

ALD Automotive Private Limited

August 20, 2018

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term Fund-based Bank Lines	640.00	790.79	[ICRA]AAA(SO)(stable); assigned/outstanding
Long-term Non-fund Based Bank Lines	10.00	9.83	[ICRA]AAA(SO)(stable); outstanding
Long-term Bank Lines	-	149.38	Provisional [ICRA]AAA(SO)(stable); assigned
Total	650.00	950.00	

Rating action

ICRA has assigned a long-term rating of [ICRA]AAA(SO) (pronounced ICRA triple A structured obligation) to the Rs. 790.79-crore (enhanced from Rs. 640 crore) long-term fund-based bank lines of ALD Automotive Private Limited (AAPL)¹. ICRA has also assigned a long-term rating of Provisional [ICRA]AAA(SO) (pronounced provisional ICRA triple A structured obligation) to the Rs. 149.38-crore long-term bank lines of AAPL. ICRA has a rating outstanding of [ICRA]AAA(SO) for the Rs. 9.83-crore (revised from Rs. 10 crore) long-term non-fund based bank lines of AAPL. The outlook on the long-term ratings is Stable.

The letters SO in parenthesis suffixed to the rating symbol stand for structured obligation. An SO rating is specific to the rated facility, its terms, and structure. It does not represent ICRA's opinion on the general credit quality of the entity concerned. The rating assigned to Rs. 149.83 crore long-term bank lines is provisional as of now (as denoted by the prefix Provisional before the rating symbol) and is subject to the fulfilment of all conditions under the structure as mentioned to ICRA and the review of all pending actions/documentation pertaining to the facility rated by ICRA. The final rating may differ from the provisional rating in case the completed actions/documentation are not in line with ICRA's expectations.

Rationale

AAPL's guaranteed bank lines of Rs. 800.62 crore are backed by an unconditional and irrevocable corporate guarantee from Société Générale (Soc Gen, rated A1/Stable by Moody's Investors Service). The rating is based on the unconditional and irrevocable guarantee provided by Soc Gen and a confirmation from the guarantor, which suggests that the guarantor will ensure that the company abides by its financial commitments in a timely manner. The provisional rating for the Rs. 149.38-crore proposed bank facilities is based on confirmation from the company that these facilities will be covered by an unconditional and irrecoverable guarantee from Soc Gen. The rating also takes into account the strong parentage of AL by virtue of being a part of Société Générale Group and the demonstrated track record of operational and financial support from the parent. The rating also factors in the strategic importance of the company to ALD International, the immediate parent, given the Group's focus on Indian operations. Considering the company's stretched financial profile, the expected financial support from the parent, should there be a requirement, provides comfort.

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

Outlook: Stable

ICRA believes that the company will continue to draw benefit from its strong parentage and its relevance to the parent. The outlook may be revised to Negative in case of a change in parentage, or a change in the nature of support from the unconditional and irrevocable guarantee or a change in the parent's credit rating.

Key rating drivers

Credit strengths

Corporate guarantee from Soc Gen – AAPL's guaranteed bank lines are backed by an unconditional and irrevocable corporate guarantee from Soc Gen. The rating is solely based on the corporate guarantee. The provisional rating for the proposed bank facilities is based on confirmation from the company that these facilities will be covered by an unconditional and irrevocable guarantee from Soc Gen.

Strong parentage, being part of Société Générale Group – AAPL is a wholly-owned subsidiary of ALD International, which in turn is majorly held by 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 43 countries. Société Générale Group is one of the largest European financial services groups.

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 in Indian markets. ALD International is the market leader in Europe and a leading player in automotive leasing worldwide. It is focussed on the Indian operations, 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.

Demonstrated track record of support from 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, ALD International's established track record in car leasing gives the company access to a network of manufacturers, dealers, insurers and service 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 Soc Gen for 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.

Credit challenges

Sensitive to guarantor's rating – The ratings primarily reflect the credit strength of the guarantor (Soc Gen). Hence, any adverse movement in the rating of the guarantor may result in a rating action on AAPL's facilities.

Low maturity of leasing industry in India; stiff competition from vehicle loans and consumer preference for ownership of vehicles – The 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. The company has rolled out initiatives to raise awareness of the benefits of lease over ownership and is also foraying into the Small and Micro Enterprises (SME) segment.

Ability to accurately estimate residual value of the car remains critical for pricing and for realising 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, it determines the 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 risks associated with the actual realisable value, following any changes in the regulatory norms, introduction of new car models or an economic slowdown.

Sluggish top-line growth and absorption of higher taxes under GST regime on resale of vehicles hurting overall profitability – The company saw a moderation in its revenue as the leasing industry was adversely affected by the uncertain tax environment following the implementation of GST. While the market-driven prices for secondary sales remained stagnant, AAPL was forced to absorb the higher taxes on the sale of cars acquired during the pre-GST period, which resulted in loss booking, aggravating the financial position further. The company is expected to continue incurring losses till FY2022, until the fleet acquired prior to GST is completely replaced.

Modest financial profile with high gearing – After reporting losses from FY2013 to FY2016, the company reported a net profit of Rs. 2.59 crore on a total income of Rs. 312.97 crore during FY2017, though the net worth continued to decline owing to a transitional provision for the adjustment of the fair valuation of derivatives. The company had a reported gearing of ~29 times as on December 31, 2017, which is likely to increase further with the projected losses. 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:

[ICRA's 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 several fleet management services as a part of the lease agreement. AAPL is headquartered in Mumbai with regional offices in Delhi, Bangalore, Hyderabad, Chennai and Pune. During 9M FY2018, AAPL reported a net loss of Rs. 9.69 crore on a total income of Rs. 227.60 crore compared to a net profit of Rs. 2.59 crore on a total income of Rs. 312.97 crore during FY2017.

