June 26, 2023

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
Bank lines long-term fund-based others	-	1,570	[ICRA]AAA (Stable); assigned and reaffirmed
Bank lines long-term fund-based term loan^	1,255	-	-
Commercial paper	400.0	400.0	[ICRA]A1+; reaffirmed
Total	**1,655.0**	**1,970.0**	

**Instrument details are provided in Annexure I; ^Bank lines loan-term fund-based term loan is clubbed with bank lines long-term fund-based others*

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(Positive) by Moody's) through John Deere India Private Limited (JDIPL). In addition to a shared name, it has 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 March 31, 2023) 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 three fiscals. This was primarily driven by lower borrowing costs. The company achieved return on assets (RoA) and return on equity (RoE) of 3.3% and 16.2%, respectively, in FY2023 compared to the 5-year average of 2.8% and 13.3%, respectively. However, ICRA notes that the impact of the rise in systemic interest rates in the recent past is yet to be fully reflected in the cost of funds. Hence, some moderation in the lending spreads over the near term cannot be ruled out.

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 is susceptible to agro-climatic cycles. Nonetheless, the asset quality had largely remained under control including during the Covid-19 pandemic. Moreover, while the reported average gross non-performing advances (GNPA)/gross advances was 5.9% between FY2018 and FY2022, it improved to 5.0% as of March 31, 2023. The net NPA stood at 2.7% as of March 31, 2023. The aforesaid asset quality metrics, coupled with the gearing of 3.6x, resulted in a solvency (net NPA/net worth) of 12% as of March 31, 2023 (compared to 5-year average of ~18%). Going forward, JDFIPL's ability to continue improving its operating efficiency trajectory while keeping the credit costs under control would remain crucial for sustaining healthy profitability.

Key rating drivers and their description

Credit strengths

Strong parentage – JDFIPL is a wholly-owned subsidiary of JDIPL, which 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 global financial institutions, 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 20.3% and 21.3%, respectively, and a gearing of 3.6x as on March 31, 2023. 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 and Rs. 50 crore each in FY2019 and FY2020. JDFIPL made its first dividend payout of Rs. 5 crore in FY2022. In FY2023, the dividend distribution increased by 5 times to Rs. 27 crore (19% of profit after tax (PAT) of FY2023). Going forward, while JDFIPL is expected to accelerate the dividend distribution, ICRA expects the company to continue maintaining a comfortable capitalisation level (with comfortable cushions over the regulatory requirements).

Healthy profitability – The pricing pressure because of competition and the relatively high credit costs and operating expenses constrained JDFIPL's profitability till FY2020. However, ICRA notes the improvement in the profitability indicators in the last three fiscals, primarily driven by lower borrowing costs. With the improvement in the headline asset quality indicators, the credit cost moderated to 1.2% of total assets in FY2023 from more than 1.9% in the last three years (FY2020 to FY2022). Despite the rising systemic interest rates in FY2023, JDFIPL registered an improvement in its borrowing cost, supporting the lending spreads and net interest margin (NIM) at the 8.5-9% level. Nevertheless, the impact of the increase in incremental borrowing costs is likely to be reflected in the overall cost of funds in the near term and the possibility of a contraction in the lending spreads and NIM cannot be ruled out.

While the company's RoA and RoE averaged 1.6% and 8.2%, respectively, during March 2017-March 2020, the same improved to 2.8% and 13.3%, respectively, in FY2022 and further to 3.3% and 16.2%, respectively, in FY2023. Going forward, JDFIPL's ability to enhance its operating efficiency on a sustained basis and contain the credit costs would be imperative for maintaining 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 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 (36% in FY2023 from 12% in 2014). JDFIPL's loan book has grown at a compound annual growth rate (CAGR) of over 30% during the past five years. Given this robust portfolio growth, the company's portfolio is less seasoned in relation to the loan tenure of 4-5 years. Further, it primarily lends to farmers for the purchase of farm equipment manufactured and sold by JDIPL. Given the concentrated exposure towards borrowers susceptible to adverse economic and agro-climatic cycles, JDFIPL's portfolio is exposed to relatively high vulnerability.

