

July 11, 2017

Fiat India Automobiles Private Limited (Revised)

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based – Cash Credit	500.0	[ICRA]A+ (Stable); Assigned
Fund-based – Term Loan	1,450.0	[ICRA]A+ (Stable); Assigned
Non Fund-Based	50.0	[ICRA]A+ (Stable)/[ICRA]A1+ Assigned
Total Bank Facilities	2,000.0	
Commercial Paper	500.0	[ICRA]A1+ assigned

* Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A+ (pronounced ICRA A plus)¹ on the Rs. 1,450.0 crore² long term-loan and Rs 500.0 crore fund-based bank facilities of FIAT India Automobiles Private Limited (FIAPL). ICRA has assigned long term rating of [ICRA]A+ and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs 50.0 crore non fund-based limits of FIAPL. The outlook on the long-term rating is ‘Stable’. ICRA has assigned [ICRA]A1+ rating for Rs 500.0 crore commercial paper program of FIAPL.

Rationale

The assigned ratings reflect FIAPL’s strong operational, managerial and financial support from its promoter group, TML (rated [ICRA]AA (Positive) and [ICRA]A1+) and FCA Italy SpA (a step-down subsidiary of Fiat Chrysler Automotive N.V. (rated Ba3 (Positive) by Moody’s). ICRA notes the healthy coverage indicators and comfortable liquidity in the form of undrawn bank lines and cash surplus. FIAPL is the manufacturer of vehicles and engine for TML and FCA; and as per the “take or pay” agreement, FIAPL’s fixed cost as well as agreed fixed returns are ensured by its principal customers and shareholders, which mitigates demand related risk to a large extent. Consequently, even in case of minimal capacity utilisation, FIAPL is expected to report EBITDA of about of Rs. 450 crore, which provides stability to overall cash flows. The rating strengths are partially offset by weak position of its principal customers in Indian PV market and sizeable debt funded capacity additional currently undertaken by the company to set up an assembly line for the Jeep Compass model. Nevertheless, this incremental capacity expansion is also covered under the “take or pay” arrangement, and hence coverage indicators should remain at comfortable levels.

FIAPL is eligible for subsidy from the state government of Maharashtra (GoM) under the Industrial Promotion Scheme (IPS), wherein it is eligible to recover 150% of its investment in the form of VAT (SGST under GST regime) refund. The incremental investments for the Jeep Compass assembly line are also covered under the IPS by GoM. While the subsidy provides support to overall cash flows and profitability, the payments from Government authorities are generally delayed by 18-24 months, resulting in substantial build-up of receivable and stretched working capital cycle in the interim. Consequently, the company’s dependence on external borrowings to fund its working capital requirement shoots up over the aforesaid period. As on March 2017, FIAPL had receivables of Rs. 577 crore outstanding from the GoM;

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

and timely recovery of the same remains crucial for the company to maintain its liquidity position and fund incremental working capital as well as capex requirement.

Key rating drivers

Credit strengths

- Strong operational, financial and managerial support from promoter group i.e. Tata Motors Limited [TML, rated [ICRA]AA (Positive) and [ICRA]A1+) and Fiat Chrysler Automotive NV [FCA, rated Ba3/Positive by Moody's]
- “Take or Pay” arrangement with principal customers protects profitability from demand related risks
- Strategic importance for FCA with focus to develop FIAPL as export hub for all right hand drive market; Upcoming compact UV from TML as well as current models like Zest and Bolt are also exclusively manufactured at FIAPL's manufacturing unit in Ranjangaon
- Comfortable liquidity in the form of undrawn bank lines and cash balance to the tune of Rs 174 crore as on Mar-17

Credit weaknesses

- Large debt funded capex undertaken by the company will deteriorate capital structure; nevertheless, assured cash flows by customer (TML and FCA-India) ensures comfortable coverage indicators
- Marginal market share of FCA India and TML in Indian PV market –FCA india will utilize unused assembly line of FIAPL to use it as export hub for right hand drive market globally
- Delay in subsidy receivable from government resulting in stretched working capital cycle

Description of key rating drivers:

FIAPL has strategic importance for promoter group being sole manufacturing unit for all FIAT branded vehicles in India as well as Zest and Bolt models of TML. Going forward, TML's upcoming compact UV vehicle as well as Jeep Compass will be also manufactured at FIAPL's manufacturing unit. Moreover, FIAPL also manufacture diesel engine for Indian market, which provides support to overall revenue. As per the management, FIAPL will be the sole supplier of JEEP Compass for right hand³ drive market globally. Jeep compass is already unveiled and its deliveries will start from august 2017 whereas Tata UV is expected to launch during festive season in current fiscal.

FIAPL has “take or pay” arrangement for its manufacturing capacity which allows an assured fixed return on assets, over and above the fixed cost recovery. Furthermore, overall profitability is supported by the sales tax incentive earned on the cars and engine manufactured.

FIAPL has taken significant debt funded capex in the recent time, which has resulted in moderately leveraged capital structure. During FY2018, FIAPL will be further investing about Rs 600 crore towards capacity addition and debottlenecking, which will be largely debt funded resulting in increased debt level. Nevertheless, the incremental expansion is also backed by “take or pay” arrangement with its principal customer as well as promoters, thereby providing adequate cash flow visibility and support to overall credit profile of the entity.

Analytical approach: *For arriving at the ratings, ICRA has applied its rating methodologies as indicated below*

³ E.g. ASEAN nation, ANZ, SAARC, Japan and South African countries are right hand drive market

Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

[Passenger Vehicle Manufacturers](#)

[ICRA's Approach For Rating Commercial Papers](#)

About the company:

FIAPL is a 50:50 JV between Tata Motors Limited and FCA Italy Spa. FIAPL has manufacturing unit in Ranjangaon (Pune), where it has production capacity to manufacture 300,000 engines and 130,000 passenger vehicles annually. FIAPL is currently sole manufacturing unit for all Zest & Bolt models of TML, and Fiat & Abarth branded vehicles for FCA in India. Going forward, FIAPL will be also manufacturing Jeep Compass vehicles for Indian as well as overseas market from its current assembly line. FIAPL's board of directors comprise of 10 people, with equal participation from TML and FCA.

Key Financial Indicators

	FY16	FY17
Operating income (Crore)	3,443	2,124
PAT (Crore)	314	284
OPBDIT/ OI (%)	19.0%	29.4%
RoCE (%)	12.5%	11.5%
Total Debt/ TNW (times)	59.9%	55.4%
Total Debt/ OPBDIT (times)	254.5%	267.0%
Interest coverage (times)	914.8%	1160.2%
NWC/ OI (%)	36.6%	48.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument				Current Rating (FY2018)	Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs Crore)**	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					July 2017	-	-	-
1	Cash Credit	Long Term	500.0	100.6	[ICRA]A+ (Stable)	-	-	-
2	Term Loan	Long Term	1,450.0	957.1	[ICRA]A+ (Stable)	-	-	-
3	Non Fund Based	Long Term/Short Term	50.0	4.8	[ICRA]A+ (Stable) / [ICRA]A1+	-	-	-
4	Commercial Paper	Short Term	500.0	-	[ICRA]A1+			

****as on March 31, 2017**
Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Cash Credit	-	-	NA	500.00	[ICRA]A+ (Stable)
Term Loan	-	-	FY2024	1,450.00	[ICRA]A+ (Stable)
Non Fund Based	-	-	NA	50.00	[ICRA]A+ (Stable) / [ICRA]A1+
Commercial Paper	-	-	7-365 days	500.00	ICRA]A1+

Source: FIAT India Automobiles Private Limited; NA: Not Applicable

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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.

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