

March 28, 2022

Autotracs Finance Limited: Rating upgraded to [ICRA]AA+; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA+ (Stable); Upgraded from [ICRA]AA (Positive); Outlook revised to Stable from Positive
Total	-	-	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the improvement in the credit profile of Autotracs Finance Limited's (AFL) parent – International Tractors Limited (ITL; rated [ICRA]AAA (Stable)/[ICRA]A1+). AFL's rating is strongly underpinned by its parentage. It is a wholly-owned subsidiary of ITL and derives benefits in the form of access to capital, management and systems and supervision by the parent. The rating also factors in ITL's stated intention of providing support to AFL in the form of both debt and equity going forward as well. Any change in ITL's credit profile or the likelihood of a reduction in ITL's support to AFL would be a key rating sensitivity.

The rating also factors in AFL's adequate capitalisation levels for the current scale of operations and comfortable asset quality indicators with reported gross and net stage 3 assets of 0.08% and 0.00%, respectively, as on December 31, 2021, albeit on a less seasoned book. ICRA also notes the healthy profitability indicators supported by good net interest margins (NIMs) and negligible credit costs, though the sustenance of the same through economic cycles is yet to be tested.

However, the rating is constrained by AFL's modest scale of operations and limited track record of operations with a portfolio of Rs. 166 crore as on December 31, 2021 (Rs. 176 crore as on March 31, 2021). ICRA also notes the wholesale nature of AFL's loan book with inventory financing to the dealers of ITL dominating the portfolio mix, which exposes the company to lumpy slippages in the asset quality.

Going forward, the share of the retail portfolio is likely to increase with the company getting into co-lending arrangements with banks to grow the retail loan book. At the same time, this could lead to higher 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, the rating factors in 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. Going forward, AFL's ability to profitably increase the scale of operations while maintaining the asset quality indicators would be a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage; wholly owned subsidiary of ITL – By virtue of its parentage and importance as a captive financier, AFL benefits from operational, financial and management support from ITL 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 also notes the demonstrated track record of support from the parent group through regular equity infusions and the extension of short-term lines of credit as per requirement. Given the focus and long track record of ITL in the Indian market, ICRA believes

AFL is important as the captive financier for the dealers of the tractors manufactured and sold by ITL in India as well as the vendors of ITL Group and the retail buyers of ITL's tractors. Thus, ICRA expects support from the parent in the form of both debt and equity to be forthcoming as and when required.

Adequate capitalisation – AFL is adequately capitalised for the current scale of operations and had not availed any external borrowings as on December 31, 2021. ITL has regularly infused capital in AFL to support its lending operations and made an equity infusion of Rs. 20 crore in 9M FY2022 (Rs. 80 crore in FY2020). Considering the importance of AFL to the Group, ICRA expects support from ITL, in the form of both debt and equity, to continue going forward as well. ICRA also favourably notes the management's stated intention of limiting the proportion of external debt in the overall borrowings before it reaches a certain scale.

Comfortable asset quality indicators – AFL primarily lends to the dealers of the tractors manufactured by ITL Group (88% of the assets under management (AUM) as on December 31, 2021) wherein it has a bank guarantee or a partial bank guarantee along with the hypothecation of receivables as security. Meanwhile, 10% of the AUM is towards financing to the vendors of ITL, which is secured by receivables from ITL. The company started retail loan disbursement in FY2022 and the segment accounted for 2% of the AUM as on December 31, 2021 with Nil delinquencies. Thus, AFL's asset quality has remained comfortable. As on December 31, 2021, AFL's portfolio was characterised by gross non-performing advances (NPA)/gross advances of 0.08% and net NPA/net advances of 0.00% with slippages coming from the dealer finance segment. Going forward, the company's ability to maintain good asset quality while growing as per business plans would be a key monitorable.

Healthy profitability, albeit limited track record; sustenance of same yet to be tested – AFL had availed funds from ITL to meet its short-term liquidity needs. It has no external debt and thus reported NIMs of 11.2% for 9M FY2022. The profitability is also supported by negligible credit cost, albeit with a limited performance history. The company's return on average assets and return on net worth stood at 5.4% and 6.6%, respectively, in 9M FY2022 (5.7% and 6.8%, respectively, in FY2021 and 3.2% and 3.5%, respectively, in FY2020). As AFL scales up its operations and increases its focus on retail loans, its ability to manage the interest spreads in the highly competitive financing space and contain the credit costs will be crucial to support its profitability metrics.

