

September 05, 2024

John Deere Financial India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Bank lines long-term fund based – Others	1,860.0	1,860.0	[ICRA]AAA (Stable); reaffirmed
Commercial paper	400.0	400.0	[ICRA]A1+; reaffirmed
Total	2,260.0	2,260.0	

*Instrument details are provided in Annexure I

Rationale

The ratings continue to factor in John Deere Financial India Private Limited's (JDFIPL) strong parentage; the company is a wholly-owned step-down subsidiary of Deere & Company (Deere; rated A1 (Stable) by Moody's)¹ 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, ICRA expects management and financial support from the Group to be forthcoming, as and when required. JDFIPL is a captive financier for farm equipment manufactured and sold by JDIPL in India. It is also the captive financier for construction equipment (primarily road construction and core mining equipment) manufactured by Wirtgen India Private Limited².

The ratings also consider JDFIPL's comfortable capitalisation for the current scale of operations (gearing of 3.4x as of June 30, 2024) and the strong liquidity profile, supported by sizeable unutilised bank lines and an inter-corporate deposit (ICD) line from JDIPL. The company's loan book has increased at a healthy 5-year compound annual growth rate (CAGR) of 23% during FY2020-FY2024. As of June 30, 2024, the loan book stood at Rs. 4,897 crore, comprising tractor financing loans (87%) and construction equipment loans (13%). ICRA also notes the improvement in JDFIPL's profitability during FY2021-FY2024, supported by lower borrowing costs and the decline in credit costs. The profitability improved further in Q1 FY2025 due to the incremental decline in credit costs. The annualised return on assets (RoA) and return on equity (RoE) stood at 3.3% and 14.9%, respectively, in Q1 FY2025 compared to 2.8% and 13.9%, respectively, during FY2021-FY2024 (1.4% and 4.9%, respectively, during FY2017-FY2020).

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 has remained under control with improvement in recent quarters. The reported average gross non-performing advances (GNPAs)/gross advances was 5.9% during FY2018-FY2022, improving to 5.0% as of March 31, 2023 and 4.8% as of March 31, 2024 and further to 4.0% as of June 30, 2024. The net NPA stood at 2.1% as of June 30, 2024. The asset quality metrics, coupled with the gearing of 3.4x, led to a solvency ratio (net NPA/net worth) of 9% as of June 30, 2024 (compared to 5-year average of ~18%). ICRA notes the volatility in the asset quality indicators in the agri-related lending business with the headline asset quality tending to improve around the harvest season. Thus, some moderation in the asset quality and a corresponding increase in credit costs in the fiscal year compared to only Q1 FY2025 cannot be ruled out. Going forward, the company's ability to keep credit costs under control while improving its operating efficiency would remain crucial for sustaining healthy profitability, especially amid rising borrowing costs.

¹ Moody's upgraded the long-term rating of Deere to A1 (Stable) from A2 (Positive) in February 2024

² Deere acquired Wirtgen Group in December 2017

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 (largest for the Group in terms of volumes), 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 during FY2019-FY2021) and a Rs. 1,000-crore liquidity backup line. Further, JDFIPL has good financial flexibility as it is a subsidiary of Deere. It has relationships with global financial institutions, 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 ratios of 21.3% and 22.5%, respectively, and a gearing of 3.4x as on June 30, 2024. Moreover, ICRA expects capital support from the parent to be forthcoming, if needed, to keep the company 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, including Rs. 142 crore in FY2021 and Rs. 50 crore each in FY2019 and FY2020. Although JDFIPL did not distribute dividend until FY2021, it declared a dividend in the range of 10-21% of the net profit during FY2022-FY2024. Going forward, while JDFIPL would continue to make regular dividend distributions, ICRA expects it to maintain a comfortable capitalisation profile (with comfortable cushion over the regulatory requirements).

Healthy profitability – JDFIPL reported an improvement in its profitability trajectory in recent years. It reported RoA of 2.8% and a RoE of 13.0% in FY2024, largely in line with the average RoA and RoE of 2.9% and 14.3%, respectively, during FY2021-FY2023 (1.4% and 4.9%, respectively, during FY2017-FY2020). The profitability improved further in Q1 FY2025, with RoA of 3.3% and RoE of 14.9%. The profitability had started improving from FY2021 due to declining borrowing costs amid finely priced borrowings raised during the Covid-19 pandemic. However, ICRA notes that the company's borrowing cost increased to 6.9% in FY2024 from the 3-year average of 6.6% in FY2021 and FY2023 as low-cost borrowings were being replaced. Nevertheless, the increase in the borrowing cost was offset by the decline in credit costs during this period. Benign credit costs supported the profitability further in Q1 FY2025.

