

## ALD Automotive Private Limited Revised

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term Bank Lines	650.00	[ICRA]AAA(SO) (Stable); reaffirmed
<b>Total</b>	<b>650.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the rating of [ICRA]AAA(SO) (pronounced ICRA triple A Structured Obligation) outstanding on the Rs. 650 crore<sup>1</sup> long-term bank lines of ALD Automotive Private Limited (AAPL)<sup>2</sup>. The outlook on the long-term rating is Stable. This “SO” rated bank facility is credit enhanced by an unconditional and irrevocable guarantee issued by Société Générale (Soc Gen, rated A2 / Stable for its long term debt / Prime-1 for its short term debt by Moody’s Investors Service). The [ICRA]AAA(SO) rating addresses the servicing of the loan to happen as per the terms of the underlying loans and the guarantee arrangements and the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower. “SO” ratings do not represent ICRA’s opinion on the general credit quality of the issuers concerned. The rated instrument does not involve a structured payment mechanism.

### Rationale

The rating reaffirmation favourably factors in the strong parentage of AAPL which is a part of the Société Générale Group which has a leading presence in the banking and financial services globally; and the demonstrated track record of operational and financial support from the parent. AAPL is a wholly owned subsidiary of ALD International SAS Company & KG (ALD International), which in turn is wholly owned by the Société Générale Group and is a leading entity in operational leasing and fleet management in Europe. The rating factors in the strategic importance of the company to ALD International, given the Group’s focus on Indian operations. Further, the track record of ALD International in car leasing provides the company access to an established network of manufacturers, dealers, insurers and service providers. The rating factors in the experienced management team of the company, its strong risk management systems and internal controls. While assigning the rating, ICRA has taken note of the company’s modest financial profile with weak profitability, high gearing and high contingent liability on account of tax disputes. The expected financial support from the parent, should there be a requirement, provides comfort.

### Key rating drivers

#### Credit strengths

- **Strong parentage by virtue of being part of the Société Générale Group** - AAPL is a wholly owned subsidiary of ALD International, which in turn is entirely held by the Société Générale Group. The company leverages the rich experience of the immediate parent in the automotive leasing industry. ALD International has a track record of almost six decades, and currently has operations in 41 countries. Société Générale Group is one of the largest European financial services groups.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications

- **Strategic importance to ALD International, a leading entity in operational leasing and fleet management in Europe** – AAPL remains strategically important to the parent, ALD International as a vehicle for expanding into the Indian markets. ALD International is the market leader in Europe and a leading player in automotive leasing worldwide. ALD International is focused on the Indian operations, which is a developing market for operating leasing. Given the large market for automotive leasing and the low penetration level currently, the growth potential in India remains high. ICRA however notes that consumer preference in the country remains skewed in favour of ownership over leasing, in contrast to European countries.
- **Demonstrated track record of support from the promoter group** – By virtue of being a part of a prominent banking group, the company has ready access to funds to support growth and meet working capital requirements. Also, the established track record of ALD International in car leasing provides the company access to a network of manufacturers, dealers, insurers and services providers. AAPL's cost of funds is also low, supported by the availability of low cost foreign funds and the unconditional and irrevocable guarantee provided by the Soc Gen to the company's bank borrowings. AAPL's domestic borrowings are on a fixed interest rate basis and the international borrowings are completely hedged, mitigating interest rate and foreign currency risks.
- **Comfortable liquidity and financial flexibility supported by unutilised bank lines** – AAPL's borrowings are long term in nature to match the cash flows of the lease rentals. The company has outstanding bank loans of Rs. 887.95 crore as on June 30, 2017 out of which ~Rs. 219 crore are from Soc Gen. Soc Gen has also provided an unconditional and irrevocable guarantee for around Rs. 913 crore of other loans of the company. Also, AAPL has unutilised bank lines of ~Rs. 470 crore which provide further comfort.
- **Strong relationship with car manufacturers, dealers, insurers and service providers** – AAPL has been operational in India for over a decade while its parent, ALD International has a track record of over six decades across the world. The company has strong relationships for acquisition of fleet and service support at competitive rates, given their scale of operations and established track record.
- **Strong risk management systems; demonstrated ability to profitably sell the vehicles at the end of the contract period** – AAPL has deployed adequate risk management systems and operational processes which have been derived from ALD International's globally followed practice. Given its high profile clients, the company has a relatively low credit risk. However, the biggest risk faced by the company is in the estimation of the residual value of the vehicle at the end of contract period, for which it utilises statistical tools that are reviewed every six months. ICRA notes that AAPL has consistently been able to sell repossessed vehicles at a profit since inception.

