August 12, 2024

Preet Agro Industries Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based Facilities/Cash Credit	35.00	35.00	[ICRA]A-(Stable); reaffirmed
Short term - Non-fund Based Facilities	10.00	10.00	[ICRA]A2+; reaffirmed
Total	**45.00**	**45.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of Preet Tractors Private Limited (PTPL) and Preet Agro Industries Private Limited (PAPL). Both operate in a similar business sector, with operational linkages, selling products under the single brand, Preet, while sharing a common management. Both the companies have also extended cross guarantees to each other. The companies are together referred to as the Preet Group/Group in this report.

The ratings factor in the extensive experience of the promoters in the tractor and harvester industry and the established track record of the Preet Group in the tractor and self-propelled combine harvester (SPCH/harvester) industries. The ratings also continue to factor improvement in the Group's scale, backed by increasing realisations and higher exports offtake despite declining domestic tractor volumes. Going forward, the Group is expected to benefit from buoyant demand from export markets coupled with its plans of expanding its network to states where it earlier had limited presence. The ratings are further supported by stable volume offtake in the harvester segment on the back of new products offerings. However, continued pressure on its domestic tractor volume will remain a key rating monitorable.

The ratings remain constrained by the fall in the Group's tractor segment market share, particularly in some of the key northern states, and is expected to remain under pressure in the near term. While the Group's credit metrics witnessed a moderate improvement in FY2024 over the previous fiscal, largely on the back of improved scale and lower debt levels, the coverage indicators remain moderately stretched. The ratings continue to factor in the demand cyclicality of the industry and linkages to vagaries of the monsoons and agricultural output. Moreover, the Group receives a large share of its domestic business from a few regions, exposing it to the geographical concentration risk, particularly in the domestic market. Nonetheless, spike in export volumes in the recent past has mitigated the said risk to some extent.

The Stable outlook reflects ICRA's opinion that the Group will continue to benefit from its stable market position in the harvester space. Besides, improvement in export volumes will also benefit the company's revenue and profitability, going forward.

Key rating drivers and their description

Credit strengths

Experienced promoters and established presence of the Group – The promoters have more than three decades of experience in the harvester and the tractor manufacturing industry. This has helped the Group build a strong position in the agricultural implants and tractor industries in the domestic and export markets. While the market share of PTPL in the domestic tractor segment is nominal, PAPL continues to be one of the prominent market players in the domestic harvester industry. The Preet Group derives operational strengths from its integrated tractor and harvester manufacturing capabilities. The Group has in-house research and development (R&D) capabilities and its own engine manufacturing facility for tractor manufacturing, which facilitates it to adopt technological changes and the latest demand trends, albeit with a lag.

Encouraging demand of tractors from exports market, and harvesters from domestic market – While the domestic tractor volumes witnessed significant contraction in FY2023 and FY2024 owing to narrowing down of price differential in key markets and migration of customers to lower-than-50-HP tractors (both stemming from revision in higher-than-50-HP tractor emission norms, which came into effect in January 2023), the Group's exports prospects provided some comfort. The export volumes have been consistently increasing since the past three years. In FY2024, the export volumes grew significantly to 1,363 units from 749 units in FY2023, resulting in a ~82% growth. The company has also introduced some new products and expanded its footprints in other geographies as well, which would augur well for its exports division, going forward.

In the long term, the demand for harvesters is expected to remain healthy due to shortage of farm labour and rising rural income, which aids affordability of farm equipment. The harvester volume picked up in FY2023 and remained flat in FY2024. However, in the current fiscal, the offtake has been healthy in the first few months and the company expects further improvement in harvester volumes on the back of new offerings and plans to increase exports and expand footprints in new geographies.

Comfortable capital structure and limited long-term repayments – The Group's debt levels declined to Rs. 116 crore as on March 31, 2024 from ~Rs. 128 crore as of March 31, 2023. With stable debt levels and a slight increase in the net worth, the capital structure of the Group improved, and the gearing stood at 0.82 times as on March 31, 2024 against 1.01 times as of March 31, 2023. In addition, there are limited long-term repayments and no major term debt raising plans, going forward, except the ongoing capex in PAPL, where the company plans to avail Rs. 9 crore of term debt against the total sanctioned amount of Rs. 15 crore.

Credit challenges

Decline in domestic tractor volumes in FY2023 and FY2024; trend likely to continue in the near term – The Group witnessed a YoY volume decline of ~36% and ~31% in its domestic tractor volumes in FY2023 and FY2024, respectively, due to the revision in emission norms in higher-than-50-HP segment. Under the new emission norms, higher-than-50-HP tractors have become costlier, resulting in lower demand. Therefore, the price differential of the Group's tractors in the domestic market narrowed down in comparison to other OEMs, which resulted in a fall in the Group's domestic tractor market share. In FY2021 and FY2022, PTPL witnessed a healthy growth, supported by a competitive pricing structure, thereby gaining market shares in key geographies. However, in FY2023 and FY2024, the company had to increase its prices, which impacted its sales volumes. The volumes are likely to remain under pressure in the current fiscal as well and the overall recovery is expected to be gradual. In response to above, the company is planning to fill the vacant gaps and enhance its marketing efforts in states with limited presence.