Nevertheless, ICRA notes the volatility in the asset quality indicators in the agro-related lending business with the headline asset quality tending to improve around the harvest season. Thus, some moderation in the asset quality and a corresponding increase in credit costs for the full fiscal compared to only Q1 FY2025 cannot be ruled out. Going forward, JDFIPL's ability to keep the credit costs under control while improving its operating efficiency would remain crucial for sustaining healthy profitability, especially amid rising borrowing costs.

Credit challenges

Relatively high portfolio vulnerability – JDFIPL primarily lends to farmers for the purchase of farm equipment manufactured and sold by JDIPL. Given the concentrated exposure to borrowers susceptible to adverse economic and agro-climatic cycles, JDFIPL's portfolio is exposed to relatively high vulnerability. Additionally, ICRA notes the rising share of the construction equipment segment in the company's disbursements. JDFIPL's track record in this segment is limited as it grew to Rs. 623 crore as of June 30, 2024 (13% of the loan book) from Rs. 96 crore as of March 31, 2020 (4%). Thus, the portfolio in this product segment 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 5.3-6.5% during FY2018-FY2022 before easing to 5.0% (net NPA/net advances: 2.7%) as on March 31, 2023 and 4.8% (net NPA/net advances: 2.8%) as of March 31, 2024. It improved further to 4.0% as of June 30, 2024. ICRA notes the volatility in the asset quality indicators in the agro-related lending business with the headline asset quality tending to improve around the harvest season. Write-offs (as a percentage of the opening loan book) remained range-bound at 1.3% in the last two fiscals and Q1 FY2025³ while restructured loans were negligible as of June 30, 2024. 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 (exposures in the tractor finance segment 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. 1,705 crore of unutilised bank lines as of June 30, 2024, excluding unutilised backup line of credit of Rs. 605 crore from the parent) maintained by the company to plug such mismatches. Further, JDFIPL has good financial flexibility as it is a subsidiary of Deere; it has relationships with global financial institutions, providing it with access to funds at competitive rates. JDFIPL shares 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
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 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 June 30, 2024, JDFIPL's gross loan portfolio outstanding was Rs. 4,897 crore. While the agriculture segment accounted for 87% of the portfolio with an average ticket size of Rs. 6.5 lakh, the construction equipment segment accounted for the balance.

³Annualised for Q1 FY2025

JDFIPL reported a net profit of Rs. 40 crore in Q1 FY2025 on total income of Rs. 182 crore. The net profit was Rs. 131 crore in FY2024 on total income of Rs. 694 crore. Its net worth stood at Rs. 1,104 crore, as of June 30, 2024, with a capital adequacy ratio of 22.5%.

Key financial indicators (audited)

JDFIPL	FY2023	FY2024	Q1 FY2025 [^]
Total income	637.6	694.0	182.1
Profit after tax	143.3	130.6	40.4
Total assets*	4,573.4	4,852.3	5,073.2
Return on assets*	3.3%	2.8%	3.3%
Gross gearing (times)	3.6	3.3	3.4
Gross stage 3	5.0%	4.8%	4.0%
CRAR	21.3%	22.4%	22.5%

Source: Company, ICRA Research; All ratios as per ICRA's calculations; [^]Limited review; Amount in Rs. crore

*Based on gross loan book (JDFIPL does not have off-balance sheet, managed loan book)

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 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

		Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 05, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-others-fund based	Long Term	1860.00	[ICRA]AAA (Stable)	-	-	26-JUN-2023	[ICRA]AA A (Stable)	04-NOV-2022	[ICRA]AA A (Stable)	06-AUG-2021	[ICRA]AA A (Stable)
				-	-	06-JUL-2023	[ICRA]AA A (Stable)	-	-	29-DEC-2021	[ICRA]AA A (Stable)
				-	-	29-DEC-2023	[ICRA]AA A (Stable)	-	-	-	-
				-	-	21-MAR-2024	[ICRA]AA A (Stable)	-	-	-	-
Commercial paper	Short Term	400.00	[ICRA]A1+	-	-	26-JUN-2023	[ICRA]A1 +	04-NOV-2022	[ICRA]A1 +	06-AUG-2021	[ICRA]A1 +

				-	-	06-JUL-2023	[ICRA]A1 +	-	-	29-DEC-2021	[ICRA]A1 +
				-	-	29-DEC-2023	[ICRA]A1 +	-	-	-	-
				-	-	21-MAR-2024	[ICRA]A1 +	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Bank lines long-term fund based – Others	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	Bank line long-term fund based – Others*	Jan 2021, Oct 2023	4.6-8.0%	Dec 2024, Oct 2027	1,860.0	[ICRA]AAA (Stable)
INE00V214098	Commercial paper	Jun, 26 2024	6.59	Sep 24, 2024	100.0	[ICRA]A1+
NA	Commercial paper^	-	-	-	300.0	[ICRA]A1+

Source: Company; *Multiple facilities; ^Yet to be placed; As on August 30, 2024

[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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