement in FY2021 driven by lower borrowing costs and an improving cost structure while credit costs remained range-bound.

ICRA takes cognizance of JDFIPL's relatively recent portfolio vintage and high portfolio vulnerability, given the target borrower profile wherein income streams are largely dependent on the agriculture sector and hence susceptible to agro-climatic cycles. Nonetheless, given the relative resilience demonstrated by the agriculture sector during the Covid-19 pandemic owing to multiple years of good monsoons and the relatively lower impact of the pandemic on rural India, the reported asset quality metrics have remained under control with a gross non-performing advances (NPA)/gross advances ratio of 5.9% as on June 30, 2021 (6.5% as on March 31, 2020 and 5.7% as on March 31, 2021). The aforesaid asset quality metrics, coupled with a gearing of 3.7x, translated into a solvency (net NPA/net worth) metric of 17.8% as of March 31, 2021 compared to 23.1% as of March 31, 2020. Going forward, JDFIPL's ability to sustain the improvement in its operational efficiency and contain the credit costs would remain crucial to support its profitability metrics.

Key rating drivers and their description

Credit strengths

Strong parentage, being a wholly-owned step-down subsidiary of Deere – JDFIPL is a wholly-owned subsidiary of JDIPL, which, in turn, is indirectly wholly owned by Deere. Given Deere's focus on the Indian market, ICRA believes JDFIPL is strategically important as the captive financier for farm equipment manufactured and sold by JDIPL. Thus, by virtue of its parentage and importance as a captive financier, JDFIPL benefits from operational, financial and management support from Deere with its key management personnel having experience across other verticals of the Group. Moreover, its policies and processes are in line with those approved by the parent. ICRA notes the demonstrated track record of support from the parent Group in the form of regular equity infusions (Rs. 142 crore in FY2021) and a Rs. 1,000-crore liquidity backup line.

Comfortable capitalisation – JDFIPL's capitalisation stands comfortable for the current scale of operations with a Tier I and total capital adequacy of 19.6% and 20.4%, respectively, and a gearing of 3.7x as on March 31, 2021. Moreover, ICRA expects capital support from the parent to be forthcoming, if needed, to keep JDFIPL prudently capitalised while growing as per business plans. In this regard, it is noted that the JDFIPL has received regular equity infusions from the parent group in recent years with Rs. 142 crore raised in FY2021 following Rs. 50 crore each in FY2019 and FY2020. Thus, ICRA expects JDFIPL to maintain a comfortable capitalisation level (with comfortable cushion over regulatory requirements) going forward as well.

Adequate liquidity profile with good financial flexibility – While JDFIPL's asset-liability maturity profile reflected cumulative negative mismatches in the near-term buckets as of March 31, 2021, ICRA draws comfort from the sizeable undrawn lines of credit (including bank lines and Rs. 1,000-crore backup line of credit from the parent) maintained by the company to plug such mismatches. Further, ICRA notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere. It has relationships with financial institutions working globally, thereby providing it with access to funds at competitive rates. JDFIPL shares the treasury bandwidth with its immediate parent, which works closely with the broader Group to manage funding requirements. This, coupled with the high likelihood of support from the parent, augurs well for the company's liquidity profile.

Improving profitability – Although the pricing pressure because of competition coupled with relatively high credit costs and operating expenses constrained JDFIPL's profitability till FY2020, it reported an improvement in FY2021 driven by lower borrowing costs and the improving cost structure while the credit cost remained range-bound. Though the cost structure improved in FY2021 amid the augmented scale and cost rationalisation measures undertaken during the pandemic, the borrowing cost has mirrored the trajectory of systemic rates. Overall, while the company's return on average assets (RoA) and return on net worth (RoE) averaged 1.4% and 4.9%, respectively, during March 2017-March 2020, the same improved to 2.4% and 12.4%, respectively, in FY2021. The operating expenses as a proportion of the average total assets improved to 3.9% in FY2021 from 5.2% in FY2020. Going forward, JDFIPL's ability to enhance its operational efficiencies on a sustained basis and contain the credit costs would be imperative to support its profitability metrics in a market characterised by high competition.

Credit challenges

Relatively recent portfolio vintage and high portfolio vulnerability – While Deere has been present in the Indian market for almost two decades, JDFIPL was incorporated later in October 2011 to undertake captive financing for the Group's sales and to support the expansion of Deere's footprint and market share in India. Hence, the company is a relatively late entrant in the competitive tractor financing space, which is dotted by multiple banks and non-banking financial companies (NBFCs). Further, as JDIPL's market share in India has expanded significantly in the last few years and JDFIPL's share within the financed sales of JDIPL has more than tripled (39% in 2020 from 12% in 2014), the company's loan book has grown at a compound annual growth rate (CAGR) of over 50% during the past four years. Given this robust portfolio growth, the company's portfolio is less seasoned in relation to the loan tenure. Further, JDFIPL primarily lends to farmers for the purchase of farm equipment manufactured and sold by JDIPL. Given the concentrated exposure towards borrowers vulnerable to adverse economic and agro-climatic cycles, JDFIPL's portfolio is exposed to relatively high vulnerability.

