

September 24, 2021

Volkswagen Finance Private Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Commercial Paper Programme	3,000.0	3,000.0	[ICRA]A1+; outstanding
Total	3,000.0	3,000.0	

*Instrument details are provided in Annexure-1

Rationale

On September 16, 2021, Volkswagen Finance Private Limited (VWFPL) announced that it has sold its retail loan portfolio and written off its retail portfolio to Kotak Mahindra Bank Limited and Kotak Mahindra Prime Limited and the agreements in respect thereof were executed on September 15, 2021. It also announced that, as a strategic decision, its board of directors has approved the transfer of the insurance brokerage business to its subsidiary – Kuwy Technology Service Private Limited (Kuwy), thereby creating synergies with the retail business. The wholesale business is to be discontinued from January 1, 2022, while the wholesale funding portfolio, wherein disbursements were made during this period for refinancing, is to be completely amortised by March 31, 2022. The overall business strategy is to be finalised by the end of the current calendar year.

The sale of the portfolio has led to a significant decline in VWFPL's scale of operations as the retail portfolio constituted 59% of its total loan book as on March 31, 2021. However, this is in line with the strategy shared by the company earlier wherein it had decided to discontinue retail vehicle financing and shift from an asset-based model to a fee-based model post the acquisition of a majority stake in Kuwy. Also, with a lower base and relatively weaker asset quality in the wholesale business, the company's reported asset quality indicators would look much weaker (~30%).

Nevertheless, the rating for VWFPL remains unchanged and continues to factor in its strong parentage with the entity being a wholly-owned step-down subsidiary of Volkswagen AG (VW AG; rated A3/Prime-2 (Stable) by Moody's) through Volkswagen Financial Services AG (VFSAG; rated A3/Prime-2 (Stable) by Moody's; a subsidiary of VW AG with a 91% stake in VWFPL) and Volkswagen Finance Overseas B.V. (a subsidiary of VFSAG with a 9% stake in VWFPL). ICRA expects VWFPL to remain strategically important for the Volkswagen Group and expects support to be forthcoming as and when required. As for liquidity and financial flexibility, VWFPL benefits from the Group's global relationships and its entire credit facilities have a corporate guarantee from VFSAG.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Credit Rating Methodology for Non-Banking Finance Companies Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Volkswagen AG (VW AG) ICRA expects VW AG to be willing to extend financial support to VWFPL, if needed, given the importance VWFPL holds for VW AG for meeting its objectives. VWFPL and VW AG also share a common name, which in ICRA's opinion would persuade VW AG to provide financial support to VWFPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Consolidation

About the company

Volkswagen Finance Private Limited (VWFPL) is a non-deposit taking non-banking financial company (NBFC) engaged in financing the retail customers (before the aforementioned transaction with the Kotak Group) and dealers of the Volkswagen Group brands. It is a wholly-owned subsidiary of Volkswagen Financial Services AG which, in turn, is a wholly-owned subsidiary of Volkswagen AG. The company was incorporated in January 2009 and obtained an NBFC licence in March 2011. It started retail financing in March 2011 and dealer financing in January 2012. However, as previously stated, VWFPL decided to discontinue the retail operations in FY2021 and is currently reviewing its strategy for the wholesale business with the new business plan to be finalised before the end of calendar year 2021.

In FY2021, VWFPL reported a profit after tax (PAT) of Rs. 20 crore on a total asset base of Rs. 3,162 crore compared to a net loss of Rs. 27 crore on a total asset base of Rs. 3,990 crore in FY2020. The net worth stood at Rs. 1,286 crore as of March 31, 2021 with a capital adequacy ratio of 46.8%. VWFPL maintained a portfolio of Rs. 2,879 crore (retail portfolio: Rs. 1,689 crore; wholesale portfolio: Rs. 1,190 crore) as on March 31, 2021 compared to a portfolio of Rs. 3,801 crore (retail portfolio: Rs. 2,575 crore; wholesale portfolio: Rs. 1,226 crore) as on March 31, 2020.

