April 04, 2022

Preet Agro Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	18.00	35.00	[ICRA]A (Stable); reaffirmed/ assigned
Non-fund Based	10.00	10.00	[ICRA]A1; reaffirmed
Total	**28.00**	**45.00**	

**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). Both operate in a similar business sector, with operational linkages, selling products under the single brand, 'Preet', while sharing a common management. The companies are together referred to as the Preet Group or the Group in this report.

The rating reaffirmation factors in the established presence of the promoters in the tractor and harvester industry and the established track record of the Preet Group in the tractor and self-propelled combine harvester (SPCH, or harvester) industry. The Group's tractor business is estimated to witness growth in FY2022, at a higher base than FY2021, supported by its healthy export performance. Further, the Group's financial profile is supported by low, long-term debt obligations and policy to maintain healthy cash levels, which lend comfort.

The ratings are, however, constrained by the expected decline in consolidated revenues and cash accruals led by weak performance of the harvester business, primarily owing to the impact of farmer agitations, which intensified in the second half of the year, a peak season for this segment. This segment also exhibits a medium-term demand cyclicality. The same is expected to result in revenue consolidation by ~30-35% in FY2022. Nevertheless, ICRA notes that the harvester segment has started witnessing revival in demand and is expected to normalise, going forward. These constrains apart, modest operating scale with concentration in a few states and competitive pressures from other players remain credit challenges. Moreover, the Group's performance remains exposed to the vagaries of the monsoon, which is a key demand factor for agricultural equipment.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the Group will continue to benefit from its established track record in the agriculture equipment industry, supported by favourable Government policies in the sector.

Key rating drivers and their description

Credit strengths

Experienced promoters and established presence of promoters in harvester industry – The promoters have more than three decades of experience in the harvester and the tractor manufacturing industry. This has helped them build a strong position in the agricultural implants and tractor industry in the domestic and the export markets. PAPL is one of the top market players in the domestic harvester industry. The Preet Group derives operational strengths from its integrated tractor and harvester manufacturing capabilities that doubled in capacity in FY2021. The Group has in-house research and development (R&D) division and its own engine manufacturing facility for tractor manufacturing, which facilitates it to quickly adopt technological changes and the latest demand trends.

Healthy capital structure and limited long-term repayments – The Group has low reliance of external debt and funds part of its requirement through loans backed by fixed deposits, given the availability of free cash. Even though cash accruals are expected to decline in FY2022, the Group's credit metrics, such as interest coverage and DSCR, are likely to remain comfortable given the limited debt obligations. The Group has received sizeable enhancement in its working capital limits and has a policy of maintaining free cash balances, which lend comfort.

Encouraging demand of tractors from exports market; harvester demand expected to revive in FY2023 – After a strong year in FY2021, the Group executed healthy orders for tractors, particularly in exports. The volume contribution from the export market has increased to ~13% in 11M FY2022 from 10% in FY2021. In the long horizon, the demand for harvester would remain healthy due to shortage of farm labour and rising rural income. The harvester volume, which declined in 11M FY2022, has started showing some revival signs from March 2022 onwards; however, trends towards revival in FY2023 will remain the key monitorable, going forward.

Credit challenges

Decline in Group's revenue in FY2022 due to weak performance of harvester segment– The Group is likely to report ~30-35% revenue de-growth in FY2022 over FY2021 due to the weak performance of the harvester segment. The weak performance was primarily due to impact of farmer agitations, particularly in the second half of the year, along with delays in receipt of subsidies for equipment purchases in some key states. Moreover, harvester demand depicts cyclicality and was expected to be moderate in FY2022.

Limited market share in intensely competitive tractor industry – The Preet Group is one of the modest players in the tractor manufacturing sector in the domestic market. It faces intense competition from larger established players such as Mahindra & Mahindra Limited (Mahindra and Swaraj), Tractor and Farm Equipment Ltd. (TAFE), International Tractors Limited (Sonalika), and Escorts Limited (Escorts). Its limited pricing flexibility, coupled with the low purchasing power of its target customers, renders its margins susceptible to rise in input costs. However, the Group remains a strong player in the harvester industry by virtue of its sizeable market share and long presence.

Tractor industry remains cyclical due to strong linkages with agricultural production and monsoons – The tractor industry's cyclicality exposes the company to fluctuations in the demand scenario with sensitivity to monsoons and farmer sentiments. This could impact the Group's earnings and cash accruals in periods of unfavourable monsoons. Though the Group is likely to remain exposed to such vagaries in demand, the Government of India's commitment towards rural development and agri-mechanisation, while focussing on improving the country's infrastructure with enhanced budgetary allocations, is likely to aid in volume growth over the medium to long-term.

Geographical concentration – The Group's revenues are primarily confined to the northern and Central states of India. It derives ~50% of its revenues from Uttar Pradesh, Punjab, Haryana and Madhya Pradesh.

Liquidity position: Adequate

The Group's liquidity is adequate on account of the cushion available in the working capital limit as utilisation remained comfortable at 56% in the 11-months period ending in February 2022. The Group has received sizeable enhancement in its limits, which has resulted in a healthy buffer. The Group also has ~Rs. 30-crore unencumbered fixed deposits. Overall cash accruals along with existing liquidity will be sufficient to manage the additional working capital requirement and payment of interest and principal obligations, which are modest. Moreover, there are no major capex plans in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case there is a sustained improvement in revenues and profitability, resulting in higher market share while maintaining its healthy return indicators and credit profile.

Negative factors – ICRA could downgrade the ratings if, the Group reports a sustained decline in revenues and operating profit margin. Interest cover of less than 5.0 times, on a sustained basis, would also be a negative factor for the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Tractor Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of PTPL and PAPL.

About the company

The Preet Group has been manufacturing combine harvesters, tractors and farm equipment since 1980 under the brand name, Preet. Initially, it produced straw reapers, threshers and other agricultural implants. It has two Group companies—PAPL (manufactures various agricultural and farm equipment, including harvesters) and PTPL (manufactures tractors). The Group is a leading market player in the SPCH segment in the domestic market. Mr. Hari Singh and Mr. Gurcharan Singh look after the operations of the companies. The Group's manufacturing plants are at Nabha in Patiala (Punjab). On a consolidated basis, the Group has reported revenues of ~Rs. 362 crore in 11M FY2022.

Key financial indicators (audited)

Preet Group Consolidated (PTPL+PAPL)	FY2020	FY2021
Operating Income (Rs. crore)	304.45	602.82
PAT (Rs. crore)	0.27	28.54
OPBDIT/OI (%)	3.73%	8.15%
PAT/OI (%)	0.09%	4.73%
Total Outside Liabilities/Tangible Net Worth (times)	2.75x	2.74x
Total Debt/OPBDIT (times)	6.58x	1.49x
Interest Coverage (times)	1.75x	6.42x

Source: Company

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Apr 4, 2022	Sep 27, 2021	May 21, 2021	May 7, 2020	June 6, 2019	Dec 22, 2017
1	Cash Credit	Long Term	35.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
3	LC/BG*	Short Term	10.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

*Source: Company, *letter of credit/bank guarantee*

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Short Term – Bank Guarantee	Very Simple
Short Term – Letter of Credit	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, is available on ICRA's 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	NA	NA	NA	35.00	[ICRA]A (Stable)
NA	LC/BG	NA	NA	NA	10.00	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

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

Source: Company

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