July 26, 2023

International Tractors Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits - Overdraft	10.60	1.10	[ICRA]A1+; reaffirmed
Non-fund Based Facilities	70.00	40.00	[ICRA]A1+; reaffirmed
Fund-based Limits	63.00	50.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Fund/Non-fund Based Limits	0.00	105.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed/assigned
Unallocated Limits	0.40	0.00	-
Total BLR Facilities	**144.00**	**196.10**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for International Tractors Limited (ITL) continues to factor in its stable market position as a leading tractor manufacturer in India, its strong product profile, robust balance sheet and strong liquidity profile. The company is the third largest player in the domestic tractor industry (market share of 12.3% in FY2023) and the leading tractor exporter (~28% share in overall industry exports in FY2023). Even as the tractor industry is exposed to cyclicality and subject to high competition, the company has maintained and improved its market position over the years aided by new product launches and enhanced dealer network. The company's steady market position provides comfort that it would continue to generate healthy cash flows, going forward, thereby helping it maintain a robust credit profile.

ITL has maintained its position as the third largest tractor manufacturer in the domestic market, aided by an established dealer network, financing tie-ups, regular product launches/refreshes and targeted marketing efforts. In FY2023, aided by a healthy industry volume growth, the company's domestic volumes grew by ~15% (1,16,000 units). The company has strong in-house product development capabilities; further, an enhanced equity participation of Yanmar Co. Ltd. (Yanmar; a leading Japanese tractor manufacturer) has strengthened its product development capabilities and has aided it in enriching its product profile over the years.

ITL has a healthy market share across all regions, barring South and West India, where its market share remains relatively modest. ICRA notes that the domestic tractor industry remains inherently cyclical in nature, with demand being sensitive to the monsoons and farmer sentiments. This could impact ITL's earnings and cash accruals in periods of unfavourable macro-economic factors. Despite risk of volume fluctuations due to monsoon variations, the Government's focus on rural development and agri-mechanisation (through enhanced allocations to various farmer welfare and rural infrastructure development schemes) remains a positive for volume growth for the industry over the medium term.

Further, ITL's healthy presence in the export market provides geographical diversification benefits and mitigates the exposure to cyclicality in the domestic tractor industry to an extent. ITL continues to remain the market leader in the tractor exports segment. It has regularly refreshed its product portfolio and focused on launching application-specific products and region-specific product requirements to strengthen its presence across various markets.

ITL maintains a strong financial profile characterised by healthy profitability with operating margin ranging between 16-21% over the last five fiscals. This has resulted in healthy cash flow generation from operations over the years, which have been more than sufficient for incurring investments in plant and machinery. As a result, reliance on external borrowings has remained low (total debt of Rs. 175.0 crore as on March 31, 2023, majority of which is in the form of lease obligations) and the company has been able to accumulate significant cash and liquid investments (~Rs. 5,631 crore as of June 30, 2023). Going forward, ICRA expects the company to maintain a negative net-debt position, and strong credit metrics aided by the expectation of healthy cash accruals, even as the company continues to be open to acquisitions to enhance its business profile. Through its Dutch subsidiary, the company had acquired the German firm, Thaler, an entity specialising in wheel loader manufacturing for ~Rs. 165 crore in FY2023.

The Stable outlook on the long-term rating reflects ICRA's opinion that ITL would continue to maintain a moderate-to-healthy revenue and earnings growth over the medium term, benefitting from its established market position in the domestic as well as exports segment, collaboration with Yanmar Corporation and the Government's plans to increase agricultural income and promote infrastructure investment. The same is likely to help the company maintain a robust credit profile.

Key rating drivers and their description

Credit strengths

Third-largest tractor manufacturer in India with strong brand franchise, extensive dealer network and established track record in agri-machinery business – ITL is a leading tractor manufacturer in the country, with a domestic market share of 12.3% in FY2023. The company has cemented its position as the third-largest tractor manufacturer in the country over the past few years, benefitting from healthy acceptability of its models, wide coverage across all HP segments (i.e., 20-120 HP), expanding dealership presence across markets, increased financing tie-ups and targeted marketing efforts. The company's tractors are sold under three different brands—'Sonalika', 'Solis' and 'Yanmar'. While the Yanmar brand is primarily meant for exports, Sonalika has been positioned as a mass market product and Solis as a premium product in the domestic market (Solis branded tractors continue to be exported as well).