Key financial indicators (audited)

Volkswagen Finance Private Limited	FY2019	FY2020	FY2021
	Audited	Audited	Audited
Total income (Rs. crore)	593	480	369
Profit after tax (Rs. crore)	(38)	(27)	20
Net worth (Rs. crore)	1,341	1,315	1,286
Loan book (Rs. crore)	5,298	3,801	2,879
Total assets (Rs. crore)	5,535	3,990	3,162
Return on assets (%)	-0.7%	-0.6%	0.6%
Return on net worth (%)	-2.8%	-2.0%	1.6%
Gross gearing (times)	2.6	1.7	1.1
Gross stage 3 (%)	8.7%	13.4%	18.2%
Net stage 3 (%)	3.4%	6.2%	8.3%
Solvency (Net stage 3/Net worth)	12.7%	16.7%	16.7%
CRAR (%)	24.7%	35.1%	46.8%
Tier I (%)	23.5%	33.8%	45.6%

Source: VWFPL; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 24, 2021	Aug 12, 2021			
1	Commercial Paper Programme	Short Term	3,000	3,000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate/ Yield	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper*	NA	NA	7-365 days	3,000	[ICRA]A1+

*Source: ICRA Research; *Yet to be placed*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Volkswagen Finance Private Limited	100.00% (rated entity)	Full Consolidation
Kuwy Technology Service Private Limited	67.73%	Full Consolidation

Source: VWFPL, ICRA Research

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545 316
manushrees@icraindia.com

Jesse Vishwanathan
+91 124 4545 300
jesse.vishwanathan@icraindia.com

Neha Kadiyan
+91 124 4545 321
neha.kadiyan@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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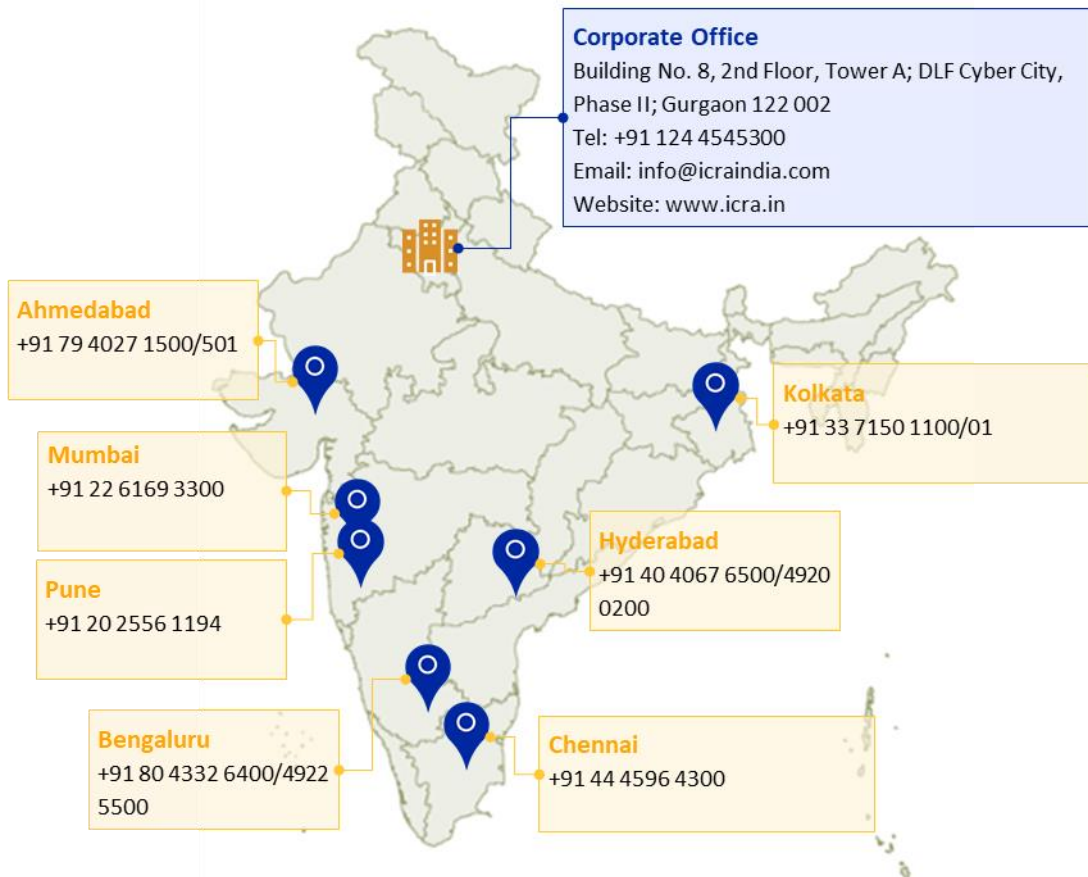
Registered Office

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

Tel: +91 11 23357940-45



Branches



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