#### Credit weaknesses

- **Low maturity of the leasing industry in India; stiff competition from vehicle loans and consumer preference for ownership of vehicles** – Leasing model is still not widely accepted by Indian consumers with preference for ownership still prevailing. Leasing is mostly prevalent in India in Tier I cities, and is concentrated in MNCs and large corporates. The company has rolled out initiatives to raise awareness of the benefits of lease over ownership and is also foraying into the SME segment.
- **Ability to accurately estimate the residual value of the car remain critical for pricing and for realizing profit upon sale at the end of the lease period** – While determining the lease rental, the company first estimates the expected residual value of the car after the lease period. Based on this residual value, the company determines lease rentals for a particular car and contract. Any error in this estimation would significantly impact profitability. Going forward, AAPL would remain exposed to the market risk associated with the actual realisable value, following any changes in the regulatory norms, introduction of new car models or an economic slowdown.

- **Modest financial profile with low profitability, high gearing and contingent liability** – After reporting losses from FY2013 to FY2016, the company reported a net profit of Rs. 1.50 crore on a total income of Rs. 233.06 crore during 9MFY2017. The company had a reported gearing of ~19 times as on December 31, 2017 which is likely to increase further in the given its growth plans. The company faces high contingent liability on account of pending tax disputes. ICRA notes that the demonstrated financial support from the parent is a source of comfort.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Approach for rating debt instruments backed by third-party explicit support](#)

**About the company:**

ALD Automotive Private Limited (AAPL) is a 100% subsidiary of ALD International which in turn is a subsidiary of Société Générale Group. Commencing operations in 2005, the company offers operating lease for passenger vehicles in India. Apart from providing the vehicle, the company provides a number of fleet management services as part of the lease agreement. AAPL is headquartered at Mumbai with its regional offices at Delhi, Bangalore, Hyderabad, Chennai and Pune.

During 9MFY2017, AAPL reported a profit after tax of Rs. 1.50 crore on a total income of Rs. 233.06 crore as against a net loss of Rs. 0.31 crore on a total income of Rs. 298.96 crore during FY2016.

**ALD International**

ALD International is an international fleet management and operational car leasing company with presence in 41 countries, managing a total fleet in excess of 1.4 million vehicles. The concept of operational leasing and fleet management has been widely employed in Europe since the 1960s with the most mature markets being UK, France, Germany, Netherlands and Belgium. The concept has been spreading throughout Europe (more recently in Eastern Europe), North Africa and Latin America all of which are covered by ALD International.

**Société Générale**

Société Générale (rated A2 / Stable for its long term debt / Prime-1 for its short term debt by Moody's Investors Service) is the leading company of one of the largest financial services groups, Société Générale Group which is headquartered at Paris, France. Currently, the Group has its operations in 76 countries, and been present in India since 1978 in various banking operations. In 2000, Société Générale Global Solution Center was established as the Group's IT arm with the aim of delivering projects in application development and maintenance, performance management and IT consultancy to the Soc Gen business units around the world.

**Key financial ratios**

	<b>FY2015</b>	<b>FY2016</b>	<b>9MFY2017</b>
Total income	268.34	298.96	233.06
Profit after tax	(6.51)	(0.31)	1.50
Net worth	47.10	46.80	48.29
Total managed portfolio	720.78	779.45	831.51
Total assets	847.14	908.92	953.96
Return on assets	(0.81%)	(0.03%)	0.22%
Return on equity	(12.92%)	(0.65%)	4.23%
Gearing (times)	16.06	17.83	18.53

Amounts in Rs. crore

Source: Company; ICRA Research

**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)	August 2017	FY2017	FY2016		FY2015
					July 2016	March 2016	January 2016	December 2014
1	Bank Lines	Long Term	650.00	[ICRA]AAA (SO) (stable); Reaffirmed	[ICRA] AAA (SO) (stable); Upgraded from [ICRA]AA+ (SO) (stable)	[ICRA] AA+ (SO) (stable); Enhanced to Rs. 650 crore from Rs. 550 crore	[ICRA] AA+ (SO) (stable); Outlook changed to Stable from Negative; enhanced to Rs. 550 crore from Rs. 450 crore	[ICRA] AA+ (SO) (stable); Outlook changed from Stable to Negative

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
-	Long-term bank lines	September 2013		September 2022	650.00	[ICRA]AAA(SO) (stable)

Source: the company

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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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