Leading exporter of tractors from India with healthy presence across markets – In addition to its established presence in the domestic market, ITL is the leader in tractor exports from India with a market share of ~28% in FY2023. Weak macro-economic conditions led to a marginal decline in the industry's exports in FY2023; nevertheless, ITL maintained its overall exports at similar levels to FY2022 (~35,000 units). Its enhanced presence in export markets provides geographical diversification benefits and helps reduce the company's dependence on the domestic market, which remains inherently cyclical in nature.

In-house product development supports regular product launches; enhanced equity participation of Yanmar aids product development capabilities – Over the years, ITL has continuously refreshed its product portfolio and launched application-specific products, on the back of its in-house product development capabilities. ITL also enjoys technological support from its strategic partner, Yanmar, a leading Japanese manufacturer of tractors and engines. The OEMs have tied up to jointly develop a new range of tractors, which were initially launched in the Indian market under the 'Solis Yanmar' brand. The company introduced two new tractors under the 'Solis Yanmar' brand in February 2022, which are powered by the Supernova engine of Yanmar. The companies continue to have aggressive plans to jointly develop more products, catering to both the domestic and the export markets (which would also see ITL acting as an export hub for Yanmar's requirements).

Strong financial risk profile characterised by superior profitability indicators, negligible debt and sizeable liquid investments – ITL has a strong financial profile characterised by healthy profitability with operating margin ranging between 16-21% over the last five fiscals. ITL's profitability is superior to that of its peers on account of high degree of backward integration, competitive component sourcing, single plant location, lower labour costs and higher proportion of exports, which entail higher margins. This has resulted in healthy cash flow generations from operations over the years, which have been more than sufficient for incurring investments in plant and machinery. As a result, reliance on external borrowings has remained low (total debt of Rs. 175.0 crore as on March 31, 2023, majority of which is in the form of lease obligations) and the company has been able to accumulate cash and liquid investments (~Rs. 5,631 crore as of June 30, 2023).

Credit challenges

Tractor industry remains cyclical given strong linkages with agricultural production and monsoons – The tractor industry's cyclicality exposes it to fluctuations in the demand scenario with sensitivity to monsoons and farmer sentiments. This could impact ITL's earnings and cash accruals in periods of unfavourable monsoons. Though ITL is likely to remain exposed to such vagaries in demand, the Government's commitment to rural development and agri-mechanisation, while focussing on improving the country's infrastructure with enhanced budgetary allocations, is likely to aid in volume growth over the medium to long-term. ITL's higher contribution from exports also mitigates the risk of volatility in demand in the domestic tractor market to an extent.

Market share in southern and western India remains relatively modest, hindering overall domestic market position – ITL has a healthy market share across all regions, barring southern and western India, where it had a relatively modest market share of ~10.5% in FY2023. Over the past few years, the company's focus on improving its presence and enhancing its dealership network in the southern region has resulted in some improvement in market share; the company's ability to gain further market share in these regions remains critical in helping it achieve its overall market position in the country.

Liquidity position: Superior

ITL has a superior liquidity profile, characterised by cash and liquid investments of ~Rs. 5,631 crore as on June 30, 2023. Additionally, the company is expected to generate healthy cash accruals of Rs. 1,200-1,400 crore per annum, going forward, which is likely to further strengthen its liquidity profile. The company has capex plans towards enhancing its capacity (~Rs. 800 crore over FY2024-FY2025) and investment requirements (primarily linked to funding support for financing arm), even as it does not have any repayment obligations. The company is expected to continue to give a healthy dividend outflow and yet be left with abundant liquid funds.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Any sizeable fund outflow towards new initiatives/acquisitions, which could result in a significant reduction of surplus liquidity and weakening in credit metrics, may lead to a negative rating action. Further, a material loss of market share on a sustained basis could also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractor Manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of International Tractors Limited, excluding its financial services business – Autotrac Finance Limited. However, the analysis does consider the ordinary and extraordinary funding support likely to be extended to Autotrac Finance Limited. The list of entities consolidated is mentioned in Annexure-II.

