

September 27, 2022

ALD Automotive Private Limited: [ICRA]AAA(CE) (Stable) rating withdrawn and fresh rating of [ICRA]AA (Stable) assigned and withdrawn simultaneously

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT fund-based/Non-fund based bank lines	-	1,150.00	
Long-term (LT) fund-based bank lines – Term loan	941.53	-	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously
LT non-fund based bank lines	5.00	-	
LT fund-based/Non-fund based bank lines – Unallocated	203.47	-	
Total	1,150.00	1,150.00	

*Instrument details are provided in Annexure I

Rationale

ICRA has withdrawn the rating of [ICRA]AAA(CE) (Stable) for the bank facilities of ALD Automotive Private Limited (AAPL). Further, ICRA has simultaneously assigned and withdrawn a fresh rating of [ICRA]AA (Stable) for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022 and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/criteria defined by the RBI is not to be considered while assigning credit enhanced (CE) ratings. The aforesaid FAQ document issued by the RBI also permits the withdrawal of rating for facilities where a given support cannot be considered for a credit enhancement. Such a withdrawal is permitted only if it is solicited by the rated entity, even if there might be obligations outstanding against the rated facilities, and a no-objection certificate (NOC) from the lenders is not available. Accordingly, ICRA has withdrawn the [ICRA]AA (Stable) rating solely at the request of the company.

Among other considerations, the [ICRA]AAA(CE) (Stable) rating derived comfort from the presence of the corporate guarantee from AAPL's ultimate parent – Société Générale (Soc Gen; rated A1/Stable by Moody's). AAPL is a step-down subsidiary of ALD SA (ALD; the flagship and ultimate holding company of the ALD Automotive Group), which is a listed company in Paris (France). France-based Soc Gen, a global systemically important bank, holds a 79.82% stake in ALD.

For assigning the [ICRA]AA (Stable) rating, ICRA had assessed the attributes of the guarantees issued by Soc Gen in favour of the said facilities. While the guarantees are legally enforceable, irrevocable, unconditional, and cover the entire amount and tenor of the rated facilities, they do not have a well-defined invocation and payment mechanism.

To align itself with the aforesaid regulatory guidance, ICRA would no longer be considering the benefit of a guarantee that lacks a well-defined invocation and payment mechanism in its credit assessment, though such support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities compared with support that is only implicit in nature. Accordingly, ICRA has assigned a rating of [ICRA]AA (Stable) to the above-mentioned bank facilities, while withdrawing the [ICRA]AAA (CE) (Stable) rating.

The [ICRA]AA (Stable) rating factors in AAPL's established position and improving track record in the automobile leasing industry in India, financial support and other benefits derived from its strong parentage, as it is a part of the Soc Gen Group, and its strategic importance to the parents – ALD and Soc Gen. AAPL receives constant operational guidance and support from the parent in terms of reporting, commercials/marketing, treasury management and information technology (IT) and senior-

level deputations. The financial support is reflected by the fact that AAPL's entire funding is backed by an unconditional and irrevocable corporate guarantee from Soc Gen (the guarantor). The rating also factors in the parent's domain expertise and market position along with the company's diversified geographical presence and strong relationships with a reputed client base built over the years.

The rating is, however, constrained by the company's moderate financial profile and leveraged, albeit improving, capital structure (Total debt (TD)/Tangible net worth) of 13.5 times as of March 31, 2022 (20.5 times as of March 31, 2021) and TD/OPBDITA of 4.4 times for FY2022 (4.0 times for FY2021)). The rating is also constrained by the low maturity of the automobile leasing industry in India and the residual value risk (of the fleet of cars) inherent in the business, which can affect the company's profitability and net worth.

ICRA also takes note of the proposed acquisition of LeasePlan (another established player in the global leasing industry with approximately 1.9 million vehicles under management in 29 countries) by ALD. The acquisition is expected to close by the end of calendar year 2022, subject to the receipt of the requisite regulatory approvals. The said transaction would also result in the integration of AAPL's domestic operations and ICRA would continue to engage with the management in this regard and monitor the progress in order to assess the impact on AAPL's credit profile.

Key rating drivers and their description

Credit strengths

Established position in domestic automobile leasing market – AAPL, a wholly-owned, step-down subsidiary of ALD SA (ALD; part of the Soc Gen Group), is one of the leading players in the domestic automobile leasing market, with a diversified vehicle profile ranging across low-priced to premium-priced vehicles. AAPL, which commenced operations in 2005, offers operating leases for passenger vehicles. Apart from providing the vehicle, the company provides several fleet management services such as maintenance, insurance, roadside assistance, door-to-door, standby car, etc, as a part of the lease agreement.

