December 29, 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	1,684.0	1,744.0	[ICRA]AAA (Stable); assigned and reaffirmed
Commercial paper	400.0	400.0	[ICRA]A1+; reaffirmed
Total	**2,084.0**	**2,144.0**	

**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 (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 3.4x as of September 30, 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, supported by lower borrowing costs. The company achieved an average return on assets (RoA) and return on equity (RoE) of 2.9% and 14.3%, respectively, during FY2021-FY2023 compared to the 4-year average of 1.4% and 4.9%, respectively, during FY2017-FY2020. Despite the increase in the borrowing cost in the recent quarters amid the rise in the systemic interest rate, JDFIPL maintained the profitability trajectory with an annualised RoA of 3.0% and RoE of 14.2% in H1 FY2024.

ICRA takes cognisance of the high portfolio vulnerability, given the target borrower profile, with the income stream largely dependent on the agriculture sector and susceptible to agro-climatic cycles. Nonetheless, the asset quality remained under control including during the Covid-19 pandemic. Moreover, while the reported average gross non-performing advances (GNPAs)/gross advances was 5.9% during FY2018-FY2022, it improved to 5.0% as of March 31, 2023 and further to 4.6% as of September 30, 2023. The net NPA stood at 2.6% as of September 30, 2023. The aforesaid asset quality metrics, coupled with the gearing of 3.4x, resulted in a solvency (net NPA/net worth) of 11% as of September 30, 2023 (compared to 5-year average of ~18%). Going forward, JDFIPL's ability to continue improving its operating efficiency while keeping the credit costs under control would remain crucial for sustaining healthy profitability, especially amid rising borrowing costs.

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 20.9% and 22.1%, respectively, and a gearing of 3.4x as on September 30, 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. 11 crore in FY2022 and the dividend payout stood at 11% of the profit after tax (PAT) for FY2023 at Rs. 16 crore. Going forward, while JDFIPL is expected to make regular dividend distributions, ICRA expects it to continue maintaining a comfortable capitalisation level (with comfortable cushions over the regulatory requirements).

Healthy profitability – Competition-related pricing pressure and the relatively high credit costs and operating expenses constrained JDFIPL's profitability till FY2020. The profitability indicators improved in the last three fiscals, supported by lower borrowing costs. ICRA notes that most of the bank borrowings of JDFIPL are eligible for priority sector lending classification. Further, 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 preceding three years (FY2020 to FY2022). Correspondingly, the company achieved an average RoA and RoE of 2.9% and 14.3%, respectively, during FY2021-FY2023 compared to the 4-year average of 1.4% and 4.9%, respectively, during FY2017-FY2020. Despite the increase in the borrowing cost in recent quarters amid the rise in the systemic interest rate, JDFIPL has maintained the profitability with annualised RoA of 3.0% and RoE of 14.2% in H1 FY2024, supported by the relatively lower credit cost (1.3% in H1 FY2024). Going forward, JDFIPL's ability to continue improving its operating efficiency while keeping the credit costs under control would remain crucial for sustaining healthy profitability, especially amid rising borrowing costs.

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 sales expanded significantly in the last decade, JDFIPL's share in the financed sales of JDIPL has more than tripled during this period (39% in H1 FY2024 from 12% in 2014). JDFIPL's loan book has increased at a compound annual growth rate (CAGR) of over 30% during the past five years. Given this portfolio growth, the company's portfolio seasoning is relatively limited 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 JDFIPL'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 5.3-6.5% during the preceding five years (FY2018 to FY2022) before declining to 5.0% (net NPA/net advances ratio of 2.7%) as on March 31, 2023. The headline GNPA declined to 4.6% as of September 30, 2023. In H1 FY2024, 1.6%[1] (annualised) of the opening loan book was written off compared to write-off of 0.9% in FY2023 and 1.5% in FY2022. Restructured loans were negligible as of September 30, 2023. Going forward, 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. 1,095 crore as of September 30, 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 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 September 30, 2023, JDFIPL's loan portfolio outstanding was Rs. 4,553 crore. While the agriculture segment accounted for an 88% share of the portfolio with an average ticket size of Rs. 6.0 lakh, the construction equipment segment accounted for the balance.

[1]*As percentage of opening balance*

JDFIPL reported a net profit of Rs. 143 crore in FY2023 on a total income of Rs. 638 crore compared to a net profit of Rs. 109 crore and total income of Rs. 585 crore in FY2022. The company reported a net profit of Rs. 69 crore in H1 FY2024 on total income of Rs. 342 crore. Its net worth stood at Rs. 1,003 crore as of September 30, 2023 with a capital adequacy ratio of 22.1%.

Key financial indicators (audited)

JDFIPL	FY2021	FY2022	FY2023	H1 FY2024^
Total income	456	585	638	342
Profit after tax	74	109	143	69
Net worth	715	818	950	1,003
Gross loan book	3,444	3,891	4,447	4,553
Total assets	3,571	4,080	4,573	4,670
Return on assets	2.4%	2.8%	3.3%	3.0%
Return on net worth	11.4%	13.3%	16.2%	14.2%
Gross gearing (times)	3.7	3.7	3.6	3.4
Gross stage 3	5.6%	6.4%	5.0%	4.6%
Net stage 3	3.7%	4.0%	2.7%	2.6%
Solvency (Net stage 3/Net worth)	15.4%	18.5%	12.1%	11.4%
CRAR	20.4%	20.8%	21.3%	22.1%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; ^Limited review
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.

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="6">Current rating (FY2024)</th><th colspan="5">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as of Dec 26, 2023 (Rs. crore)</th><th colspan="3">Date & rating in FY2024</th><th>Date & rating in FY2023</th><th colspan="2">Date & rating in FY2022</th><th colspan="2">Date & rating in FY2021</th></tr>
<tr><th>Dec 29, 2023</th><th>Jul 6, 2023</th><th>Jun 26, 2023</th><th>Nov 04, 2022</th><th>Dec 29, 2021</th><th>Aug 06, 2021</th><th>Mar 23, 2021</th><th>Jan 14, 2021</th></tr>
<tr><td>1</td><td>Bank line fund based – Others</td><td>Long term</td><td>1,744.0</td><td>1,723.4</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>[ICRA] AAA (Stable)</td><td>-</td></tr>
<tr><td>2</td><td>Commercial paper</td><td>Short term</td><td>400.0</td><td>0.0</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td><td>[ICRA] A1+</td></tr>
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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, Oct 2023	4.6%-8.0%	Dec 2024, Oct 2027	1,744.0	[ICRA]AAA (Stable)
NA	**Commercial paper^**	-	-	-	400.0	[ICRA]A1+

*Source: Company; *Multiple facilities; ^Yet to be placed; As on December 26, 2023*

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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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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