April 28, 2025

Skoda Auto Volkswagen India Private Limited: Long-term rating downgraded to [ICRA]AA(Stable); short-term rating 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); downgraded from [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 downward revision in the long-term rating of Skoda Auto Volkswagen India Private Limited (SAVIPL or the company) takes into consideration the deterioration in the credit profile of Volkswagen AG (the parent entity of SAVIPL), with its operational performance marred by muted automotive demand from the key markets such as Europe and China. ICRA also notes the revenue stagnation in FY2025 and muted operating profit margin (OPM) of SAVIPL in FY2024 and 9M FY2025 as the company continues to face cost pressures amidst a highly competitive domestic automotive ecosystem.

After reporting a moderate 11% YoY revenue growth in FY2024, SAVIPL's witnessed a 4% YoY revenue decline in 9M FY2025 as domestic volumes continued to remain subdued, with increased export volumes providing some support to the overall volume offtake. The profitability has also deteriorated in the recent past, as reflected by OPM contraction, from 6.3% (FY2023) to 3.2% (FY2024) and further to 1.6% (9M FY2025, provisional). While adverse cost structure (including a surge in freight costs amidst the Red Sea crisis) and one-time incremental operating costs incurred towards complying with emission norms for certain models of vehicles had impacted the profitability in FY2024, elevated input costs had a bearing on profitability in 9M FY2025. Going forward, SAVIPL is expected to register a gradual improvement in its profitability, aided by cost optimization measures undertaken by the company.

ICRA 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). The launch of new models and entry into the fast-growing compact sports utility vehicle (SUV) segment is expected to aid the entity in gradually improving its market share in the domestic PV market over the medium term; although it continues to remain a marginal player in the domestic PV market on an overall basis. ICRA also notes the company's comfortable liquidity profile characterised by sizeable cash and liquid investments of around Rs. 1,005 crore, and significant buffer from undrawn bank lines (committed and uncommitted) of around Rs. 5,780 crore as of April 10, 2025.

However, the credit strengths are partially offset by SAVIPL's marginal market share in the domestic PV market, constrained operating profitability, the intense competition from incumbents, its thin dealership and service network, along with a relatively modest product portfolio. While the company has been taking steps to address the portfolio gaps, and has introduced new models under its India 2.0 and India 2.5 strategies, 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, the company has hedging policies to cover up the forex risks, which provide some comfort against the said risk. Going forward, SAVIPL plans to increase the local content and increase its exports (which acts as a natural hedge) to mitigate the forex-related risks to an extent. ICRA notes the gradual improvement seen in the extent of localisation over the years.

ICRA notes that SAVIPL has significant contingent liabilities (Rs. 10,948 crore as of March 2024, and Rs. 10,636 crore as of March 2023), mainly in the form of legal and tax matters. ICRA also notes the ongoing Show Cause Notice (SCN) issued by Customs Authorities regards different approach of Classification of Imports regarding its assembly car business. The SCN speaks of different duty rates which should have been applied verses the rate adopted and paid by the company. SAVIPL is taking appropriate measures at its side to respond to monitor the developments regarding the same. 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 on the long-term rating reflects ICRA's expectations that SAVIPL will continue to benefit from the operational and financial support from the Volkswagen Group. While domestic volume offtake is expected to register a gradual increase over the medium term, the company's healthy export volumes, in line with the Group's vision of making SAVIPL a regional export hub, are likely to aid support to the overall business performance, going forward.

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. Although SAVIPL has demonstrated a significant improvement in its revenues over recent years, 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. 581.4 crore in FY2024 (~3% of revenues), and Rs. 386.2 crore in 9M FY2025 (~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 India 2.5 programme (capex outlay of ~Rs. 1,500 crore) wherein it launched Skoda Kylaq, a compact sport utility vehicle (SUV), in January 2025.

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 37% of SAVIPL's overall sales volume in FY2025 (34% in FY2024), with continued focus on exports going forward as well.

Comfortable liquidity position; regular financial support from VW Group – SAVIPL enjoys a comfortable liquidity comfort with cash and liquid investments of around Rs. 1,005 crore, along with undrawn committed and uncommitted banks lines of around Rs. 5,780 crore, as on April 10, 2025. 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

Significant contingent liabilities mainly in the form of legal and tax matters – SAVIPL continues to have significant contingent liabilities (Rs. 10,948 crore as of March 31, 2024, and Rs. 10,636 crore as of March 2023), mainly in the form of legal and tax matters. ICRA also takes note of the Show Cause Notice (SCN) received by SAVIPL from the Indian tax authorities regarding tariff classification of imports regarding Assembly Car Business. ICRA also notes that VW Group stands committed to provide financial back up in case situation arises so.

Marginal player in the domestic PV market with limited product portfolio, thin sales and service network – 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) and Mahindra & Mahindra Limited (M&M). While the overall market share remains modest, the company has in the recent past demonstrated some improvement in its market share, from 1.4% (FY2020) to 2.0% (FY2024), backed by healthy traction for newly launched models. However, SAVIPL's 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. The recently launched Skoda Kylaq is expected to provide a boost to the volume offtake for SAVIPL's domestic sales over the near term. Overall, 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. 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.

Low profitability of India 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 to an extent, through operating leverage benefits. The company's profitability before financial assistance remains lower than other OEMs in India. The profitability has deteriorated in the recent past, as reflected by OPM contraction, from 6.3% (FY2023) to 3.2% (FY2024) and further to 1.6% (9M FY2025, provisional). While adverse cost structure (including a surge in freight costs amidst the Red Sea crisis) and one-time incremental operating costs incurred towards complying with emission norms of for certain models of vehicles had impacted the profitability in FY2024, elevated input costs had a bearing on profitability in FY2025. SAVIPL's profitability without financial assistance remains a key monitorable, going forward.

