February 21, 2022

SAME Deutz-Fahr India Private Limited: Ratings downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	80.00	75.00	[ICRA]A+ (Stable); downgraded from [ICRA]AA- (Stable)
Short-term fund based sublimit#	(80.00)	(75.00)	[ICRA]A1; downgraded from [ICRA]A1+
Short-term non-fund based sublimit#	(62.00)	(50.00)	[ICRA]A1; downgraded from [ICRA]A1+
Total	**80.00**	**75.00**	

**Instrument details are provided in Annexure-1; # - combined utilization capped at Rs. 75.00 crore*

Rationale

The downgrade in ratings follows increase in working capital intensity of SAME Deutz-Fahr India Private Limited (SAME India/the company), due to increase in receivables and the expectations this would continue over the near to medium term as well. Further, the company has witnessed sharp reduction in operating profit margins (OPM) in H1 FY2022 owing to steep increase in commodity prices and inadequate pricing revision from customers. While the company is in negotiations with its customers for upward pricing revision, the materialization of the same remains to be seen. Lower operating accruals and increase in working capital intensity resulted in increase in SAME India's gross debt levels to Rs. 125.0 crore as on December 31, 2021 (vis-à-vis ~Rs. 78 crore as on December 31, 2020). The working capital utilisation as a percentage of sanctioned limits has increased to 43% over the four months ended December 2021 as against ~24% for the four months ended December 31, 2020. Nevertheless, adequate buffer in working capital lines and cash and bank balances of Rs. 131.7 crore as on December 31, 2021 provide comfort to an extent. With close to 90% of the revenues being derived from the European market (Italy contributing to over 60% and Turkey contributing ~28% of the revenues), the company is exposed to region-specific demand risks. Going forward, SAME India's exports to Turkey, given its present economic situation, remains to be seen. Going forward, the company's ability to improve its margins and working capital intensity would remain critical.

SAME India is a key company for the Europe-based SDF Group, which is among the larger global agri-equipment players and it enjoys operational and financial flexibility by virtue of its parentage. The SDF Group has a global presence through its eight production sites, 13 subsidiaries and a wide network of 3,000 dealers. SAME India derives technology support from the parent and uses the 'Deutz-Fahr' brand in the domestic market. Notwithstanding the high customer concentration owing to close to 90% of the revenues being derived from the group companies, SAME India's criticality as a low-cost sourcing hub to the parent mitigates the risk to a large extent. SDF group faces rising competitive pressures both domestically and in the international markets and the company faces trade barriers like Anti-dumping duty (ADD) on exports to Turkey. However, the SDF group had supported volumes for the Indian subsidiary by sourcing tractors/engines for different parts of Europe. While the company has enhanced its presence in the domestic market by increasing its dealer network and financing tie-ups, it remains largely concentrated in select states and SAME India's market share in the domestic market remains sub 3%.

Key rating drivers and their description

Credit strengths

Financial and operational flexibility by being a part of the larger SDF group – SAME India is a key company for the Europe-based SDF Group, which is among the larger global agri-equipment players, with cumulative revenues of Euro 1,145.6 million (over Rs. 10,200 crore) in CY2020. SAME India derives technology support from the parent and uses the 'Deutz-Fahr' brand in the domestic market. SAME Deutz-Fahr Italia SpA, Italia holds 41.67% stake in the company and the ultimate holding company of the group, SDF SpA, Italia holds 58.33% stake.

Integrated operations with the parent group - SAME India's operations are closely integrated with that of its parent with the global sourcing of the SDF group's sub-110HP engines and several ranges of tractors being done from India since 2008. Close to 90% of SAME India's sales are to the parent group.

Negative net-debt position as on December 31, 2021 - SAME India's capital structure and coverage metrics have remained comfortable over the last several years, aided by the healthy accruals, modest capex and low debt funding. Despite the increase in debt levels (to Rs. 125.0 crore as on December 31, 2021 vis-à-vis Rs. 59.2 crore as on March 31, 2021) amid higher working capital requirements, the company was net debt negative as on December 31, 2021. The debt levels as of Jan 2022 was Rs. 75.0 crore. With no major debt-funded capex going forward, ICRA expects the company's net debt levels to remain minimal over the medium term.

Credit challenges

Decline in margins owing to sharp increase in commodity prices and inadequate pricing revision with its customers - Owing to the sharp increase in the commodity prices in the past 12-15 months, and inadequate pricing revision with its customers, the company's OPM has contracted sharply in H1 FY2022. On the freight expenses front, while the increase in outward freight costs have been borne by the customers, the inward freight increase has been borne by the company and to that extent, there have been cost escalations as well. While the company is in negotiations with its customers for upward pricing revision, the extent to which the same materialises remains to be seen.

