

Press Release

**Barota Finance Limited**

November 15, 2019

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Supported Rating*	Rating Action
1.	Long Term Fund Based – Cash Credit	20.00	IVR A- (CE)/Stable Outlook {IVR A minus (Credit Enhancement) with Stable Outlook}	Assigned
2.	Long Term Fund Based – Term Loan	45.00	IVR A- (CE)/Stable Outlook {IVR A minus (Credit Enhancement) with Stable Outlook}	Assigned
3.	Long Term Proposed Facility – Proposed Term Loan	40.00	IVR A- (CE)/Stable Outlook {IVR A minus (Credit Enhancement) with Stable Outlook}	Assigned
	<b>Total</b>	<b>105.00</b>		

\* CE rating based on Indo Farm Equipment Limited's unconditional and irrevocable corporate guarantee.

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from parent support, strong operating profile of guarantor and moderate financial profile. However, the rating strengths are partially offset by presence of large players in the industry, moderate revenue diversity and unseasoned nature of asset portfolio.

The rating of the instrument is based on unconditional and irrevocable corporate guarantee received which covers the entire amount and tenor of the rated facilities. Given the attributes, the guarantee provided by Indo Farm Equipment Limited is adequately strong to result in an enhancement of the rating of the said facilities to **IVR A-(CE)/Stable** against the unsupported rating of **IVR BBB-/Stable**.

**Key Rating Sensitivities**

**Upward Factors:**

- Significant improvement in delinquency levels
- Significant improvement in capitalization levels

## **Downward Factors:**

- Deterioration in synergetic linkages with parent's operating performance
- Significant deterioration in the asset quality

## **List of key rating drivers with detailed description**

### **Key Rating Strengths**

#### **Parent Support:**

Barota Finance Limited is a 100% subsidiary of Indo Farm Equipment Limited (IFEL). The parent company has provided unconditional and irrecoverable corporate guarantee to ensure timely servicing for BFL's debt obligation. BFL and IFEL share common bankers for their business needs. The promoters have made significant infusions of capital in BFL over the years. Additionally, the two companies have a common management.

#### **Strong operating profile of guarantor:**

Indo Farm Equipment Limited is into manufacturing of world class tractors, cranes, engines, and diesel gensets and has now launched Harvester Combine Agricom 1070 for wetland paddy harvesting and has long track record of operations. The company has strong network of dealers working in various parts of India. IEFL's overall gearing is comfortable at 0.76x as on March 31, 2019 and the interest coverage ratio stood at 2.36x in FY19. Indo Farm Equipment Ltd is currently rated IVR A-/Stable for its long term debt obligations and IVRA2+ for its short term debt obligations (October 24, 2019).

#### **Moderate financial profile:**

BFL has managed to improve its loan portfolio from Rs.30.49 crore as on March 31, 2018 to Rs.70.24 as on March 31, 2019 and further to Rs.73.81 crore as on September 30, 2019. The overall capital adequacy was comfortable at 21.71% as on March 31, 2019. Also, the net interest margin has been in the range of ~12% for the last two years.

### **Key Rating Weakness**

#### **Presence of large players in the industry:**

BFL's presence is primarily confined to northern and central states of India. The company faces intense competition from established and bigger players such as Mahindra Finance, Magma

Fincorp, Sonalika Group, etc. The company is taking measures to reduce the concentration risk by planning to expand its operations to the south.

### **Moderate revenue diversity:**

The tractor industry volume growth has been volatile as demand has a strong correlation with domestic agriculture sector output, which depends upon monsoon and crop prices, among other factors.

### **Unseasoned nature of asset portfolio:**

BFL's asset quality is vulnerable to economic volatilities and crop seasonality, as it finances agri-related customers. BFL's 90dpd in FY19 stood at ~4.50%. Also, as the company has built its loan portfolio over the last two years only, it is relatively unseasoned.

### **Analytical Approach & Applicable Criteria**

Standalone (based on credit enhancement)

Rating Methodology for Financial Institution/NBFCs

Financial Ratios & Interpretation (Financial Sector)

Rating Methodology for Structure Debt Transaction (Non-securitisation transaction)

### **Liquidity**

The company's funding profile is backed by Indo Farm Equipment Limited's unconditional and irrevocable corporate guarantee to ensure timely servicing for BFL's debt obligation. The ALM statement of the company is well-matched with no negative mismatches in any of the time buckets. The average utilisation of the cash credit facility over the 12 month period up to October 2019 was ~93%. The overall gearing of the company stood at 3.37x as on March 31, 2019, indicating enough headroom to borrow further to fund its portfolio growth.

### **About the Company**

Barota Finance Limited (BCL) was incorporated in October 2016 as a public limited company listed by shares and registered itself as a 'Non-Banking Financial Company' in April 2017. Commencing its operations in August 2017, BFL is a 100% owned subsidiary of Indo Farm Equipment Limited. It provides custom finance solutions to farmers to help their own agricultural equipment.

**Financials**

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	2.70	11.95
Interest	0.28	3.69
PAT	0.06	1.38
Total Debt	19.95	51.99
Tangible Net worth	8.07	15.45
Total Loan Assets	30.49	70.24
<b>Ratios (%)</b>		
a. PAT Margin	2.33	11.52
b. Overall Gearing Ratio	2.47	3.37
c. Total CAR (%)	26.48	21.71
d. Gross NPA (%)	0.00	3.03
e. Net NPA (%)	0.00	2.49

\*Classification as per Infomerics' standards.

**About the Guarantor**

Indo Farm Equipment Limited (IFEL) is an ISO certified company located at Baddi, Himachal Pradesh and is into manufacturing of world class tractors, cranes, engines, and diesel gensets and has now launched Harvester Combine Agricom 1070 for wetland paddy harvesting. Incorporated in 1994, it commenced commercial production of tractors in October 2000. The Company is spread over an area of 35 acres and it had started its operations with a single model of 50 HP and now manufactures the largest range of tractors from 22 HP to 100 HP and 110 HP tractor model is under development. To enhance the capacity utilization of the plant in 2008, the company has diversified into manufacturing and marketing of hydraulic PICK-N-Carry of 9 tonnes-30 tones capacity. Recently IFEL has commenced the operation of mobile tower cranes too. Engines being the company's core competence area, it is now making engines for generator sets that are exported overseas.

**Financials of Guarantor**

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	260.65	302.79
EBIDTA	30.41	31.61
PAT	5.98	9.76
Total Debt	113.53	140.35
Tangible Net worth	169.99	185.74

EBIDTA Margin (%)	11.67	10.44
PAT Margin (%)	2.89	3.55
Overall Gearing Ratio (x)	0.67	0.76

*\*Classification as per Infomerics' standards.*

**Status of non-cooperation with previous CRA: None**

**Any other information: N.A**

**Rating History for last three years:**

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based – Cash Credit	Long Term	20.00	IVR A-(CE)/Stable Outlook	--	--	--
2.	Long Term Fund Based – Term Loan	Long Term	45.00	IVR A-(CE)/Stable Outlook	--	--	--
3.	Long Term Proposed Facility – Proposed Term Loan	Long Term	40.00	IVR A-(CE)/Stable Outlook	--	--	--

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based – Cash Credit	--	--	--	20.00	IVR A-(CE)/Stable Outlook
Long Term Fund Based – Term Loan	--	--	Aug 2024	45.00	IVR A-(CE)/Stable Outlook
Long Term Proposed Facility – Proposed Term Loan	--	--	--	40.00	IVR A-(CE)/Stable Outlook