Nonetheless, given the relative resilience demonstrated by the agriculture sector during the pandemic owing to multiple years of good monsoons and the relatively lower impact of the pandemic on rural India, the reported asset quality metrics have remained under control with a gross NPA/gross advances ratio of 5.7% and a net NPA/net advances ratio of 3.8% as on March 31, 2021 (6.5% and 4.7%, respectively, as on March 31, 2020). ICRA notes that while a sizeable proportion of the contracts (about 1/4th) had availed moratorium during the forbearance period in H1 FY2021, these were subsequently tested for Covid-19-induced stress in Q4 FY2021 and Q1 FY2022 (as the repayment cycle is half-yearly for most of the contracts) and there has been no major visible impact on the book health. As on June 30, 2021, the gross NPA/gross advances ratio is estimated to have stood at 5.9%, which is largely in line with the historical trajectory. However, notwithstanding the relative resilience demonstrated by the agriculture sector, the company's ability to control incremental slippages would remain a critical determinant of the profitability trajectory. In this regard, it is noted that JDFIPL has restructured 0.3% of the assets under management (AUM), primarily related to the construction equipment loan book.

Liquidity position: Adequate

While JDFIPL's asset-liability maturity profile reflected a cumulative negative mismatch in the near-term buckets as of March 31, 2021, ICRA draws comfort from the sizeable undrawn lines of credit (including bank lines and Rs. 1,000-crore backup line of credit from the parent) maintained by the company to plug such mismatches. JDFIPL has scheduled debt repayments (principal + interest) of about Rs. 880 crore during March 2021- September 2021. Against this, the scheduled inflows are about Rs. 700 crore. Thus, the unutilised fund-based working capital lines of more than Rs. 1,200 crore (including the ICD line from the parent) are more than sufficient to plug the mismatches over the near term.

Further, ICRA notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere. It has relationships with financial institutions working globally, thereby providing it with access to funds at competitive rates. JDFIPL shares the treasury bandwidth with its immediate parent, which works closely with the broader Group to manage funding requirements. This, coupled with the high likelihood of support from the parent, augurs well for the company's liquidity profile.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the ratings could arise on a deterioration in the parent's credit profile or on lower-than-expected support from the parent Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Rating Approach – Implicit Support from Parent or Group
Parent/Group Support	Ultimate Parent: Deere & Company (Deere) Immediate Parent: John Deere India Private Limited (JDIPL) ICRA expects Deere to be willing to extend financial support to JDFIPL through JDIPL, if needed, given the importance JDFIPL holds for JDIPL and, hence Deere, for meeting its objectives. JDFIPL, JDIPL and Deere also share a common name, which, in ICRA's opinion, would persuade the Group to provide financial support to JDFIPL to protect its reputation from the consequences of a Group entity's distress
Consolidation/Standalone	Standalone

About the company

John Deere Financial India Private Limited (JDFIPL), incorporated in October 2011, is a systemically important non-deposit taking non-banking financial company registered with the Reserve Bank of India (RBI). It is a wholly-owned subsidiary of John Deere India Private Limited (JDIPL), which, in turn, is indirectly wholly owned by Deere & Company (Deere; through John Deere Asia (Singapore) Pte Limited). JDFIPL primarily offers retail finance for the purchase of farm equipment manufactured and sold by JDIPL and for the construction equipment manufactured and sold by Wirtgen India Private Limited. As of March 31, 2021, JDFIPL's loan portfolio outstanding was Rs. 3,444 crore with a 94% share held by the agriculture segment, a typical yield of 16.5% and a ticket size of about Rs. 5.0 lakh. The company disbursed loans aggregating Rs. 1,982 crore in FY2021 with the agriculture segment accounting for 92%.

JDFIPL reported a net profit of Rs. 74 crore in FY2021 on a total asset base of Rs. 3,571 crore compared to a net profit of Rs. 25 crore on a total asset base of Rs. 2,510 crore in FY2020. Its net worth stood at Rs. 715 crore as of March 31, 2021 with a capital adequacy ratio of 20.4%.

