March 23, 2021

John Deere Financial India Private Limited: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	-	200.0	[ICRA]AAA (Stable); Assigned
Commercial Paper	400.0	400.0	[ICRA]A1+; Reaffirmed
Total	**400.0**	**600.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in John Deere Financial India Private Limited's (JDFIPL) strong parentage, with the entity being a wholly-owned step-down subsidiary of Deere & Company (Deere; rated A2(Stable) by Moody's) through John Deere India Private Limited (JDIPL). In addition to a shared name, there is close integration with the parent Group for the implementation of business policies and risk management practices. Further, JDFIPL being a captive financier for farm equipment manufactured and sold by JDIPL in India, ICRA expects management and financial support to JDFIPL to be forthcoming. Also, JDFIPL's financial profile is characterised by comfortable capitalisation for the current scale of operations (gearing of 3.9x and CRAR of 19.5% as of September 30, 2020) with an adequate liquidity profile, supported by sizeable unutilised bank lines and an inter-corporate deposit (ICD) line from JDIPL (the immediate parent).

ICRA has taken cognizance of JDFIPL's relatively recent portfolio vintage and high portfolio vulnerability given the target borrower profile where income streams are largely dependent on the agriculture sector, and track record of subdued profitability. As on September 30, 2020, the company's portfolio was characterised by a gross NPA/gross advances ratio of 5.5% and net NPA/net advances ratio of 3.7%. The aforesaid asset quality metrics, coupled with a gearing of 3.9x, translated into a solvency (net NPA/net worth) metric of 18.7% as of September 30, 2020. Further, pricing pressure because of competition, coupled with relatively high credit cost and operating expenses, constrain JDFIPL's profitability. The company's return on average assets (RoA) and return on net worth (RoE) have averaged 1.5% and 6.7% respectively, during the period March 2017-September 2020. Nevertheless, ICRA notes that the company implemented cost rationalisation measures in H1FY2021, whereby profitability stood improved in H1FY2021 with RoA and RoE of 2.0% and 10.4% respectively. Going forward, JDFIPL's ability to enhance operational efficiencies on a sustained basis and contain credit costs would remain crucial to support its profitability metrics in a market characterised by high competition.

Key rating drivers and their description

Credit strengths

Strong parentage, being a wholly-owned step-down subsidiary of Deere – JDFIPL is a wholly-owned subsidiary of JDIPL, which, in turn, is indirectly wholly owned by Deere. Given Deere's focus on the Indian market, 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 with its key management personnel having experience across other verticals of the Group. Moreover, its policies and processes are in line with those approved by the parent. ICRA also notes the demonstrated track record of support from the parent Group in the form of equity infusion and a Rs. 1000-crore liquidity backup line.

Comfortable capitalisation – JDFIPL's capitalisation level stands comfortable for the current scale of operations with Tier I and total capital adequacy of 18.5% and 19.5%, respectively, and a gearing of 3.9x as on September 30, 2020. While the company's leverage witnessed an uptick over past few years with the growing loan book, ICRA expects capital support from the parent to be forthcoming (as witnessed in each of the past three years), if needed, to keep JDFIPL prudently capitalised while growing as per business plans. Thus, ICRA expects JDFIPL to maintain comfortable capitalisation level (with comfortable cushion over regulatory requirements) going forward as well.

Adequate liquidity profile with good financial flexibility – While JDFIPL's asset liability maturity profile reflected a modest cumulative negative mismatch in the near-term buckets as of September 30, 2020, ICRA draws comfort from the sizeable undrawn lines of credit (including bank lines and Rs. 1000-crore backup line of credit from the parent) maintained by the company to plug such mismatches. Further, ICRA notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere, with relationships with financial institutions working globally, thereby providing the entity with access to funds at competitive rates. JDFIPL shares the treasury bandwidth with its immediate parent, which works closely with the broader Group to manage funding requirements. This, coupled with the high likelihood of support from the parent, augurs well for the company's liquidity profile.

Credit challenges

Relatively recent portfolio vintage and high portfolio vulnerability – While Deere has been present in the Indian market for almost two decades, JDFIPL was incorporated later in October 2011 to undertake captive financing for the Group's sales and to support the expansion of Deere's footprint and market share in India. Hence, the company is a relatively late entrant in the competitive tractor financing space, which is dotted by multiple banks and NBFCs. Further, as JDIPL's market share in India has expanded significantly in the last few years and JDFIPL's share within the financed sales of JDIPL has more than tripled (from 12% in 2014 to 39% in 2020), and the company's loan book has grown at a CAGR of over 50% during the past four years. Given this robust portfolio growth, the company's portfolio is less seasoned in relation to the loan tenure. Further, JDFIPL primarily lends to farmers for the purchase of farm equipment manufactured and sold by JDIPL. Given the concentrated exposure towards borrowers vulnerable to adverse economic and agro-climatic cycles, JDFIPL's portfolio is exposed to relatively high vulnerability.