Credit challenges

Limited track record of operations; relatively high portfolio vulnerability, given the target borrower segment – While AFL started disbursements in FY2019, the same was low in initial months and gained traction in FY2020. The AUM grew to Rs. 166 crore as on December 31, 2021 from Rs. 6.5 crore as on March 31, 2019. Also, wholesale loans in the form of loans to dealers for inventory funding dominate the company's portfolio mix so far, though the share of retail loans is expected to increase over the medium term. In terms of portfolio granularity, the top 30 exposures accounted for 29% of the AUM as on December 31, 2021. While the increased share of retail loans would improve the granularity of the loan book, it would also lead to portfolio vulnerability as the target borrower profile is exposed to adverse economic and agro-climatic cycles.

Liquidity position: Strong

AFL has not taken any external debt and relies on equity provided by the parent company and its internal accruals to fund its loan book. The company has availed some short-term loans from ITL in the past to manage its liquidity requirements. It does not have any external funding lines and thus asset-liability management is not a challenge.

Rating sensitivities

Positive factors – The rating can be upgraded if AFL is able to profitably scale up and diversify its business operations on a sustained basis. Its ability to remain strategically important for the parent while maintaining its asset quality would be a monitorable.

Negative factors – Pressure on the rating could arise on a deterioration in the credit profile of the parent or lower-than-expected support from the parent group. Besides, the asset quality trajectory and deterioration in the earnings profile on a sustained basis will remain key monitorables.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent: International Tractors Limited (ITL) ICRA expects ITL to be willing to extend financial support to AFL if needed, given the importance AFL holds for meeting ITL's objectives
Consolidation/Standalone	Standalone

About the company

Autotracs Finance Limited (AFL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) as a non-deposit taking NBFC (NBFC-ND). It is a wholly-owned subsidiary of International Tractors Limited (ITL) incorporated in July 2001. AFL got its licence from the RBI on August 2, 2018 to operate as an NBFC-ND and started its operations in 2018. AFL has been formed to deliver financing solutions to rural customers through innovative products and services. It primarily offers inventory funding to the dealers of ITL and retail finance for the purchase of the tractors manufactured and sold by ITL. As of December 31, 2021, AFL's loan portfolio outstanding was Rs. 166 crore of which 88% was towards inventory funding for the dealers of ITL, 10% towards the vendors of ITL and the remaining 2% towards retail tractor loans.

AFL reported a net profit of Rs. 10 crore in FY2021 on a total asset base of Rs. 185 crore compared to a net profit of Rs. 3 crore on a total asset base of Rs. 155 crore in the previous year. The net worth stood at Rs. 148 crore as of March 31, 2021 compared to Rs. 138 crore as of March 31, 2020. The company achieved a net profit of Rs. 8 crore in 9M FY2022 on a total asset base of Rs. 208 crore. Its net worth stood at Rs. 176 crore as of December 31, 2021. AFL has not availed any external debt.

Key financial indicators

Autotracs Finance Limited	FY2019	FY2020	FY2021	9M FY2022*
	Audited	Audited	Audited	Provisional
Total income (Rs. crore)	0	10	22	17
Profit after tax (Rs. crore)	(3)	3	10	8
Net worth (Rs. crore)	55	138	148	176
Loan book (Rs. crore)	7	84	176	166
Total assets (Rs. crore)	56	155	185	208
Return on assets (%)	-10.1%	3.2%	5.7%	5.4%
Return on net worth (%)	-10.3%	3.5%	6.8%	6.6%
Gross gearing (times)	0.0	0.0	0.1	0.0
Gross NPA (%)	0.0%	0.0%	0.0%	0.1%
Net NPA (%)	0.0%	0.0%	0.0%	0.0%
Solvency (Net NPA/ Net worth)	0.0%	0.0%	0.0%	0.0%
CRAR (%)	100.0%	100.0%	84.4%	100.0%

*Source: AFL, ICRA Research; * Provisional numbers
All figures and ratios as per ICRA's calculations*

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)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Mar 28, 2022	Mar 04, 2022			
1	Issuer Rating	Long Term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable

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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]AA+ (Stable)

Source: ICRA Research, AFL

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.

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