About the company

International Tractors Limited, a part of the Sonalika Group, is a leading tractor manufacturer in India. The Sonalika Group, established in 1969, began by manufacturing farm implements. Subsequently, ITL was incorporated in 1995 to manufacture tractors. The company currently has a manufacturing facility at Hoshiarpur (Punjab), with a manufacturing capacity of 3,00,000 tractors/annum (on a three-shift basis). Its tractors range from 20-120 horsepower (HP) models that are sold under three brands–'Sonalika', 'Solis' and 'Yanmar'. In FY2023, ITL generated ~77% of its unit sales from the domestic market, while exports accounted for the balance. In India, ITL is the third largest tractor OEM with a market share of 12.3% and 12.0% in FY2023 and FY2022, respectively. While the company is present across India, it generates ~35% of its domestic unit sales from the northern region. With a market share of ~28% in FY2023, ITL is also positioned as the largest exporter of Indian tractors to over 130 countries.

The company is promoted by the Delhi-based Mittal family who control 69.6% share in the company. Over the years, the company has entered into technology collaboration with the Japanese, Yanmar Corporation, which also owns 30.36% stake in ITL. The company's board comprises a healthy mix of representatives from the Mittal family, Yanmar Corporation and independent directors.

Key financial indicators

ITL	Standalone		Consolidated	
	FY2022	FY2023*	FY2021	FY2022
Operating income	7,889.6	8,944.4	7,176.2	7,908.5
PAT	1,134.6	1,298.2	1,388.0	1,143.6
OPBDIT/OI	16.9%	17.6%	23.0%	17.0%
PAT/OI	14.4%	14.5%	19.3%	14.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2	0.3	0.2
Total debt/OPBDIT (times)	0.1	0.1	0.1	0.1
Interest coverage (times)	66.7	131.0	73.6	67.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Source: Company, ICRA Research; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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 Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021*
					Jul 26, 2023	May 31, 2022	Mar 28, 2022	Jan 22, 2021
1	**Fund-based Limits - Overdraft**	Short-term	1.10	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
2	**Non-fund Based Facilities**	Short-term	40.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	**Fund-based Limits**	Long-term/ Short-term	50.00	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Positive)/ [ICRA]A1+**
4	**Fund/Non-fund Based Facilities**	Long-term/ Short-term	105.00	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	-	-	-
5	**Unallocated**	Long-term/	-	-	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Positive)/ [ICRA]A1+**

		Short-term						
6	**Non-fund Based Facilities**	Long-term/ Short-term	-	-	-	-	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Positive)/ [ICRA]A1+**

** Reason for delay in periodic surveillance released on November 26, 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based Limits - Overdraft	Simple
Non Fund-Based Facilities	Very Simple
Fund Based Limits	Simple
Fund/Non Fund-based Facilities	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	Fund-based Limits - Overdraft	NA	NA	NA	1.10	[ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	40.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	50.00	[ICRA]AAA(Stable)/[ICRA]A1+
NA	Fund/Non Fund-based Facilities	NA	NA	NA	105.00	[ICRA]AAA(Stable)/[ICRA]A1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	ITL Ownership	Consolidation Approach
International Tractors Limited	100.00% (rated entity)	Full Consolidation
Autotrac Finance Limited	99.97%	Full Consolidation
Solis Tractors & Agricultural Machinery B.V.	100.00%	Full Consolidation
International Tractors USA Corporation	100.00%	Full Consolidation
Solis Tractors Private Limited	99.99%	Full Consolidation
Sonalika FAMAG SPA	29.99%	Equity Method

Source: ITL Annual Report

Note: ICRA has considered the consolidated financials of ITL and its subsidiaries while assigning the ratings.

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