AAPL is headquartered in Mumbai and caters to more than 900 corporates in over 280 locations in India including all major cities like Mumbai, Delhi, Gurugram, Bengaluru, Hyderabad, Pune, Kolkata, Kochi and Chennai. AAPL has developed relationships with a reputed client base comprising multinational companies (MNCs) as well as large Indian corporates. The company has been steadily expanding its leasing operations and registered a 6% growth in its operating fleet in FY2022, supported by healthy new contract additions. However, it is noted that new business was limited in FY2021 due to the Covid-19 pandemic-induced disruptions.

Strategic importance to ALD, a leading entity in operating leasing and fleet management in Europe – AAPL remains strategically important to the parent, ALD, as a vehicle for expanding in Indian markets. ALD is the market leader in Europe and a leading player in automotive leasing worldwide, with a presence in 43 countries and a track record of almost six decades. It is focused on the operations in India, which is a developing market for operating leasing. Given the large market for automotive leasing and the low penetration level at present, the growth potential in India remains high. ICRA, however, notes that consumer preference in the country remains skewed towards ownership instead of leasing, in contrast to European countries.

Corporate guarantee and track record of support from Soc Gen – The Soc Gen Group is amongst the leading financial services groups in Europe. By virtue of being a part of a prominent banking group, the company has access to funds to support growth and meet its working capital requirements. AAPL's cost of funds is also low, supported by the availability of competitively priced borrowings backed by the unconditional and irrecoverable guarantee provided by Soc Gen for the company's bank borrowings. AAPL's domestic borrowings primarily carry a fixed interest rate and the international borrowings are completely hedged, thereby mitigating interest rate and foreign currency risks. Also, the established track record of ALD International

GmbH in car leasing provides the company with access to a network of manufacturers, dealers, insurers and service providers. AAPL receives constant operational guidance and support from the parent in terms of reporting, commercials/marketing, treasury management, IT support and senior-level deputations. The key areas of operations, including internal control, compliance and credit risk, are managed and monitored by the company's Chief Administrative Officer, on deputation from the parent company. Further, two of the three board members are from the parent company.

Credit challenges

Modest financial profile with stagnant revenues and leveraged, albeit improving, capital structure – AAPL's capital structure is highly leveraged owing to the high level of borrowings used to fund the capital expenditure towards fleet purchases, while the net worth witnessed erosion in the interim years (FY2018 and FY2019) due to losses following the transition to the Goods and Services Tax (GST) regime. While the healthy accretion to the net worth in FY2022 supported an improvement in the capital structure with the gearing improving to 13.5 times as of March 31, 2022 from 20.5 times as of March 31, 2021 and 30.7 times as of March 31, 2020, the same remains high. Furthermore, the leverage is expected to remain high, given AAPL's large capital requirement to fund the purchase of additional fleet while internal accruals remain comparatively low. ICRA also notes that the company funds the capital expenditure with term loans having a tenor of 3-4 years, while vehicles have a longer economic life and the payback periods remain contingent on the realisation of the residual value. Thus, the coverage metrics are weak with a debt service coverage ratio (DSCR) of less than 0.6 times in FY2022, though interest coverage and TD/OPBDITA were comparatively comfortable at 3.4 times and 4.4 times, respectively, in FY2022.

AAPL's operating income (OI) remained stagnant in the range of Rs. 310-340 crore during FY2017-FY2021, before improving in FY2022 to Rs. 350 crore (+4% YoY), despite some impact of the second wave of the Covid-19 pandemic and related localised lockdowns. The profitability is also sensitive to the profit on the sale of used cars, which remains susceptible to residual value risk. ICRA notes that the sizeable improvement in the reported profitability in FY2022, with the company reporting a profit after tax (PAT) of Rs. 34 crore compared to Rs. 13 crore in FY2021, was supported by higher profits on the sale of used cars and the moderation in the borrowing cost.

Low maturity of automobile leasing industry in India – The vehicle leasing model is still not widely accepted by Indian consumers, with a preference for ownership still prevailing. Leasing is mostly prevalent in India in Tier I cities and is concentrated in MNCs and large corporates. While the company has rolled out initiatives to raise awareness on the benefits of lease over ownership and has designed products for its MNC customers to promote its business, market penetration remains low.

Residual value risk – AAPL's profitability remains exposed to residual value risk, which is the risk arising due to the divergence between the book value of the assets on the termination of the operating lease and the market value at that point of time. Given its established market position as well as vast experience, the company was able to price its residual values well, which enabled it to consistently generate a profit on the sale of assets (fleet) till FY2017. Due to changes in the tax structure, following GST implementation, AAPL reported losses on the sale of the assets acquired during the pre-GST regime, leading to lower profitability and depletion of the net worth during FY2018-FY2020. Subsequently, the company posted profits on secondary sales in FY2021 and FY2022, due to reduction in the number of pre-GST vehicles in the fleet as well as increase in the average market price of such vehicles owing to higher demand. While AAPL has demonstrated its ability to profitably sell such used cars, the same remains susceptible to market conditions and regulatory changes, thereby exposing it to the risk of loss if the market value falls below the residual value estimated by it.