Key financial indicators (audited)

Amounts in Rs. crore	FY2019	FY2020	FY2021
PAT	29	25	74
Net Worth	401	478	715
Loan Book	1,704	2,389	3,444
Total Assets	1,803	2,510	3,571
Return on Average Assets	1.9%	1.2%	2.4%
Return on Average Equity	8.1%	5.8%	12.4%
Gearing (times)	3.4	4.1	3.7
CRAR (%)	22.7%	19.3%	20.4%
Gross NPA (%)	5.3%	6.5%	5.7%
Net NPA (%)	3.9%	4.7%	3.8%

Source: *JDFIPL, ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 06, 2021	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
						Mar 23, 2021	Jan 14, 2021	Feb 13, 2020	-
1	Long-term Fund-based Term Loan	Long Term	630.0	630.0^	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	-	-
2	Commercial Paper	Short Term	400.0	-*	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-

Source: *ICRA research; *Nil as of July 29, 2021 (Rs. 300 crore as of March 31, 2021); ^As of August 01, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple
Long-term Fund-based Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/ Bank Name	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA^	Commercial Paper	-	-	7-365 days	400.0	[ICRA]A1+
Axis	Term Loan	Jan 22, 2021	NA	NA	182.0	[ICRA]AAA (Stable)
Axis	Term Loan	Jun 24, 2021	NA	NA	200.0	[ICRA]AAA (Stable)
HDFC	Term Loan	Mar 23, 2021	NA	NA	78.5	[ICRA]AAA (Stable)
HDFC	Term Loan	Mar 23, 2021	NA	NA	19.6	[ICRA]AAA (Stable)
HDFC	Term Loan	Apr 15, 2021	NA	NA	46.9	[ICRA]AAA (Stable)
HDFC	Term Loan	May 14, 2021	NA	NA	103.0	[ICRA]AAA (Stable)

Source: *ICRA research; ^ Unplaced – Outstanding was Nil as on July 29, 2021*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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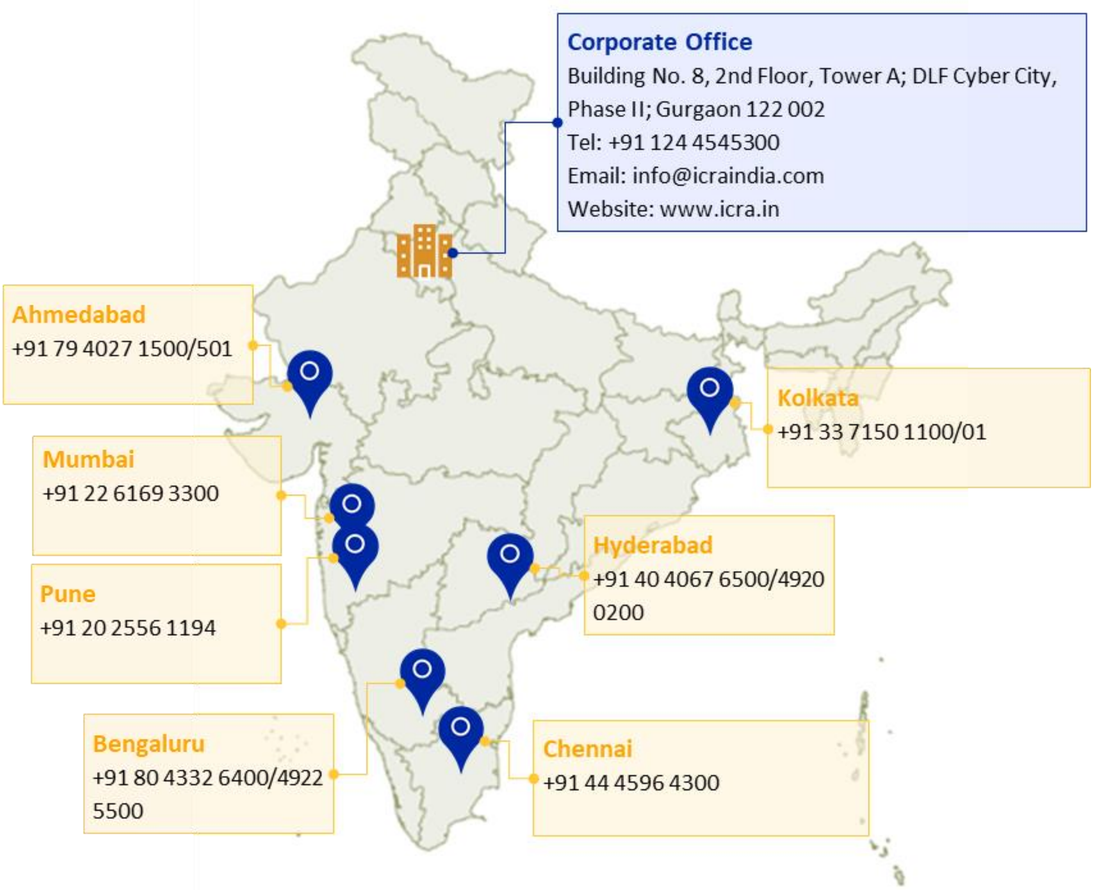

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