High working capital intensity - The company maintains about 100-120 days of inventory to mitigate supply-chain risks. Also, it has relatively high receivables from the group companies for its tractor/engine/component supplies (exports) and in domestic markets too, resulting in high working capital intensity. The receivables from group companies have increased over the past few months.

High customer and geographic concentration – The company derives close to 90% of its revenues from exports to the group companies in Europe and predominantly to Italy (over 60% of the revenues) and Turkey (~28% of the revenues). The concentration on the European market exposes SAME India to region-specific demand risks. Going forward, SAME India's exports to Turkey, given its present economic situation, remains to be seen. SAME India and the SDF group as a whole are facing rising competitive pressures both domestically and in the international markets. Globally, the company faces trade barriers like ADD on exports to Turkey, which had led to sharp reduction in sales to Turkey during FY2018-FY2019. However, the SDF group had supported volumes for the Indian subsidiary by sourcing tractors/engines for different parts of Europe and the volumes have stabilized now for the company. SAME India's criticality as a low-cost sourcing hub to the parent mitigates customer concentration risks to an extent.

Financing tie-ups and dealership network a challenge in the domestic market, although significant improvement witnessed in the same over the past two years – Strong dealership network and tie-ups with financial institutions (given that a major portion of the tractor sales is financed through debt) are critical for deeper inroads into the Indian tractor market. The company has been growing its dealer network gradually enabling increased penetration. Also, the company had added modified its tie-ups/added new financiers with enhanced presence to strengthen the funding environment for 'Deutz-Fahr' tractors. Nevertheless, its network is largely concentrated in select states and SAME India's market share in the domestic market remains sub 3%.

Liquidity position: Adequate

SAME India's liquidity is adequate with cash and bank balances and liquid investments of Rs. 131.7 crore and undrawn working capital lines of Rs. 101.5 crore as on December 31, 2021. The company's average working capital utilization for the 4-month period ended December 2021 was ~43% of sanctioned limits. Also, SAME India does not have long-term debt repayment obligations owing to absence of term debt on its books. In relation to these sources of cash, SAME India has moderate capex commitment for FY2022-FY2024, to be funded through internal accruals. The receivables have gone up over the past few months and further increase going forward is likely to impact the liquidity of the company. Overall, ICRA expects SAME India's liquidity position to remain adequate over the medium term.

Rating sensitivities

Positive factors: ICRA could upgrade SAME India's ratings if it achieves material improvement in its receivables position and profit margins, with minimal debt levels on its books.

Negative factors: Downward pressure on SAME India's rating could emerge from further increase in working capital intensity and inability to improve the margins. Specific triggers that could lead to downward revision in rating would be net Debt/OPBITDA of greater than or equal to 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for the tractor manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone. The company only has standalone operations.

About the company

SAME-Deutz Fahr India Private Limited (SAME India) is part of the Europe-based SAME Deutz-Fahr group (SDF group), which is among the largest global agri-equipment players. Close to 90% of the company's revenues were derived from exports, largely to Europe (predominantly to the parent), while the remaining is from the domestic market. In terms of products, the company sells tractors, engines and components/spares to its parent, while sales is restricted to tractors and spares in the domestic market. SAME Deutz-Fahr Italia SpA, Italia holds 41.67% stake in the company and the ultimate hold co of the group, SDF SpA, Italia holds 58.33% stake, and the company has one assembly plant in Ranipet, Tamil Nadu.

Key financial indicators (audited)

	Standalone	
	FY2020	**FY2021**
Operating Income (Rs. crore)	1,098.7	938.9
PAT (Rs. crore)	48.2	46.0
OPBDIT/OI (%)	8.6%	7.9%
PAT/OI (%)	4.4%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.4	0.8
Interest Coverage (times)	15.5	29.0

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Feb 21, 2022	Nov 27, 2020	May 17, 2019	Dec 04, 2017
1	Long-term fund based	Long Term	75.00	-	[ICRA]A+ (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)
2	Short-term fund based - sublimit	Short Term	(75.00)#	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short-term non-fund based - sublimit	Short Term	(50.00)#	-	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

#combined utilisation capped at Rs. 75.00 crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based	Simple
Short-term fund based - sublimit	Very Simple
Short-term non-fund based – sublimit	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: www.icra.in

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term fund based	NA	NA	NA	75.00	[ICRA]A+ (Stable)
NA	Short- term fund based (sublimit)#	NA	NA	NA	(75.00)	[ICRA]A1
NA	Short- term non-fund based (sublimit)#	NA	NA	NA	(50.00)	[ICRA]A1

Source: SAME Deutz-Fahr India Private Limited; # - combined utilization capped at Rs. 75.00 crore

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
NA	NA	NA

Source: SAME Deutz-Fahr India Private Limited

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About ICRA Limited:

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