Moreover, ICRA notes the rising share of the construction equipment segment in the disbursements. The company's track record in this segment is limited as the loan book grew to Rs. 500 crore as of March 31, 2023 from Rs. 96 crore as of March 31, 2020. Thus, the portfolio has limited seasoning and the company's ability to maintain adequate asset quality through economic cycles is yet to be established.

JDFIPL's GNPA/gross advances ratio remained in the range of 5.3% to 6.5% during the last five years (FY2018 to FY2022). Nonetheless, the reported GNPA/gross advances metric improved marginally to 5.0% (net NPA/net advances ratio of 2.7%) as on March 31, 2023. ICRA notes the reduction in write-offs to 0.9%[1] in FY2023 from 1.5% as of March 31, 2022, though higher than the 5-year average of 0.7%. Also, restructured loans comprised a small portion of the loan book (0.1%) as of March 31, 2023. JDFIPL'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 collections are characterised by seasonality (majority of the exposures have a semi-annual repayment cycle) and the asset-liability maturity profile may reflect modest cumulative negative mismatches in certain near-term buckets, ICRA notes the sizeable undrawn lines of credit (~Rs. 1,750 crore as of March 31, 2023, 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 notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere, with relationships with global financial institutions, 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 Rating Approach – Implicit Parent or Group Support
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

[1]*As a percentage of opening loan book*

Deere India Private Limited (JDIPL), which 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 March 31, 2023, JDFIPL's loan portfolio outstanding was Rs. 4,447 crore. While the agriculture segment accounted for an 89% share of the portfolio with an average ticket size of Rs. 6.0 lakh, the construction equipment segment accounted for the balance.

JDFIPL reported a net profit of Rs. 143 crore in FY2023 on a total asset base of Rs. 4,573[2] crore compared to a net profit of Rs. 109 crore on a total asset base of Rs. 4,080 crore in FY2022. Its net worth stood at Rs. 950 crore as of March 31, 2023 with a capital adequacy ratio of 21.3%.

Key financial indicators (audited)

JDFIPL	FY2021	FY2022	FY2023
Total income	456	585	638
Profit after tax	74	109	143
Net worth	715	818	950
Gross loan book	3,444	3,891	4,447
Total assets	3,571	4,080	4,573
Return on assets	2.4%	2.8%	3.3%
Return on net worth	11.4%	13.3%	16.2%
Gross gearing (times)	3.7	3.7	3.6
Gross stage 3	5.6%	6.4%	5.0%
Net stage 3	3.7%	4.0%	2.7%
Solvency (Net stage 3/Net worth)	15.4%	18.5%	12.1%
CRAR	20.4%	20.8%	21.3%

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

Status of non-cooperation with previous CRA: Not applicable

Any other information:

JDFIPL also faces prepayment risk, given the possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants and parentage-linked covenants. Upon failure to meet the covenants, if the company does not get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the ratings would face pressure.

[2] *Based on gross loan book*

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Feb 26, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
					Jun 26, 2023	Nov 04, 2022	Dec 29, 2021	Aug 06, 2021	Mar 23, 2021	Jan 14, 2021
1	Bank line fund based – Others	Long term	1,570.0	1,427.7	[ICRA]AAA (Stable)	-	-	-	-	-
2	Bank line fund based – Term loan^	Long term	910.0	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Bank line fund based – Term loans^	Long term	345.0	-	-	[ICRA]AAA (Stable)	-	-	-	-
4	Commercial paper	short term	400.0	200.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^Clubbed with bank-line fund-based- Others

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank lines long-term fund based – Others	Simple
Commercial paper	Very Simple*

**Subject to change based on terms of issuance*

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	**Bank line long-term fund-based – Others***	Jan 2021, Aug 2022	-	Dec 2024, Sep 2026	1,570.0	[ICRA]AAA (Stable)
INE00V214080	**Commercial paper**	Nov 15, 2022	7.90%	May 12, 2023	200.0	[ICRA]A1+
NA	**Commercial paper^**	-	-	-	200.0	[ICRA]A1+

*Source: Company; *Multiple facilities; ^Yet to be placed*

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

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