Liquidity position: Adequate

AAPL's liquidity position remains supported by adequate unencumbered cash and equivalents and undrawn bank lines. As of April 30, 2022, the company had unencumbered cash and equivalents of ~Rs. 84 crore and undrawn bank lines of ~Rs. 640 crore (including a credit line of Rs. 120 crore from Soc Gen) against a debt servicing burden (interest and principal) of Rs. 312 crore in the subsequent six months. Moreover, ICRA notes that AAPL has good financial flexibility, by virtue of being a part of the Soc Gen Group, with relationships with reputed financial institutions and explicit support through a guarantee line (€200 million as of March 31, 2022) from the parent. Comfort is also derived from the monthly nature of the lease rental collections.

Rating sensitivities

Positive factors – ICRA could change the outlook or upgrade the rating in case of a sustained improvement in the company's capital structure and debt maturity profile, while maintaining adequate profitability and liquidity.

Negative factors – ICRA could change the outlook or downgrade the rating in case of the weakening of AAPL's strategic importance to ALD, and thus to Soc Gen, or a deterioration in the credit profile of the parent group. Pressure on the rating could also arise in case of a sustained deterioration in the company's profitability and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group Policy on Withdrawal of Credit Ratings
Parent/Group support	Immediate Parent: ALD International GmbH (ALD International GmbH is a wholly-owned subsidiary of ALD) Ultimate Parent: Soc Gen The rating factors in the implicit support from the ultimate parent, given the close business linkages and strategic importance of AAPL to the Group
Consolidation/Standalone	Standalone

About the company

ALD Automotive Private Limited (AAPL) is a wholly-owned step-down subsidiary of ALD, which is a part of the Soc Gen Group. Commencing operations in 2005, the company offers operating leases for passenger vehicles in India. Apart from providing the vehicle, the company provides several fleet management services as a part of the lease agreement. AAPL is headquartered in Mumbai with regional offices in Delhi, Bengaluru, Hyderabad and Chennai.

About the parent

ALD Automotive Group is an international fleet management and operational car leasing group with a presence in 43 countries and a fleet of more than 1.7 million vehicles as of December 2021. ALD is the holding company for the auto leasing business of Soc Gen. Soc Gen which holds a 79.82% stake in ALD, is a listed company in Paris (France) with a market capitalisation of €19.4 billion as on August 5, 2022. ALD owns the Indian business through ALD International GmbH, an investment holding company.

About the guarantor/ultimate parent

Soc Gen is the leading company of one of the largest financial services groups, Société Générale Group, which is headquartered in Paris, France. The Group currently has operations in 76 countries and has been present in India since 1978 in various banking operations. Soc Gen is a listed company with a market capitalisation of €19.4 billion as on August 5, 2022.

Key financial indicators

AAPL Standalone	FY2021	FY2022
	Audited	Provisional
Operating income	335.3	350.4
PAT	12.7	34.3
OPBDITA/OI	76.3%	74.0%
PAT/OI	3.8%	9.8%
Total outside liabilities/Tangible net worth (times)	21.2	14.4
Total debt/OPBDITA (times)	4.0	4.4
Interest coverage (times)	2.9	3.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Aug 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Sep 27, 2022	Jan 11, 2022	Jun 18, 2021	May 08, 2020	Apr 15, 2019
1 LT fund-based bank lines – Term loan	Long term	-	-	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (SO) (Stable)
2 LT non-fund based bank lines	Long term	-	-		[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (SO) (Stable)
3 LT fund-based/Non-fund based bank lines – Unallocated	Long term	-	-		[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (SO) (Stable)
4 LT fund-based /Non-fund based bank lines	Long term	1,150.00	1,150.00		-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based/Non-fund based bank lines	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	LT fund-based /Non-fund based bank lines	Dec 21, 2021	NA	Feb 28, 2026	208	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously
NA	LT fund-based /Non-fund based bank lines	Oct 07, 2021	NA	Sep 20, 2026	837	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously
NA	LT fund-based /Non-fund based bank lines	Jul 29, 2019	NA	Dec 23, 2023	17	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously
NA	LT fund-based /Non-fund based bank lines	Aug 23, 2019	NA	Nov 23, 2025	88	[ICRA]AAA(CE) (Stable) withdrawn; [ICRA]AA (Stable) assigned and withdrawn simultaneously

Source: Company

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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Branches



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