

April 22, 2022

Skoda Auto Volkswagen India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based / Non-fund Based Facilities	2,607.0	2,607.0	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	1,200.0	1,200.0	[ICRA]A1+; reaffirmed
Total	3,807.0	3,807.0	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings continues to factor in the operational, managerial and financial support received by Skoda Auto Volkswagen India Private Limited (SAVIPL or the company) from Volkswagen AG and other Group entities (VW Group), highlighting SAVIPL's strategic importance for the Group in developing India as a manufacturing hub for small and mid-sized cars. SAVIPL, being a wholly-owned subsidiary, has access to the technology and product portfolio of the VW Group, one of the world's largest passenger car manufacturers by volume. Over the years, the VW Group has provided financial support to its Indian operations through equity infusion, unsecured loans, financial assistance (to maintain the Group's India operations net profitable) and extended credit period, which has supported the liquidity and profitability of its Indian arm. Further, SAVIPL leverages on the superior technological capabilities and wide product portfolio of the VW Group to expand its footprint in India and abroad (through exports). The company's healthy financial performance in FY2022 was backed by revival in the demand for passenger vehicles (PV) and positive response to its new models in the recent past. Such uptick in volume offtake led to a moderate improvement in SAVIPL's market share in the domestic PV market. ICRA also takes note of the company's strong liquidity profile characterised by sizeable cash and liquid investments of over Rs. 900 crore, and significant buffer from the undrawn bank lines (committed and uncommitted) of over Rs. 5,500 crore.

The credit strengths are partially offset by SAVIPL's marginal market share in the domestic PV market (although the same has improved visibly in FY2022), the intense competition from incumbents, its thin dealership and service network, along with a modest product portfolio. ICRA notes that the low local content exposes the company to foreign exchange (forex) movements. However, going forward, SAVIPL plans to significantly increase the local content and sizeable exports (which acts as natural hedge) to mitigate the risk to an extent.

ICRA also notes that SAVIPL has significant contingent liabilities, mainly in the form of legal and tax matters. While the company is fairly confident that in most of the cases the decision of the will be in favour of the company, ICRA takes comfort from the fact that in the event that SAVIPL has to make any sizeable pay outs towards the same, the Group is expected to provide financial support to SAVIPL for the same. Nevertheless, ICRA will continue to monitor the developments pertaining to the contingent liabilities.

The Stable outlook reflects ICRA's expectation that SAVIPL's credit profile will continue to benefit from the operational, managerial and financial support from the VW Group.

Key rating drivers and their description

Credit strengths

Strong operational, managerial and financial support from VW Group – SAVIPL is a wholly-owned subsidiary of Volkswagen AG. The VW Group has regularly supported the company, both operationally and financially, through equity infusion, unsecured loans, financial assistance and/or extended credit period for components supplied by the Group's other units. ICRA

notes that the financial support from the Group supported SAVIPL's liquidity position, despite sizeable losses in the initial years of its operations. SAVIPL has demonstrated a significant improvement in its revenues and profitability in FY2022, driven by revival in demand and positive response to its new models. Further, scheduled launches of models from Volkswagen and Skoda are expected to provide further traction, going forward.

The company leverages technological capabilities and wide product portfolio of Volkswagen AG – SAVIPL, being a wholly-owned subsidiary, has access to the technology and product portfolio of the VW Group, one of the world's largest passenger car manufacturers by volume. However, owing to the intense competition from incumbents in the Indian PV industry, it was unable to create a marked presence in the Indian market. To optimally utilise the production capacity, the company has started using its Indian unit as a manufacturing hub for small cars and super-compact sedans. The exports constituted about 60% of SAVIPL's overall sales in FY2021 (about 58% in 11M FY2022), by volume. The company exports Polo and Vento models from its Indian operations. The exports also help the company in mitigating the impact of forex volatility, given the sizeable import in the overall raw material mix.

Strong liquidity position; regular financial support from VW Group – The company enjoys strong liquidity comfort with cash and liquid investments of over Rs. 900 crore, along with undrawn committed and uncommitted banks lines of over Rs. 5,500 crore as on March 31, 2022. Moreover, SAVIPL's liquidity profile is supported by financial assistance from the VW Group and extended credit period from Group companies. In co-operation with the parent company, strategies are implemented to maintain sufficient liquidity. SAVIPL also maintains liquidity equivalent to three months' external vendor payments in cash, committed and uncommitted lines.

Credit challenges

Overall market share continues to remain modest, despite moderate increase in market share in FY2022 – SAVIPL is a late entrant in the domestic PV market, which is dominated by incumbents such as Maruti Suzuki India Limited (MSIL) and Hyundai Motors India Limited (HMIL). While the overall market share remained marginal at 1.2% for SAVIPL (VW + Skoda brand) in India FY2021, the company reported a moderate increase in market share to 2.1% in 11M FY2022, backed by healthy volumes in both the export and domestic markets.

Limited product portfolio; absence of offerings in high volume mini, super compact and compact UV segments – The company's overall product portfolio in the mass market segment remains limited because of its absence in the high-volume segments, such as the compact utility vehicle (UV) and super compact UV segments, in the Indian market. However, the company has made investment under its India 2.0 and has launched four models (three models already launched, with one model scheduled to be launched in Q1FY2023) on the MQB (Modularer Querbaukasten, or Modular Transverse Matrix) platform and India 2.5 strategy is expected to be deployed to launch new models, which along with the increase in localisation level will help the Group to competitively price its upcoming products.

