

Press Release

Indo Farm Equipment Limited

October 24, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Facility	120.00*	IVR A- /Stable Outlook ; (IVR Single A Minus with Stable Outlook)
2	Short Term Facility	35.20	IVR A2+ (IVR A Two Plus)
Total		155.20	

* Includes proposed facility of Rs. 1.62 Crore

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from the experienced promoters and management, long track record of operation of the company, strong dealer network scattered across various parts of India and best in class technology & Innovation. The rating however is constrained by the modest scale of operations, high and elongated working capital cycle and the stiff competition from large established player.

Key Rating Sensitivities:

- **Upward Rating Factor-** Significant improvement in scale of operation for both tractors and cranes could lead to a positive rating action
- **Downward Rating Factor -** Any further increase in inventory holding period could cause an elongated operating cycle and hence in turn it can led to a negative rating action

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters and Management

Mr. Ranbir Singh Khadwalia who is the son of a farmer, conceptualised Indo Farm in 1994. The operations began in 2000 with commercial production of tractors at the company's own

plant, spread over an area of 35 acres in Baddi, Himachal Pradesh. He had over two decades of experience in manufacturing and marketing of various engineering products before venturing into this field. The legacy is being taken forward by his two sons Mr. Anshul Khadwalia and Mr. Shubham Khadwalia to propel the business forward. Further, the key managerial personnel of the company are also well-qualified and experienced in the domain.

Long track record of operation of Indo Farm Equipment Ltd.

Incorporated in 1994, the company commenced commercial production of tractors in October 2000. Within a year of operation, the company had successfully indigenized the engine components, manufacturing and assembly. The Company 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. For enhancing the capacity utilization of the plant in 2008, the company diversified into manufacturing and marketing of PICK-N-Carry of 9 tonnes-30 tones capacity. The company sold 5,8011 tractors till 31st march 2019

Strong dealer network scattered across various parts of India

It operates on a pan –India basis and is a well-recognized brand, associated with quality and dependability. The company operates through 15 regional offices and a widespread 300 plus strong dealer network for sales and services. Indo Farm stands as one of the largest and reliable tractor manufacturer and dealers with hi-tech tractors ranging from 22 HP to 110 HP. The group built its reputation through manufacturing high-end tractors and distribution of best farm tractor spare parts in India and some other parts of the world.

Best in class technology & Innovation

Indo Farm Equipment Limited (IFEL) employs best in the class technology and innovation which gives it edge over market competitors. IFEL creates tractors that are well-suited for both farm usage and transportation. The company has dedicated R & D staff that has created innovative product designs in the market.

Key Rating Weaknesses

Modest scale of operation & Low capacity utilization for Tractors

Indo farm has a small scale of operations; it had a tractor sales volume 3,644 units in FY19 (FY18 3,626 units; FY17 3,787 units). Moreover Indo Farm's capacity utilization remains low at 30.94% in 2019 for tractors. However this year capacity utilization has improved a lot for cranes i.e. 105.42% after remaining low in last few years

High and elongated working capital cycle, although marginally improved

Indo Farm's operating cycle is high at 243 days in FY19 (FY18: 263 days; FY17: 298 days). Though operating cycle has improved compared to last few years due to improvement in average collection days, average inventory days and average creditors days. The elongated cycle is majorly attributable to an extremely high inventory holding period of 201 days in FY19. Indo farm undertakes in-house manufacturing of the majority of components; that leads to a high inventory holding period i.e. castings, sheet metal, fabricated and all hydraulics components are manufactured in-house

Stiff competition from large established player

The tractor industry of India plays an important role in the agriculture sector as agriculture accounts for 25% of the GDP. The Indian tractor industry is the largest in the world, accounting for one third of the global production. IFEL faces a stiff competition from large established players in the industry due to its small scale of operation. The level is less than 1% of industry's sales volume. Moreover, Indo Farm's capacity utilization remained low for tractors at 30.94% in 2019.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for Manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The liquidity profile of the company is adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company maintains moderate cash balances to meet its liquidity requirements. The average utilization of working capital limits was high at 90.27% during the 12 months ended August 31, 2019.

About the company

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 tonnes 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 (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	260.65	302.79
EBITDA	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

Details of Non Cooperation with any other CRA: N.A.

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term (TL)	8.38	IVR A- /Stable Outlook ;	--	--	--
Fund Based Facilities	Cash Credit (CC)	111.62*		--	--	--
Short term Facilities	LC/BG and FBD	35.20	IVR A2+	--	--	--
	Total	155.20				

* Includes proposed facility of Rs. 1.62 Crore

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.

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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

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (TL)	--	--	April, 2025	8.38	IVR A- /Stable Outlook ;
2	Long Term Fund Based (CC)	--	--	--	111.62*	
3	Short Term (LC/BG) and FBD	--	--	--	35.20	IVR A2+
Total					155.20	

* Includes proposed facility of Rs. 1.62 Crore