

July 04, 2019

Preet Tractors Private Limited: Ratings assigned for enhanced amount

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	11.00	14.50	[ICRA]A- (Negative); Outstanding/Assigned
Fund-based – Term Loan	0.00	35.00	[ICRA]A- (Negative); Assigned
Non-fund Based	9.00	9.00	[ICRA]A2+; Outstanding
Total	20.00	58.50	

*Instrument details are provided in Annexure-1

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) since both operate in similar lines of business, have operational linkages and share a common management. The companies are together referred to as the Preet Group or the Group.

The rating action factors in the decline in PTPL's revenues in FY2018 and FY2019, which is contrary to the industry's healthy performance. This apart, the slowdown in tractor demand might exert further pressure on PTPL's sales turnover in the current fiscal. Moreover, the proposed capex for the Group has been delayed by a year, which has led to lower sales for the Group than ICRA's expectations. However, PAPL's revenue growth during the said period has supported the Group's operating income (OI), which remained stable during FY2017–FY2019. The Group's profitability margins also remain stable. Moreover, the ratings are constrained by the Preet Group's moderate scale of operations and the vulnerability of the Group's performance to the vagaries of monsoon, which is a key driver of the demand for agriculture equipment.

ICRA continues to take comfort from the extensive experience of the promoters and the established track record of the Preet Group in the tractor and self-propelled combine harvester (SPCH) industry. PAPL is one of market leaders in SPCH industry in the domestic market. The ratings also derive comfort from the Group's low gearing and comfortable coverage indicators, although the same slightly deteriorated in the last two years. This apart, the Group's policy to maintain a healthy cash and liquid balance remains one of the key positives.

Going forward, the Group's ability to attain sustained growth in its scale of operations in a profitable manner, complete the ongoing capital expenditure within the revised time and cost, and continue efficient working capital management, will be the key rating sensitivities.

Outlook: Negative

ICRA believes that the Preet Group will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Stable if PTPL's revenues and profitability improve, and better working capital management strengthens the financial risk profile. The ratings may be downgraded if revenues and cash accruals are lower than expected, or there is further decline in PTPL's revenues, or further delay in its capacity expansion project leads to a time and cost overruns.

Key rating drivers

Credit strengths

Established presence of promoters in tractor and harvester industry – The promoters have more than three decades of experience in the tractor and harvester manufacturing industry. This has helped them build a strong position in the agricultural implements and tractor industry in the domestic and export markets.

Preet Group’s capability to manufacture products in-house – The Preet Group’s integrated tractor and harvester manufacturing capabilities are its biggest strengths. The Group has in-house research and development division and its own engine manufacturing facility, which facilitates it to quickly adopt the technological change and the latest demand trend. It also has a strong presence in export market, with ~25% revenue contribution in FY2019.

Favourable Government policies for agriculture industry – Farm labour shortage, together with low levels of farm-equipment penetration and favourable Government policies for the agricultural sector, provides opportunities for the Group’s long-term growth.

Credit challenges

Limited market share in highly competitive tractor industry – The Preet Group is one of the smaller players in the tractor-manufacturing sector in the domestic market. Its presence is primarily confined to the northern and central states of India. The company faces intense competition from established and bigger players such as Mahindra & Mahindra, Escorts, International Tractors Limited. Its limited pricing flexibility, coupled with low purchasing power of the target customers, makes margins susceptible to rise in input costs.

Significant capacity expansion plan in medium term – The Preet Group is in the middle of a significant capacity expansion plan for PTPL. While it has completed civil construction for the proposed capacity expansion, any major deviation from the revised timeline for the project will have a negative impact on the company’s operational and financial profile.

High vulnerability to weak monsoons and low agricultural production – The Group’s revenue growth and profitability are mainly dependent on favourable monsoon. The revenue growth was impacted in the past by unfavourable weather conditions.

Liquidity position

The Group’s liquidity position would remain comfortable due to its low reliance on external debt and healthy cash and liquid assets of ~Rs. 49 crore as on March 31, 2019. The debt profile consisted working capital borrowings (Rs. 16.51 crore) and term loan of Rs. 14.14 crore as on March 31, 2019. The cash generation is expected to be sufficient for the payment of interest on the borrowings. The working capital utilisation remained comfortable in the range of 60-70% during the last 12 months. The debt service coverage ratio and the interest coverage ratio are also expected to remain comfortable. The Group had a comfortable current ratio of 1.32 times in FY2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractor Industry
Parent/Group Support	PTPL is a part of the Preet Group; ICRA has taken comfort from the Group’s established position in the tractor and harvester industry coupled with the experienced management
Consolidation/Standalone	The ratings are based on the consolidated financials of PTPL and PAPL

About the company

The Preet Group has been involved in manufacturing combine harvesters, tractors and farm equipment since 1980. Initially, the company produced straw reapers, threshers and other agricultural implements. It manufactures its products under the brand, Preet. The Group is a major market player in the SPCH segment in the domestic market. It has two Group companies — PAPT (manufactures various agricultural and farm equipment including harvesters) and PTPL (manufactures tractors). Mr. Hari Singh and Mr. Gurcharan Singh look after the operations of the companies. The Group's manufacturing plant is located at Nabha in Patiala (Punjab).

Key financial indicators (Audited)

	PTPL		Consolidated (PTPL+PAPT)	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	221.83	185.38	276.56	262.54
PAT (Rs. crore)	7.32	6.65	8.70	8.17
OPBDIT/OI (%)	5.85	6.48	6.21	6.34
RoCE (%)	46.33	25.71	26.27	18.32
Total Debt/TNW (times)	0.44	1.13	0.44	0.96
Total Debt/OPBDIT (times)	0.82	2.92	1.27	3.35
Interest Coverage (times)	5.43	3.77	4.29	3.35

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)	Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating in FY2020 June 2019	Date & Rating in FY2018 December 2017	Date & Rating in FY2018 April 2017
1 Cash Credit	Long Term	14.50	-	[ICRA]A-(Negative)	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]BBB+(Positive)
2 Term Loan	Long Term	35.00	35.00	[ICRA]A-(Negative)	-	-	-
3 Letter of Credit	Short Term	7.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4 Bank Guarantee	Short Term	2.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	14.50	[ICRA]A- (Negative)
NA	Term Loan	May 2018	-	March 2025	35.00	[ICRA]A- (Negative)
NA	Letter of Credit	-	-	-	7.00	[ICRA]A2+
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A2+

Source: PTPL

Annexure-2: List of entities considered for consolidation

Company Name	Ownership	Consolidation Approach
Preet Agro Industries Private Limited	NA	Full consolidation

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