Thin sales and service network; limited product portfolio in domestic market and low volume offtake may impact long-term growth prospects – The VW Group, despite being a strong brand, faced limitations in establishing a presence in the domestic PV market, owing to its thin sales and service network. The low volume impacts the viability of SAVIPL's dealerships, which constrain dealership expansion in the semi-urban and rural pockets. The company, however, had significant growth in volume offtake in FY2022, mainly driven by positive response to its new models with multiple scheduled launches expected to provide further traction. Moreover, SAVIPL is gradually expanding its network in the domestic market, which should act as a key mitigant against the said concern.

Low level of localisation limits pricing flexibility and exposes cost structure to foreign exchange volatility – The increased share of imported components continues to impact the cost competitiveness of the company's spare parts. The imported raw materials limit pricing flexibility and expose the company's cost structure to forex volatility. Nevertheless, SAVIPL is actively trying to increase the extent of localisation, which should provide some comfort to the pricing flexibility and a cushion for forex volatility over the medium term. While the VW and Skoda brands faced limitations in making any marked presence in the mass market segment, the VW Group enjoys a healthy share in the luxury car segment due to the healthy demand for its Audi, Porsche and Lamborghini vehicles.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by sizeable cash surplus of over Rs. 900 crore and sizeable undrawn committed and uncommitted bank lines of over Rs. 5,500 crore as on March 31, 2022. The company's working capital limit utilisation has been low with average fund-based utilisation of around 15% over the 12-month period ending January 2022, thus providing enough room in case of any financial contingency. In co-operation with the parent company, strategies are implemented to maintain sufficient liquidity. SAVIPL's management shares that it will always maintain liquidity equivalent to three months of external vendor payments and debt obligations in cash, committed and uncommitted lines.

Rating sensitivities

Positive factors – Improvement in the credit profile of Volkswagen AG could trigger a rating upgrade. Substantial improvement in the underlying operating and financial performance of SAVIPL will also be a credit positive. The short-term rating is already at the highest level.

Negative factors – Deterioration in the credit profile of Volkswagen AG, substantial deterioration in operational and financial position of SAVIPL or weakening in linkage with the VW Group may trigger a rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Passenger Vehicle Manufacturers Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Volkswagen AG (VW AG, rated A3/Stable by Moody's) ICRA expects the VW Group to be willing to extend financial support to SAVIPL, should there be a need, given the importance that SAVIPL holds for the VW Group in meeting its diversification objectives. SAVIPL and the VW Group also share a common name, which in ICRA's opinion would persuade the Group to provide financial support to SAVIPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

The Volkswagen Group in India, headquartered in Pune, Maharashtra, is represented by five brands— Skoda Auto, Volkswagen, Audi, Porsche and Lamborghini. The Indian operations began with the launch of Skoda Auto in 2001. Audi and Volkswagen entered India in 2007, while Lamborghini and Porsche were introduced in 2012. SAVIPL (erstwhile Volkswagen India Private Limited) has a manufacturing unit in Pune with a manufacturing capacity of 2,00,000 vehicles per year. At present, the unit manufactures Polo, Vento and Taigun vehicles of the VW brand, and the Rapid and Kushaq from the Skoda brand. SAVIPL also runs an assembling facility at Aurangabad (Maharashtra), where it currently assembles Skoda (Superb, Octavia and Kodiaq) and Audi (A4, A6, Q5 and Q7) as well as VW (Tiguan) brands. It has a production capacity of 41,180 cars per annum.

Earlier, the Group had other entities, such as Skoda Auto India Private Limited (SAIPL) and Volkswagen Group Sales India Private Limited (VGS IPL), which were merged with SAVIPL. The merger became effective from October 05, 2019. VGS IPL was the sales and marketing arm for the Volkswagen, Audi, Porsche and Lamborghini brands in India.

Key financial indicators (audited)*

SAVIPL	FY2020	FY2021	9M FY2022 [#]
Operating Income (Rs. crore)	11,894.2	9,420.1	5,634.4
PAT (Rs. crore)	261.4	757.0	19.5
OPBDIT/OI (%)	7.6%	4.1%	5.2%
PAT/OI (%)	2.2%	8.0%	0.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0	1.2
Total Debt/OPBDIT (times)	1.4	3.6	1.8
Interest Coverage (times)	6.1	2.9	5.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * after implementing the change in the treatment of financial support from the Group, from non-operating income to other operating income, [#]unaudited*

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 as on February 28, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020			
				22-Apr-22	14-Jun-21	7-Apr-21	12-Jun-20	21-May-20	5-Mar-20	9-Dec-19	9-Apr-19	
1	Fund based/Non-fund Based Facilities	Long-term and short-term	2,607.0	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	Commercial Paper	Short-term	1,200.0	700.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/Non-fund Based Facilities	Simple
Commercial Paper	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/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund Based Facilities	NA	NA	NA	2,607.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
INE04TA14196	Commercial Paper	25-Nov-21	4.20%	25-Apr-22	300.0	[ICRA]A1+
INE04TA14212	Commercial Paper	20-Jan-22	4.32%	19-Jul-22	200.0	[ICRA]A1+
INE04TA14220	Commercial Paper	28-Jan-22	4.55%	26-Jul-22	200.0	[ICRA]A1+
Unplaced	Commercial Paper	NA	NA	NA	500.0	[ICRA]A1+

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
ashowardhan.swami@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

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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.

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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