June 11, 2024

Autotrac Finance Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer rating	-	-	[ICRA]AA+ (Stable); reaffirmed

**Instrument details are provided in Annexure I*

Rationale

The rating is strongly underpinned by Autotrac Finance Limited's (AFL) parentage in the form of International Tractors Limited (ITL; rated [ICRA]AAA (Stable)/[ICRA]A1+). AFL is a wholly-owned subsidiary of ITL and benefits from having access to capital, management and systems as well as supervision by the parent. The rating also factors in ITL's demonstrated track record of extending capital support to AFL and its stated intention of providing support to the company in the form of debt and equity, as and when required. As AFL is the captive financier of ITL vehicles, ICRA expects it to remain strategically important to ITL, going forward as well. Any change in the parent's credit profile or the likelihood of a reduction in its support to AFL would be a key rating sensitivity.

The rating also considers AFL's adequate capitalisation levels for the current scale of operations and its adequate profitability indicators, supported by good net interest margins (NIMs) and negligible credit costs. However, the sustenance of the same, with the increase in scale and through economic cycles, is yet to be tested.

AFL's standalone credit profile is constrained by its limited track record of operations and moderate scale with assets under management (AUM) of Rs. 249 crore as on March 31, 2024 (Rs. 206 crore as on March 31, 2023). Further, the company is exposed to lumpy slippages in the asset quality due to the wholesale nature of its loan book, with inventory financing to ITL's dealers and vendors dominating the portfolio (57% of total AUM as on March 31, 2024). In this regard, ICRA notes that the company is gradually building up its retail portfolio and is also using its co-lending arrangements with banks to support the overall growth of the retail loan book. While the higher share of retail loans will improve the portfolio granularity, it would also augment the portfolio vulnerability as the target borrower profile is largely dependent on the agriculture sector and hence susceptible to income shocks due to agro-climatic cycles. Going forward, AFL's ability to increase the scale of operations significantly while maintaining the asset quality indicators and improving the profitability would be a monitorable.

The Stable outlook reflects ICRA's expectation that AFL will continue to receive support (managerial, operational and financial) from the parent. It also reflects ICRA's expectation that the company will increase the scale of operations profitably while maintaining the asset quality and remaining adequately capitalised.

Key rating drivers and their description

Credit strengths

Strong parentage; wholly-owned subsidiary of ITL – By virtue of its parentage and importance as a captive financier, AFL benefits from operational, financial and management support from ITL with its key management personnel having experience across other verticals of the ITL 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 through regular equity infusions and the extension of short-term lines of credit as per requirement.

Given ITL's focus and long track record in the Indian market, ICRA believes AFL is important as the captive financier for the dealers of the tractors manufactured and sold by ITL in India as well as the vendors of the ITL Group and the retail buyers of ITL's tractors. ICRA expects that the company will have access to debt by virtue of being a part of the ITL Group and timely support from the parent (in the form of debt and equity) would be available if required.

Adequate capitalisation for current scale of operations – AFL is adequately capitalised for the current scale of operations (net worth of Rs. 288 crore as on March 31, 2024) and had not availed any external borrowings as on March 31, 2024. ITL has regularly infused capital in AFL to support its lending operations, with the most recent equity infusion of Rs. 50 crore in FY2024 (Rs. 40 crore in FY2023). While AFL has a sanctioned line from ITL to meet its short-term liquidity needs, it has no external debt. Considering the importance of AFL to the Group, ICRA expects support from ITL, in the form of debt and equity, to be forthcoming going forward as well.

Adequate profitability, though sustenance of the same yet to be tested – AFL's profitability is supported by low credit costs, though it has a limited performance history. The company's return on average managed assets and return on average net worth stood at 3.1% and 3.8%, respectively, in FY2024 (4.1% and 5.0%, respectively, in FY2023). The moderation in the profitability indicators in FY2024 resulted from the increase in the credit costs and operating expenses. The operating expenses rose mainly due to the hiring in the senior management team for the expansion of the retail financing portfolio and for increasing the numbers of branches. With operating efficiency expected to improve in the medium term, the operating expenses in relation to average assets are expected to moderate from the current level.

The credit cost increased to 0.7% in FY2024 from 0.3% in FY2023 on account of higher fresh slippages in the retail financing portfolio and losses on the sale of repossessed assets in FY2024. The credit costs could increase, going forward as well, as the portfolio seasons. AFL reported good NIMs of 9.5% in FY2024 (8.5% in FY2023), supported by nil leverage. As it scales up its operations and increases its focus on retail loans, the company's ability to manage the interest spreads in the highly competitive financing space and contain the credit costs will be crucial for supporting its profitability metrics.

Credit challenges

Limited track record of operations; relatively high portfolio vulnerability, given the target borrower segment – While AFL started disbursements in FY2019, the same was low in the initial months and gained traction from FY2020. The AUM grew to Rs. 249 crore as on March 31, 2024 from Rs. 6.5 crore as on March 31, 2019. Also, wholesale loans, in the form of loans to dealers for inventory funding and vendor financing, have dominated the company's portfolio mix so far, despite reducing with the increasing share of retail loans. ICRA notes that the company is gradually building up its retail portfolio and using its co-lending arrangements with banks to support the overall growth in the retail loan book. While the higher share of retail loans will improve the portfolio granularity, it would also augment the portfolio vulnerability as the target borrower profile is largely dependent on the agriculture sector and hence susceptible to income shocks due to agro-climatic cycles.

