April 29, 2024

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 working capital 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 of Skoda Auto Volkswagen India Private Limited (SAVIPL or the company) continues to factor in the operational, managerial and financial support received by the company from Volkswagen AG and other Group entities (VW Group), highlighting its strategic importance for the Group in developing India as a manufacturing hub for small and mid-sized cars. SAVIPL, being a wholly-owned subsidiary of Volkswagen AG, 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. Furthermore, SAVIPL leverages the superior technological capabilities and wide product portfolio of the VW Group to expand its footprint in India and abroad (through exports). ICRA notes that the company demonstrated a healthy operational performance in the recent past (FY2022-FY2024), which was backed by an uptick in demand for passenger vehicles (PVs) and positive response to its new models launched under the India 2.0 strategy in recent years. The launch of these new models and entry into the fast-growing compact sports utility vehicle (SUV) segment also supported the entity in improving its market share in the domestic PV market to over 2.0% in FY2023-FY2024 from 1.4% in FY2020; although it continues to remain a marginal player in the domestic PV market on an overall basis. ICRA also notes the company's strong liquidity profile characterised by sizeable cash and liquid investments of around Rs. 980 crore, and significant buffer from undrawn bank lines (committed and uncommitted) of around Rs. 4,570 crore as of March 2024.

However, the credit strengths are partially offset by SAVIPL's marginal market share in the domestic PV market, constrained operating profitability on standalone operations, the intense competition from incumbents, its thin dealership and service network, along with a relatively modest product portfolio having led to lower profit margins in the past. While the company has been taking steps to address the portfolio gaps, and has introduced new models under its India 2.0 strategy, its market share in the domestic market continues to remain below 3%. ICRA also notes that the import dependence for raw materials exposes the company to foreign exchange (forex) movements and limits its pricing flexibility vis-à-vis other domestic incumbents. However, going forward, SAVIPL plans to increase the local content and increase its exports (which acts as natural hedge) to mitigate the forex-related risks to an extent.

ICRA also notes that SAVIPL has significant contingent liabilities (Rs. 10,636 crore as of March 2023, Rs. 11,469 crore as of March 2022), 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 proceedings 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, 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 regular equity infusion, unsecured loans, financial assistance and 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. Although SAVIPL has demonstrated a significant improvement in its revenues over recent years, the financial assistance continues to be forthcoming, both for managing its operations, as well as for meeting capex requirements. The entity has received financial assistance of Rs. 816.7 crore in FY2023 (~4% of revenues), and ~Rs. 550 crore in 9M FY2024 (~3% of revenues). The company also benefits from support from its parent for product development, most recently for the India 2.0 programme (capex outlay of ~Rs. 6,000 crore) wherein it introduced four models for the Indian market, as well as for the ongoing India 2.5 programme (capex outlay of ~Rs. 1,500 crore) wherein it will be launching additional models, going forward.

Technological capabilities and access to 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. However, owing to the intense competition from incumbents in the Indian PV industry, it has been 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. Accordingly, exports constituted about 34% of SAVIPL's overall sales volume in FY2024 (23% in FY2023), with the focus on exports expected to continue going forward as well.

Strong liquidity position; regular financial support from VW Group – SAVIPL enjoys strong liquidity comfort with cash and liquid investments of around Rs. 980 crore, along with undrawn committed and uncommitted banks lines of around Rs. 4,570 crore, as on March 31, 2024. 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, equivalent to three months' external vendor payments through a mix of cash, committed and uncommitted lines.

Credit challenges

Marginal player in the domestic PV market with limited product portfolio – 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), and more recently, Tata Motors Limited (TML). While the overall market share remains modest, the company has in the recent past demonstrated improvement in its market share, from 1.4% (FY2020) to 2.1% (FY2024) (although the same moderated to an extent from 2.4% in FY2023), backed by healthy traction for newly launched models. However, while the introduction of new models under the India 2.0 programme has helped to plug some portfolio gaps in its product line-up to an extent, the product portfolio vis-à-vis other large PV players in the domestic market remains relatively limited. Nevertheless, the company continues to work on new model launches and regular facelift versions of existing models to keep up with market trends. That said, while the VW and Skoda brands have 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.

Relatively lower profitability on standalone operations – Modest market share and limited product portfolio have led to lower profit margins for SAVIPL in the past. The company therefore has actively been trying to gain market share in the domestic PV segment, which should result in higher volume offtake and, thus, support profitability through operating leverage benefits. The company's standalone profitability before financial assistance remains lower than OEMs in India. However, with production in swing following the India 2.0 strategy, its revenues have increased from Rs. 11,894 crore in FY2020 to an estimated Rs. 20,000 crore in FY2024. The operating profit margin before the financial assistance has improved from 0% in FY2020 to an estimated 1.6% in 9M FY2024. The standalone profitability without financial assistance remains a key monitorable event.

