

## Volkswagen India Private Limited

April 13, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based/Non-Fund Based Limits	1,533.00	1,533.00	[ICRA]AA+(Stable) and [ICRA]A1+ reaffirmed; outlook revised from 'Negative'

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed long term rating at [ICRA]AA+ (pronounced ICRA double A plus) and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for bank facilities of Volkswagen AG's (VW AG) Indian subsidiaries i.e. 1)Volkswagen India Private Limited (VWIPL), 2)Volkswagen Group Sales India Private Limited (VGS IPL) and 3) Skoda Auto India Private Limited (SAIPL)<sup>1†</sup>. The outlook on long term rating is revised to 'Stable' from 'Negative'.

### Rationale

For arriving at the rating, ICRA has combined financials of Volkswagen India Private Limited (VWIPL), Volkswagen Group Sales India Private Limited (VGS IPL) and Skoda Auto India Private Limited (SAIPL), together referred as VW-India, considering strong operational and financial linkages between these entities.

The outlook revision follows rating action by Moody's to revise VW AG's long-term outlook from 'Negative' to 'Stable' while maintaining its long-term rating at 'A3'. VW AG has reported strong operating performance over last two years and legal penalties related to emission violation currently do not present major financial risk for VW AG over next 12-18 months.

The ratings continue to reflect strong operational and financial support from Volkswagen AG (rated A3/Stable by Moody's) and strategic importance for parent entity to develop Indian operation as export hub for small and mid-size cars. Being wholly owned subsidiaries, VW-India has access to technology and product portfolio of VW AG, the world's largest passenger car manufacturer by volume [in CY2017]. The assigned ratings also favorably factors in the strong liquidity profile of the company in the form of sizeable cash surplus and unused/committed bank lines of over Rs 2,500 crore.

The ratings strengths are partially offset by high competitive intensity in domestic PV market; large dealership and service network of entrenched players which also lends them competitive advantage and VW-India's modest product portfolio especially in compact/small car segment which constitute major share of overall Indian PV market. ICRA also takes note of low localization content which exposes company to foreign exchange movement, though group's plans to gradually increase localization content as well as develop India as export hub (provides natural hedge against imports) mitigate forex volatility risk to an extent.

### Outlook: Stable

ICRA believes VW-India will continue to benefit from the operational and financial support from VW-AG. The outlook may be revised to 'Positive' or 'Negative', in line with credit risk assessment and outlook on VW-AG's rating by Moody's.

<sup>1†</sup> For complete rating definition please refer to ICRA website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications.

## Key rating drivers

### Credit strengths

**Strong operational, managerial and financial support from Volkswagen AG (rated A3/Stable by Moody's):** VW-India entities are step down wholly owned subsidiary of VW AG, and the promoter group has regularly supported Indian entities both operationally as well as financially by direct equity infusion and/or extended credit period for components supplied from other VW AG's units. ICRA notes that financial support (direct and indirectly) from promoter has supported liquidity position of the company, despite large losses in the initial years of operations. Being wholly owned subsidiaries, VW-India also has access to technology and product portfolio of VW Group, the world's largest passenger car manufacturer by volume [in CY2017]

**Strategic importance for VW-AG as export hub for small and mid-size cars:** Given weak offtake in domestic PV market, VWIPL has started using Indian manufacturing unit as export hub in FY13. At present, exports constitute about two—third of VWIPL's overall sales. VWIPL exports Polo and Vento from Indian operations, whereas SAIPL continues to remain focused on domestic market. Exports also helped company in mitigating impact of forex volatility given sizeable import content in overall raw material mix.

### Credit challenges

**Marginal player in domestic PV industry, which is dominated by incumbents like Maruti Suzuki India Limited (MSIL) and Hyundai Motors India Limited (HMIL):** VW-India is a late entrant in domestic PV market, and its overall market share remain marginal at 2.2% for VW Group India. Company's overall product portfolio in mass-market segment remain limited with absence in high volume segments like compact UV and mini segment.

**Thin sales and service network as compared to entrenched players; Low level of localization content, with ~38% of raw material still imported limits pricing flexibility and exposes company's cost structure to foreign exchange volatility:** Despite strong brand, VW failed to gain any meaningful presence in domestic PV market owing to thin sales & service network as well as perceived costly overall cost of car ownership. Earlier, there were concerns related with long waiting period for imported spare parts which company has addressed to a large extent. Nevertheless, higher share of imported components continues to result in higher spare costs, subsequently translating into higher maintenance cost. Indian market being highly cost sensitive, company is working on increasing its local content which currently stays at around **62%**. While VW and Skoda failed to make any meaningful presence in mass market segment, VW and their other brands enjoy strong share in luxury car segment – thanks to strong demand for Audi branded vehicles.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Passenger Vehicle Manufacturers](#)

### About the company:

Headquartered in Pune, Maharashtra, the Volkswagen Group in India is represented by five brands: SKODA, Volkswagen, Audi, Porsche and Lamborghini. The Indian journey began with the launch of SKODA in 2001. Audi and Volkswagen entered in 2007, while Lamborghini and Porsche were introduced in 2012.

SAIPL, incorporated in December 1999, is a subsidiary of Skoda Auto A.S Czech Republic, which is, in turn, a wholly-owned subsidiary of Volkswagen AG. SAIPL has an assembling facility at Aurangabad (Maharashtra); it assembles Skoda brands (Octavia, Kodiaq, and Superb), Volkswagen brands (Passat and Tiguan), and Audi brands (A4, A6, Q5, Q7); it has capacity to produce 41,180 cars per annum.

Incorporated in 2007, VWIPL and VGS IPL are wholly owned subsidiaries of Volkswagen AG. VWIPL has a manufacturing plant in Pune (Maharashtra) with capacity of 200,000 vehicles per annum; its establishment cost was Rs.39 billion. This plant produces Polo and Vento of the Volkswagen brand. The plant also manufactures 'Rapid' mid-size car for SAIPL. VGS IPL is the sales and marketing arm for the Volkswagen, Audi, Porsche and Lamborghini brands in India.

### Key financial indicators (audited)

<b>VWIPL</b>	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	7261.12	8651.59
PAT (Rs. crore)	93.87	8.08
OPBDIT/ OI (%)	5.94%	7.47%
RoCE (%)	8.12%	11.11%
Total Debt/ TNW (times)	1.51	0.81
Total Debt/ OPBDIT (times)	7.47	2.72
Interest coverage (times)	1.51	2.79
NWC/ OI (%)	0.34	0.17

Source: Annual Report, ICRA estimates

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years: VWIPL

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2016	Date & Rating in FY2016
				Apr 2018	May 2017	Jan 2017	Nov 2015	Oct 2015	May 2015
1 Fund Based/Non Fund Based Limits	Long Term/Short Term	1,533.00	659.03	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Negative)/[ICRA]A1+	[ICRA]AA+ (Negative)/[ICRA]A1+	[ICRA]AA+ (Negative)/[ICRA]A1+	[ICRA]AAA(Negative)/[ICRA]A1+	[ICRA]AA A/Stable/[ICRA]A1+

Source: VW-India; Amount outstanding as on March 31, 2018

## 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 - VWIPL

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 Limits	NA	NA	NA	1,533.00	[ICRA]AA+(Stable)/ [ICRA]A1+

Source: VW-India

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## About ICRA Limited:

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