AFL primarily lends to the dealers of the tractors manufactured by the ITL Group (52% of the AUM as on March 31, 2024), for which it has a bank guarantee or a partial bank guarantee along with the hypothecation of receivables as security. While 5% of the AUM is towards financing to the vendors of ITL, which is secured by receivables from ITL, the balance consists of retail loans. The company started disbursing retail loans in FY2022 with on-book retail loans accounting for 25% of the AUM, as on March 31, 2024 (12% as on March 31, 2023), and off-book co-lending retail loans accounting for 18% (negligible as on March 31, 2023). As on March 31, 2024, AFL's portfolio was characterised by controlled asset quality with gross stage 3 of 0.34% (0.14% as on March 31, 2023), albeit on a less seasoned book. There could be some deterioration in the asset quality, going forward, as the portfolio seasons. The company's ability to maintain good asset quality while growing as per its business plans will be a key monitorable.

Liquidity position: Strong

AFL has not taken any external debt and relies on equity provided by the parent as well as internal accruals to fund its loan book. The liquidity is also supported by the cash and bank balance of Rs. 109 crore as on March 31, 2024. The company had availed some short-term loans from ITL in the past to manage its liquidity requirements. It does not have any external funding lines.

Rating sensitivities

Positive factors – The rating can be upgraded if AFL is able to significantly scale up and diversify its business operations while improving the profitability from the current levels on a sustained basis. Also, its ability to remain strategically important to the parent, while maintaining its asset quality, would be a monitorable.

Negative factors – Pressure on the rating could arise on a deterioration in the credit profile of the parent or lower-than-expected support from the parent group. Besides, the asset quality trajectory and deterioration in the earnings profile on a sustained basis will remain key monitorables.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Non-banking Finance Companies
Parent/Group support	Parent: International Tractors Limited (ITL) ICRA expects ITL to be willing to extend financial support to AFL if needed, given the importance it holds for meeting ITL's objectives.
Consolidation/Standalone	Standalone

About the company

Autotrac Finance Limited (AFL) is a non-banking financial company (NBFC) registered with the Reserve Bank of India (RBI) as a non-deposit taking NBFC (NBFC-ND). It is a wholly-owned subsidiary of International Tractors Limited (ITL) incorporated in July 2001. AFL got its licence from the RBI on August 2, 2018 to operate as an NBFC-ND and started its operations in 2018. The company has been formed to deliver financing solutions to rural customers through innovative products and services. It primarily offers inventory funding to the dealers of ITL, vendor finance to the vendors of ITL (both as purchase bill discounting and term loans) and retail finance for the purchase of the tractors manufactured and sold by ITL.

AFL's AUM stood at Rs. 249 crore as on March 31, 2024 (Rs. 206 crore as on March 31, 2023), including 52% towards inventory funding for ITL's dealers (79% as on March 31, 2023), 5% towards ITL's vendors (9% as on March 31, 2023), 25% towards on-book retail tractor loans (12% as on March 31, 2023) and the remaining (18%) towards off-book co-lending retail tractor loans (negligible as on March 31, 2023).

AFL reported a profit after tax (PAT) of Rs. 9.7 crore in FY2024 on a total managed asset base of Rs. 365.4 crore as on March 31, 2024 compared with a PAT of Rs. 10.3 crore in FY2023 on a total managed asset base of Rs. 267.3 crore as on March 31, 2023. The company reported gross stage-3 of 0.34% and nil net stahe-3 as on March 31, 2024 compared with 0.14% and nil, gross stage-3 and net stage-3respectively, as on March 31, 2023.

Key financial indicators

	FY2021 Audited	FY2022 Audited	FY2023 Audited	FY2024 Provisional
Total managed assets	185.1	232.0	267.3	365.4
Total income	21.7	23.2	25.0	33.5
Profit after tax (PAT)	9.8	10.7	10.3	9.7
RoMA	5.7%	5.1%	4.1%	3.1%
CRAR	82.4%	91.4%	103.8%	100%
Gearing (reported; times)	0.1	0.0	0.0	0.0
Managed gearing (times)	0.1	0.0	0.00	0.2
Gross stage 3	-	0.16%	0.14%	0.34%

Source: AFL, ICRA Research; Amount in Rs. crore; All figures and ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					Jun 11, 2024	May 25, 2023	-	Mar 28, 2022	Mar 04, 2022
1	**Issuer rating**	Long term	NA	NA	**[ICRA]AA+ (Stable)**	**[ICRA]AA+ (Stable)**	-	**[ICRA]AA+ (Stable)**	**[ICRA]AA (Positive)**

Source: ICRA Research

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable

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/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	-	-	-	-	[ICRA]AA+ (Stable)

Source: AFL, ICRA Research

Annexure II: 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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