Liquidity position: Adequate

The company's liquidity profile is adequate, supported by free cash balances of around Rs. 1,005 crore and sizeable undrawn committed and uncommitted bank lines of around Rs. 5,780 crore as on April 10, 2025. The company's working capital limit utilisation has been low with average fund-based utilisation of around 25% over the 12-month period ending February 2025 (against sanctioned working capital limits of Rs. 7,141 crore as of February 2025), 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. 400-600 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. 900-1,000 crore per annum over the medium term, with no external debt repayments due. While sizeable quantum of contingent liabilities and sub judice matters can be a risk in case it materialises, comfort is drawn from fact that Volkswagen Group is committed to provide finance back up in case situation arises so.

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 Kylaq, Slavia and Kushaq vehicles from the Skoda brand. SAVIPL also runs an assembling facility at Chhatrapati Sambhajinagar (Maharashtra), wherein it assembles Skoda (Kodiaq) and Audi (A4, A6,Q3, 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	FY2023 Audited	FY2024 Audited
Operating Income (Rs. crore)	19,767.8	21,877.9
PAT (Rs. crore)	309.5	95.9
OPBDIT/OI (%)	6.3%	3.2%
PAT/OI (%)	1.6%	0.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.3
Total Debt/OPBDIT (times)	2.1	4.4
Interest Coverage (times)	5.4	2.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: SAVIPL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs. crore)	April 28, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based/Non-fund Based Facilities	Long Term / Short Term	2,607.0	[ICRA]AA (Stable)/ [ICRA]A1+	29-Apr-24	[ICRA]AA+ (Stable)/ [ICRA]A1+	26-Apr-23	[ICRA]AA+ (Stable)/ [ICRA]A1+	22-Apr-22	[ICRA]AA+ (Stable)/ [ICRA]A1+
				10-Dec-24	[ICRA]AA+ (Stable)/ [ICRA]A1+				
Commercial Paper	Short-Term	1,200.0	[ICRA]A1+	29-Apr-24	[ICRA]A1+	26-Apr-23	[ICRA]A1+	22-Apr-22	[ICRA]A1+
				10-Dec-24	[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+
INE04TA14485	Commercial Paper	21-Feb-25	6.89%	22-May-25	200.0	[ICRA]A1+
INE04TA14493	Commercial Paper	5-Mar-25	6.78%	3-Jun-25	150.0	[ICRA]A1+
NA*	Commercial Paper	NA	NA	NA	850.0	[ICRA]A1+

Source: *Company; *not yet placed*

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Jitin Makkar
+91 124 4545368
jitinm@icraindia.com

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

Mythri Macherla
+91 22 6114 3435
mythri.macherla@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.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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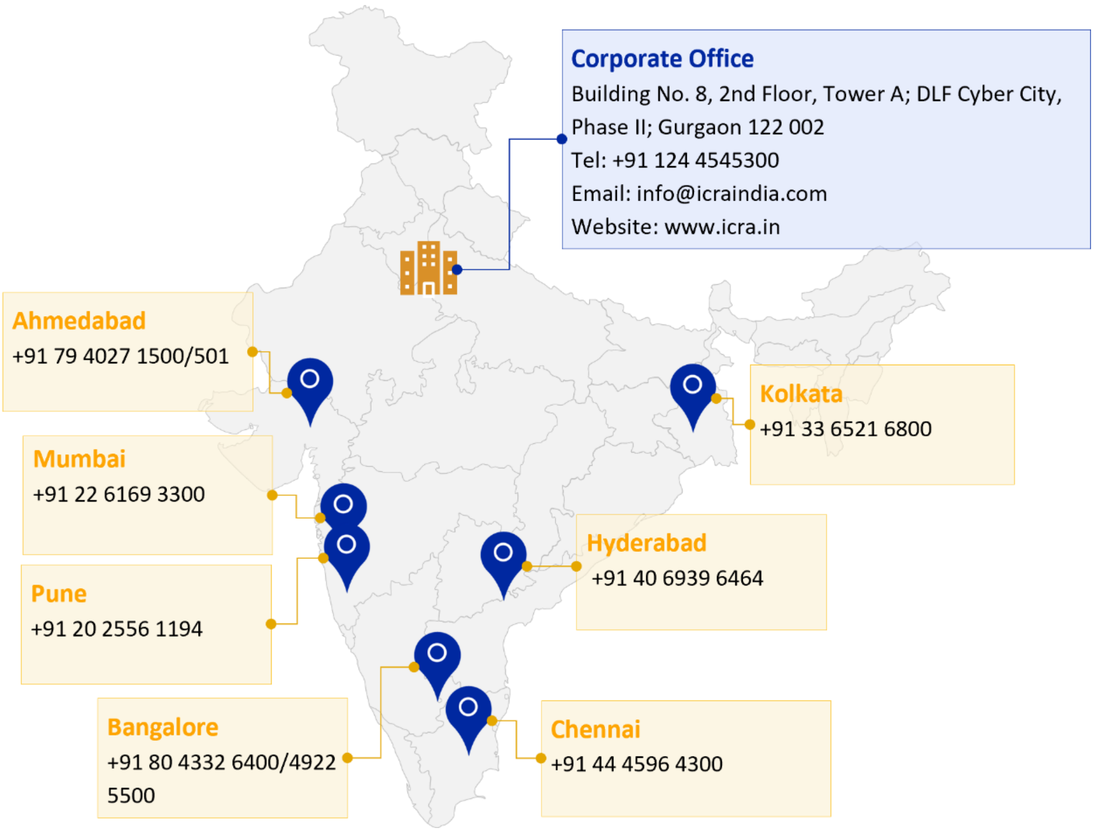
ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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