May 26, 2023

SAME Deutz-Fahr India Private Limited: Ratings reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-I; # - combined utilisation is capped at Rs. 75.00 crore*

Rationale

The rating reaffirmation of SAME Deutz-Fahr India Private Limited (SAME India/the company) factors in ICRA's expectations of a sustained financial performance in the near to medium term, supported by its operational and financial flexibility from being part of the larger SAME Deutz-Fahr Group (SDF Group/parent), healthy debt metrics and adequate liquidity. SAME India is a critical low-cost sourcing hub for the Europe-based SDF Group, which is among the larger global agri-equipment players, with cumulative revenues of Euro 1,803.3 million (over Rs. 14,900 crore) in CY2022. Also, SAME India derives technology support from the parent and its operations are closely integrated with that of the latter.

SAME India's operating income is expected to witness healthy increase in FY2023 from Rs. 1,384.8 crore in FY2022 aided by higher offtake from the parent and favourable realisations. The higher offtake from the parent in FY2023 has been primarily driven by its volume increase despite the global macro-economic gloom, partly arising from new product launches and higher penetration in non-European markets. On the other hand, the company also witnessed an improvement in average realisation aided by favourable product mix, higher value addition and passthrough of cost inflation. The company's operating profit margins are also expected to witness material improvement in FY2023 compared to 5.9% in FY2022 aided by the passthrough of cost inflation, softer freight rates and benefits from improved operating leverage. SAME India's capital structure and coverage metrics have remained healthy over the last several years, aided by the healthy accruals, modest capex and low debt funding (net debt/OPBDITA of 0.2 times as on December 31, 2022). Further, the company has adequate liquidity with cash and bank balances of Rs. 52.6 crore as on December 31, 2022, and undrawn working capital lines of over Rs. 100.0 crore as on February 28, 2023. With no major debt-funded capex going forward, ICRA expects the company's net debt levels and coverage metrics to remain comfortable over the medium term. However, its working capital intensity remains high, although it has improved in FY2023, benefitting from improvement in receivable days pertaining to group debtors, and movement to the cash and carry model in the domestic market. Going forward, the concentration on the European market/exports (given that over 90% of revenues are derived from exports to the parent group) exposes SAME India to region-specific demand risks and the ongoing macroeconomic gloom. Also, sustainability of the margin improvement remains to be seen. Nevertheless, its criticality as a low-cost sourcing hub to the parent and increase in sourcing by the parent due to its higher volumes, partly arising from new product launches and higher penetration in non-European markets, mitigate the risks to an extent.

Key rating drivers and their description

Credit strengths

Financial and operational flexibilities 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 1,803.3 million (over Rs. 14,900 crore) in CY2022. 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 a 41.67% stake in the company and the ultimate holding company of the Group, SDF SpA, Italia holds a 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. The company derived over 90% of its sales from the parent group in 9M FY2023.

Healthy capital structure and coverage metrics – SAME India's capital structure and coverage metrics have remained healthy over the last several years, aided by the healthy accruals, modest capex and low debt funding. The company's net debt stood at Rs. 24.9 crore as on February 28, 2023, despite its relatively higher working capital intensity, resulting in healthy net debt/OPBDITA of 0.2 times as on December 31, 2022. With no major debt-funded capex going forward, ICRA expects the company's net debt levels and coverage metrics to remain comfortable over the medium term.

Credit challenges

High working capital intensity – SAME India maintains about 90-100 days of inventory to mitigate supply-chain risks. Also, it has relatively higher receivables from group companies for its tractor/engine/component supplies (exports). There are elongated receivables in the domestic markets as well. All these have together resulted in relatively higher working capital intensity for the company (59.8% for FY2022). However, improvement in receivable days pertaining to group debtors and movement to the cash-and-carry model in the domestic market have improved the company's debtor days in FY2023 compared to past levels.

Relatively higher customer and geographic concentration – The company derived over 90% of its revenues from exports to the group companies in Europe and predominantly to Italy (over 50% of the revenues) and Turkey (~40% of the revenues) in 9M FY2023. Going forward, the concentration on the European market/exports exposes SAME India to region-specific demand risks and the ongoing macroeconomic gloom. Nevertheless, its criticality as a low-cost sourcing hub to the parent and increase in sourcing by the parent due to its higher volumes, partly arising from new product launches and higher penetration in non-European markets, mitigate the risks to an extent. Further, tractors/engines sourced from SAME India are ultimately exported to end markets other than Europe including various developing/emerging markets, mitigating risks arising from geographic concentration to an extent.

Financing tie-ups and dealership network a challenge in the domestic market – Strong dealership network and tie-ups with financial institutions (given that a major portion of the tractor sales are financed through debt) are critical for deeper inroads into the Indian tractor market. The company has been growing its dealer network gradually, modified its tie-ups and added new financiers with enhanced presence to enable higher penetration and strengthen the funding environment for Deutz-Fahr tractors. Despite this, its network is largely concentrated in select states and SAME India's market share in the domestic market remains at sub 1% (for FY2023).

Liquidity position: Adequate

SAME India's liquidity is expected to remain adequate, aided by its healthy anticipated cash accruals, cash and bank balances of Rs. 52.6 crore as on December 31, 2022, and undrawn working capital lines of over Rs. 100 crore as of February 28, 2023. The company's average working capital utilisation for the 12-month period ended in February 2023 stood at ~38% 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 commitments over the medium term, to be funded through internal accruals. While the receivable days have reduced in FY2023 compared to the previous year, any increase in the same going forward, is likely to impact the company's liquidity. Overall, ICRA expects SAME India to be able to meet its medium-term commitments through internal sources of cash and yet be left with cash/liquid investments surplus.

Rating sensitivities

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

Negative factors – Downward pressure on SAME India's ratings could emerge from increase in working capital intensity and deterioration in margins. Specific triggers that could lead to downward revision in ratings 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 tractor manufacturers
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SAME India

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. Over 90% of the company's revenues were derived from exports in 9M FY2023, 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 are restricted to tractors and spares in the domestic market. SAME Deutz-Fahr Italia SpA, Italia holds a 41.67% stake in the company and the ultimate hold co of the Group, SDF SpA, Italia holds a 58.33% stake. The company has one assembly plant in Ranipet, Tamil Nadu.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	938.9	1,384.8
PAT	46.0	46.2
OPBDIT/OI	7.9%	5.9%
PAT/OI	4.9%	3.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.7
Total debt/OPBDIT (times)	0.8	1.1
Interest coverage (times)	29.0	14.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 26, 2023	-	Feb 21, 2022	Nov 27, 2020
1	**Long-term fund based**	Long term	75.00	-	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Stable)**
2	**Short-term fund based Sublimit #**	Short term	(75.00)	-	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A1+**
3	**Short-term non-fund based Sublimit #**	Short term	(50.00)	-	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A1+**

 # - combined utilisation is capped at Rs. 75.00 crore

Complexity level of the rated instruments

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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: Company

Annexure II: List of entities considered for consolidated analysis - NA

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K Srikumar
+91 44 4596 4318
k.srikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Kishore Kumar A
+91 44 4596 4312
ishore.a@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.