As on September 30, 2020, the company's portfolio was characterised by a gross NPA/gross advances ratio of 5.5% and net NPA/net advances ratio of 3.7% (6.5% and 4.7%, respectively as on March 31, 2020). ICRA notes that a sizeable proportion of the contracts (about 1/4th) had availed moratorium during the forbearance period in H1FY2021 and would get tested for Covid-19 induced stress in Q4FY2021 (as repayment cycle is half yearly for majority of contracts). In this regard, notwithstanding the relative resilience demonstrated by the agriculture sector, the company's ability to control incremental slippages would remain critical determinant of the profitability trajectory.

Track-record of subdued profitability, notwithstanding the improvement in H1FY2021 – Pricing pressure because of competition, coupled with relatively high credit cost and operating expenses, constrain JDFIPL's profitability. The company's return on average assets (RoA) and return on net worth (RoE) have averaged 1.5% and 6.7% respectively, during the period March 2017-September 2020. Nevertheless, ICRA notes that the company implemented cost rationalisation measures in H1FY2021 (nationwide lockdowns also resulted in lower operating expenses), whereby profitability stood improved in H1FY2021 with RoA and RoE of 2.0% and 10.4% respectively. Going forward, JDFIPL's ability to enhance operational efficiencies on a sustained basis and contain credit costs would remain crucial to support its profitability metrics in a market characterised by high competition.

Liquidity position: Adequate

While JDFIPL's asset liability maturity profile typically reflects a modest cumulative negative mismatch in the near-term buckets, ICRA draws comfort from the sizeable undrawn lines of credit (including bank lines and Rs. 1000-crore backup line of credit from the parent) maintained by the company to plug such mismatches. JDFIPL has scheduled debt repayments (principal + interest) of about Rs. 544 crore during March 2021-August 2021. Against this, the scheduled inflows are about Rs. 668 crore.

Thus, the unutilised fund-based working capital lines of more than Rs. 900 crore (as on December 31, 2020, including the ICD line from the parent) are sufficient to plug the mismatches over the near term, if any due to collection efficiency pressures. Further, ICRA notes that JDFIPL has good financial flexibility, by virtue of being a subsidiary of Deere, with relationships with financial institutions working globally, thereby providing the entity with access to funds at competitive rates. JDFIPL shares the treasury bandwidth with its immediate parent, which works closely with the broader Group to manage 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 rating could arise on a deterioration in the parent's credit profile or 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 Impact of Parent or Group Support on an Issuer's Credit Rating
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 systemically important 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, in turn, 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 the construction equipment manufactured and sold by Wirtgen India Private Limited. As of September 30, 2020, JDFIPL's loan portfolio outstanding was Rs. 2,816 crore with a typical yield of 16.5% and ticket size of about Rs. 5.0 lakh.

JDFIPL reported a net profit of Rs. 25 crore in FY2020 on a total asset base of Rs. 2,510 crore compared to a net profit of Rs. 29 crore on a total asset base of Rs. 1,803 crore in FY2019. Subsequently, the company has achieved a net profit of Rs. 27 crore in H1 FY2021 on a total asset base of Rs. 2,897 crore. Its net worth stood at Rs. 553 crore as of September 30, 2020 with a capital adequacy of 19.5%.

Key financial indicators (audited)

Amounts in Rs. crore	FY2019	FY2020	H1FY2021
PAT	29.2	25.3	26.7
Net Worth	401.0	478.1	553.2
Loan Book	1,704.1	2,389.0	2,816.0
Total Assets	1,803.1	2,509.7	2,897.1
Return on Average Assets	1.9%	1.2%	2.0%
Return on Average Equity	8.1%	5.8%	10.4%
Gearing (times)	3.4	4.1	3.9
CRAR (%)	22.7%	19.3%	19.5%
Gross NPA (%)	5.3%	6.5%	5.5%
Net NPA (%)	3.9%	4.7%	3.7%

Source: JDFIPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Mar 23, 2021	Jan 14, 2021	FY2020	FY2019	FY2018
							Feb 13, 2020	-	-
1	Long-term Fund-based Term Loan	Long-Term	200.0	-	[ICRA]AAA (Stable)	-	-	-	-
2	Commercial Paper	Short-Term	400.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-

*Source: ICRA research; Amount in Rs. Crore; *Nil as of January 31, 2021 (was Rs. 300 crore as of December 31, 2020)*

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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA^	Commercial Paper	-	-	7-365 days	400.0	[ICRA]A1+
NA	Long-term Fund-based TL*	-	-	-	200.00	[ICRA]AAA (Stable)

*Source: ICRA; *unallocated*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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