Overall, the top line is expected to be supported by export volumes and harvesters, which have reported better performance in the current fiscal. Further, the revenues are expected to be supported by increasing realisations in both the tractors and harvester segments.

Limited market share in the intensely competitive tractor industry and higher concentration towards >50-HP tractor segment – The Preet Group is one of the modest players in the tractor manufacturing sector in the domestic market. It faces intense competition from larger established players such as Mahindra & Mahindra Limited (Mahindra and Swaraj), Tractor and Farm Equipment Ltd. (TAFE), International Tractors Limited (Sonalika), and Escorts Limited (Escorts). Its margins also remain susceptible to rise in input costs, given the limited ability to pass on the same to the end users amid competition. However, the Group remains a strong player in the harvester industry by virtue of its sizeable market share and long presence.

Also, the company's tractor sales are ~50% concentrated towards > 50 HP tractors, where the industry average concentration is low. Therefore, the adverse impact on demand of > 50 HP tractors, post the revision in emission norms, was higher for the Preet Group as compared to its peers.

Tractor industry remains cyclical due to strong linkages with agricultural production and monsoons – The tractor industry's cyclicality exposes the company to fluctuations in demand with sensitivity to monsoons and farmer sentiments. This could impact the Group's earnings and cash accruals during periods of unfavourable monsoons. Though the Group is likely to remain exposed to vagaries in demand, the Government of India's commitment towards 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. The recent incessant rains and subsequent floods in many parts of the country have increased concerns related to volatility in sales volumes in the farm equipment space.

Liquidity position: Adequate

The liquidity position of the Group is adequate, backed by average unutilised buffer of ~Rs. 26 crore in its working capital limits for the period between April 2023 and June 2024. The liquidity is further supported by limited repayments and funding available in the form of unsecured loans from promoters. As on March 31, 2024, the Group had free cash of ~Rs. 23 crore. On a consolidated basis, the Group has repayments of Rs. 8.16 crore in FY2025 and Rs. 5.20 crore in FY2026, which are expected to be serviced comfortably through internal accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if the Group demonstrates a sustained improvement in earnings, led by market share gains, improving the credit metrics, while maintaining a comfortable liquidity profile. Its TD/OPBIDTA of lower than 2.0 times, on a sustained basis, may also lead to ratings upgrade.

Negative factors – ICRA could downgrade the ratings if a decline in the Group's earnings continues, resulting in a moderation in credit metrics and liquidity. An interest cover of less than 4.0 times, on a sustained basis, would also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology on Tractors
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the business and financial risk profiles of Preet Tractors Private Limited (PTPL) and Preet Agro Industries Private Limited (PAPL).

About the company

PAPL is one of the biggest players in Self-Propelled Combine Harvester (SPCH) and other agriculture implements such as baler & rotavator in the domestic market. PAPL is also involved in the manufacturing of various agriculture equipment; however, the company has been deriving maximum revenue from SPCH segment only in the recent years. Combine harvester can execute all three activities (reaping, threshing, and winnowing) at one go. This reduces time and cost of food grain harvesting, especially amid increasing scarcity of agriculture labour. The harvester industry has evolved a lot over the years. In the past, only tractor driven combine harvester was manufactured by the companies. Even before that, there were agricultural equipment's such as threshers etc. In the harvester segment, the Group has an annual production capacity of 2,000 units.

Key financial indicators (audited)

Consolidated	FY2022	FY2023	FY2024*
Operating income	424.29	398.74	466.49
PAT	21.28	13.95	15.85
OPBDIT/OI	10.38%	9.84%	9.36%
PAT/OI	5.02%	3.50%	3.40%
Total outside liabilities/Tangible net worth (times)	2.32	2.05	1.78
Total debt/OPBDIT (times)	2.68	3.26	2.66
Interest coverage (times)	5.00	3.51	3.98

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

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2024		FY2023		FY2022			
Instrument	Type	Amount Rated (Rs Crore)	Aug 12, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long Term	35.00	[ICRA]A- (Stable)	31-Jul-23	[ICRA]A- (Stable)	04-Apr-22	[ICRA]A (Stable)	27-Sep-21	[ICRA]A (Stable)	21-May-21	[ICRA]A (Stable)
LC/BG*	Short Term	10.00	[ICRA]A2+	31-Jul-23	[ICRA]A2+	04-Apr-22	[ICRA]A1	27-Sep-21	[ICRA]A1	21-May-21	[ICRA]A1

**Letter of Credit & Bank Guarantee*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit/ Bank Guarantee	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	**Cash Credit**	NA	NA	NA	35.00	[ICRA]A- (Stable)
NA	**Letter of Credit/ Bank Guarantee**	NA	NA	NA	10.00	[ICRA]A2+

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	Ownership	Consolidation Approach
Preet Tractors PrivateLimited	NA	Full Consolidation
Preet Agro Industries Private Limited	NA	Full Consolidation

Source: Company

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About ICRA Limited:

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