Thin sales and service network – 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. While SAVIPL's sales and service network remains urban-centric compared to many of its peers from the domestic market, its focus on offering premium vehicles gels well with its urban-centric network. The low volume impacts the viability of SAVIPL's dealerships, thus constraining the dealership expansion in the semi-urban and rural pockets. Nevertheless, SAVIPL is gradually expanding its network in the domestic market (with the number of authorised dealerships across India currently being ~230), which help mitigate the concern over the medium to long-term.

Low level of localization limits pricing flexibility and exposes cost structure to foreign exchange volatility – The sizeable share of imported components continues to impact the cost competitiveness of the company's vehicles in the domestic PV market. The imported raw materials also 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 towards forex volatility over the medium term. Furthermore, the company also has in place the foreign exchange hedging mechanism such as forward contracts, natural hedging, etc., which mitigates risk associated with forex volatility to an extent.

Significant contingent liabilities mainly in the form of legal and tax matters – SAVIPL continues to have significant contingent liabilities (Rs. 10,636 crore as of March 2023, Rs. 11,469 crore as of March 2022), 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 proceedings will be in its favour, the Group is expected to provide financial support to SAVIPL in case of any sizeable cash outflows from the fructification of these contingent liabilities.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by cash surplus of around Rs. 980 crore and sizeable undrawn committed and uncommitted bank lines of around Rs. 4,570 crore as on March 31, 2024. The company's working capital limit utilisation has been low with average fund-based utilisation of around 26% over the 12-month period ending January 2024 (against sanctioned working capital limits of Rs. 6,741 crore as of January 2024), thus providing sufficient headroom in case of any financial contingency. In co-operation with the parent company, strategies are implemented to maintain sufficient liquidity, such that liquidity equivalent to three months of external vendor payments and debt obligations are always maintained in cash, committed and uncommitted lines. Furthermore, the company has a stable accrual generation of Rs. 1,200-1,300 crore per annum, which is expected to continue over the medium term. Against these liquidity sources, the cash outflow requirements remain fairly moderate, with capex outlay of ~Rs. 1,000-1,200 crore per annum over the medium term, with no external debt repayment lined up as of March 2024.

Rating sensitivities

Positive factors – Improvement in the credit profile of Volkswagen AG could lead to a rating upgrade.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Passenger Cars & Utility Vehicles
Parent/Group support	**Parent/Group Company: Volkswagen AG (VW AG)** 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	For arriving at the ratings, ICRA has considered the standalone financials of Skoda Auto Volkswagen India Private Limited.

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 production capacity of 2,00,000 vehicles per year. At present, the unit manufactures the Virtus and Taigun vehicles of the VW brand, and the Slavia and Kushaq vehicles from the Skoda brand. SAVIPL also runs an assembling facility at Aurangabad (Maharashtra), wherein it 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 (VGSIPL), which were merged with SAVIPL. The merger became effective from October 05, 2019. VGSIPL was the sales and marketing arm for the Volkswagen, Audi, Porsche and Lamborghini brands in India.

Key financial indicators

SAVIPL	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	14,888.8	19,767.8
PAT (Rs. crore)	208.3	309.5
OPBDIT/OI (%)	5.3%	6.3%
PAT/OI (%)	1.4%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	2.2
Total Debt/OPBDIT (times)	2.8	2.1
Interest Coverage (times)	6.0	5.4

Source: SAVIPL, ICRA Research; 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	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2024 (Rs. crore)	Current Rating (FY2025) Date & Rating on	Chronology of Rating History for the past 3 years Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					29-Apr-24	26-Apr-23	22-Apr-22	14-Jun-21	7-Apr-21
1	Fund based/Non-fund Based Facilities	Long-term and short-term	2,607.0	600.0	[ICRA]AA+ (Stable)/ [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	625.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Source: Company

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: Click Here

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	Fund-based/Non-fund Based Facilities	NA	NA	NA	2,607.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
INE04TA14402	Commercial Paper	28-Nov-23	7.50%	14-Nov-24	225.0	[ICRA]A1+
INE04TA14436	Commercial Paper	19-Jan-24	7.52%	10-Jan-25	150.0	[ICRA]A1+
INE04TA14444	Commercial Paper	26-Feb-24	7.55%	5-Feb-25	125.0	[ICRA]A1+
NA*	Commercial Paper	NA	NA	NA	700.0	[ICRA]A1+

*Source: Company; *Not yet placed*

Annexure-2: 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.

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