November 04, 2022(Revised)

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	910.0	1,255	[ICRA]AAA (Stable); assigned and reaffirmed
Commercial paper	400.0	400.0	[ICRA]A1+; reaffirmed
Total	**1,310.0**	**1,655.0**	

**Instrument details are provided in Annexure I*

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.

The ratings also consider JDFIPL's comfortable capitalisation level for the current scale of operations (gearing of 3.6x as of June 30, 2022) and the strong 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 and the relatively high credit costs and operating expenses constrained JDFIPL's profitability till FY2020, ICRA notes the improvement in the profitability indicators in the last two fiscals driven by lower borrowing costs and an improving cost structure.

ICRA takes cognisance of JDFIPL's relatively recent portfolio vintage (large proportion of portfolio growth witnessed in the last few years) and high portfolio vulnerability, given the target borrower profile wherein its income stream is 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, the reported asset quality indicators have largely remained under control with a gross non-performing advances (NPA)/gross advances ratio of 5.5% as on June 30, 2022 (6.4% as on March 31, 2022 and 5.6% as on March 31, 2021). The aforesaid asset quality metrics, coupled with a gearing of 3.6x, translated into a solvency (net NPA/net worth) of 14% as of June 30, 2022. 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.

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. 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. 242 crore between FY2019 and FY2021) and a Rs. 1,000-crore liquidity backup line. Furthermore, JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere, with relationships with financial institutions working globally, thereby providing it with access to funds at competitive rates.

Comfortable capitalisation – JDFIPL's capitalisation level is comfortable for the current scale of operations with Tier I and total capital adequacy of 19.8% and 21.1%, respectively, and a gearing of 3.6x as on June 30, 2022. Moreover, ICRA expects capital support from the parent to be forthcoming, if needed, to keep JDFIPL prudently capitalised while growing as per its business plans. In this regard, it is noted that JDFIPL has received regular equity infusions from the parent group in recent years with Rs. 142 crore infused in FY2021 following Rs. 50 crore each in FY2019 and FY2020. Thus, ICRA expects the company to maintain a comfortable capitalisation level (with comfortable cushion over regulatory requirements) going forward as well.

Adequate profitability, though likely to moderate in the near term due to rising interest rate scenario – While the relatively high operating expenses and credit costs constrained JDFIPL's profitability till FY2020, it has reported an improving profitability trajectory subsequently. With economies of scale in play, the operating expense to average total assets ratio improved to 4% in FY2022 from 6.9% in FY2017. Also, the improvement in the borrowing cost supported the lending spreads and net interest margins during the past two years, though the trend is likely to reverse with the rising systemic interest rates in FY2023. The credit cost has remained largely under control in the range of 1.8-2.0%, aside from the uptick to 2.8% in FY2022.

Overall, while the company's return on average assets (RoA) and return on net worth (RoE) averaged 1.6% and 8.2%, respectively, during March 2017-March 2020, these profitability metrics improved to 2.8% and 13.3%, respectively, in FY2022 and are estimated to have improved further to 3.4% and 17%, respectively, in Q1 FY2023. Going forward, JDFIPL's ability to enhance its operational efficiency on a sustained basis and contain the credit costs would be imperative for sustaining the profitability metrics in a rising interest rate scenario.

Credit challenges

Relatively 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. Further, as JDIPL's market share in India has expanded significantly in the last few years, JDFIPL's share in the financed sales of JDIPL has more than tripled (38% in 2022 from 12% in 2014). JDFIPL's loan book has grown at a compound annual growth rate (CAGR) of over 35% during the past four years. Given this robust portfolio growth, the company's portfolio is less seasoned in relation to the loan tenure. Further, it 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, the reported asset quality metrics remained largely under control with a gross NPA/gross advances ratio of 5.5% and a net NPA/net advances ratio of 3.0% as on June 30, 2022. Also, restructured loans comprised a small portion of the loan book (0.2%) as of June 30, 2022. JDFIPL's asset quality had witnessed some pressure in FY2022, as reflected by the gross NPA/gross advances ratio of 6.4% as of March 31, 2022 (5.6% as of March 31, 2021), despite write-offs aggregating 1.5% of the opening loan book (5-year average of 0.7%). JDFIPL's gross NPA/gross advances ratio during the last five years (FY2018 to FY2022) remained in the range of 5.3% to 6.5%. The company's ability to control incremental slippages and contain credit costs as it scales up its operations will remain a key determinant of its profitability trajectory.

Liquidity position: Strong

While JDFIPL's asset-liability maturity profile may reflect a modest cumulative negative mismatch in certain near-term buckets, ICRA notes the sizeable undrawn lines of credit (~Rs. 2,000 crore as of June 30, 2022, including bank lines and a Rs. 1,000-crore backup line of credit from the parent) maintained by the company to plug such mismatches. Further, ICRA also notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere, with 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 the 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 Impact of Parent or Group Support on an Issuer's Credit Rating
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 construction equipment manufactured and sold by Wirtgen India Private Limited. As of June 30, 2022, JDFIPL's loan portfolio outstanding was Rs. 4,025 crore with a 92% contribution by the agriculture segment, a typical yield of 16.5% and a ticket size of Rs. 6.0 lakh, while the balance portfolio constituted the construction equipment segment.

JDFIPL reported a net profit of Rs. 109 crore in FY2022 on a total asset base of Rs. 4,080[1] crore compared to a net profit of Rs. 74 crore on a total asset base of Rs. 3,571 crore in FY2021. In Q1 FY2023, the company reported a net profit of Rs. 35 crore on a total asset base of around Rs. 4,166 crore. Its net worth stood at Rs. 853 crore as of June 30, 2022 with a capital adequacy ratio of 21.1%.

[1] *Based on gross loan book*

Key financial indicators (audited)

JDFIPL	FY2021	FY2022	3M FY2023*
Total income	456	585	156
Profit after tax	74	109	35
Net worth	715	818	853
Loan book	3,444	3,891	4,025
Total assets	3,571	4,080	4,166
Return on assets	2.4%	2.8%	3.4%
Return on net worth	11.4%	13.3%	17.0%
Gross gearing (times)	3.7	3.7	3.6
Gross stage 3	5.6%	6.4%	5.5%
Net stage 3	3.7%	4.0%	3.0%
Solvency (Net stage 3/Net worth)	15.4%	18.5%	13.9%
CRAR	20.4%	20.8%	21.1%

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; *Unaudited*
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
					Nov 04, 2022	Dec 29, 2021	Aug 06, 2021	Mar 23, 2021	Jan 14, 2021	Feb 13, 2020
1	Fund based – Term loans	Long term	910.0	910.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-
2	Fund based – Term loans	Long term	345.0	295.0	[ICRA]AAA (Stable)	-	-	-	-	-
3	Commercial paper	short term	400.0	400.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – Term loans	Simple
Commercial paper	Very 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term fund-based – Term loans***	Jan 2021 – Aug 2022	-	Dec 2024 – Sep 2026	1,255.0	[ICRA]AAA (Stable)
NA	**Commercial paper^**	-	-	-	400.0	[ICRA]A1+

*Source: Company; *Multiple facilities; ^ Proposed*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum:

Rationale dated November 4, 2022, has been revised with the following changes:

In the key financial indicators, on page no. 4, the net worth as on March 31, 2021 inadvertently captured as Rs. 818 crore has been corrected to Rs. 715 crore and the gearing as of March 31, 2021 captured as 3.3 times is corrected to 3.7 times.

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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.

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