ALD International

ALD International is an international fleet management and operational car leasing company with a presence in 41 countries and a total fleet of more than 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 the UK, France, Germany, the 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.

About the guarantor

Société Générale (rated A1/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 in Paris, France. Currently, the Group has operations in 76 countries and has been present in India since 1978 in various banking operations. In 2000, Société Générale Global Solution Centre 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 indicators (Audited)

	FY2015	FY2016	FY2017	9M FY2018
Total Income	268.34	298.96	312.97	227.60
Profit after Tax	-6.51	-0.31	2.59	-9.69
Net Worth	47.10	46.80	42.94	33.25
Total Managed Portfolio	720.78	779.45	816.67	802.58
Trade Receivables	27.45	21.43	21.00	119.80
Total Assets	847.14	908.92	960.64	1047.99
Return on Assets	-0.81%	-0.03%	0.28%	-1.29%
Return on Equity	-12.92%	-0.65%	5.77%	-33.92%
Gearing (times)	16.06	17.83	20.66	28.61

Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Aug 2018	FY2018	FY2017	FY2016	
					Sep 2017	Aug 2016	Apr 2016	Jan 2016
1 Long-Term Fund-based Bank Lines	Long Term	790.79	790.79	[ICRA]AAA(SO) (stable); assigned/ outstanding	[ICRA]AAA(SO) (stable)	[ICRA]AAA(SO) (stable)	[ICRA]AA+(SO) (stable)	[ICRA]AA+(SO) (stable)
2 Long-Term Bank Lines	Long Term	149.38	-	Provisional [ICRA]AAA(SO) (stable); assigned	-	-	-	-
3 Long-Term Non-fund Based Bank Lines	Long Term	9.83	9.83	[ICRA]AAA(SO) (stable)	[ICRA]AAA(SO) (stable)	[ICRA]AAA(SO) (stable)	-	-

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan - 1	5-Aug-15	NA	5-Aug-18	0.06	[ICRA]AAA(SO)(stable)
NA	Term loan - 2	7-Aug-15	NA	7-Aug-18	0.10	[ICRA]AAA(SO)(stable)
NA	Term loan - 3	20-Aug-15	NA	20-Aug-18	0.10	[ICRA]AAA(SO)(stable)
NA	Term loan - 4	27-Aug-15	NA	27-Aug-18	0.22	[ICRA]AAA(SO)(stable)
NA	Term loan - 5	30-Oct-15	NA	30-Oct-18	0.76	[ICRA]AAA(SO)(stable)
NA	Term loan - 6	2-Nov-15	NA	2-Nov-18	0.38	[ICRA]AAA(SO)(stable)
NA	Term loan - 7	4-Nov-15	NA	4-Nov-18	0.63	[ICRA]AAA(SO)(stable)
NA	Term loan - 8	9-Nov-15	NA	9-Nov-18	0.63	[ICRA]AAA(SO)(stable)
NA	Term loan - 9	19-Nov-15	NA	19-Nov-18	0.38	[ICRA]AAA(SO)(stable)
NA	Term loan - 10	24-Nov-15	NA	24-Nov-18	0.13	[ICRA]AAA(SO)(stable)
NA	Term loan - 11	26-Nov-15	NA	26-Nov-18	0.25	[ICRA]AAA(SO)(stable)
NA	Term loan - 12	27-Nov-15	NA	27-Nov-18	1.25	[ICRA]AAA(SO)(stable)
NA	Term loan - 13	1-Dec-15	NA	1-Dec-18	0.31	[ICRA]AAA(SO)(stable)
NA	Term loan - 14	3-Dec-15	NA	3-Dec-18	0.78	[ICRA]AAA(SO)(stable)
NA	Term loan - 15	14-Dec-15	NA	14-Dec-18	4.68	[ICRA]AAA(SO)(stable)
NA	Term loan - 16	23-Dec-15	NA	23-Dec-18	0.31	[ICRA]AAA(SO)(stable)
NA	Term loan - 17	28-Dec-15	NA	28-Dec-18	0.47	[ICRA]AAA(SO)(stable)
NA	Term loan - 18	29-Dec-15	NA	29-Dec-18	1.09	[ICRA]AAA(SO)(stable)
NA	Term loan - 19	15-Jan-16	NA	15-Jan-19	4.66	[ICRA]AAA(SO)(stable)
NA	Term loan - 20	25-Jan-16	NA	25-Jan-19	0.56	[ICRA]AAA(SO)(stable)
NA	Term loan - 21	27-Jan-16	NA	27-Jan-19	2.05	[ICRA]AAA(SO)(stable)
NA	Term loan - 22	29-Jan-16	NA	29-Jan-19	0.37	[ICRA]AAA(SO)(stable)
NA	Term loan - 23	1-Feb-16	NA	1-Feb-19	0.43	[ICRA]AAA(SO)(stable)
NA	Term loan - 24	5-Feb-16	NA	5-Feb-19	0.43	[ICRA]AAA(SO)(stable)
NA	Term loan - 25	11-Feb-16	NA	11-Feb-19	0.43	[ICRA]AAA(SO)(stable)
NA	Term loan - 26	12-Feb-16	NA	12-Feb-19	0.43	[ICRA]AAA(SO)(stable)
NA	Term loan - 27	15-Feb-16	NA	15-Feb-19	13.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 28	18-Feb-16	NA	18-Feb-19	0.43	[ICRA]AAA(SO)(stable)
NA	Term loan - 29	22-Feb-16	NA	22-Feb-19	1.52	[ICRA]AAA(SO)(stable)
NA	Term loan - 30	23-Feb-16	NA	23-Feb-19	0.87	[ICRA]AAA(SO)(stable)
NA	Term loan - 31	26-Feb-16	NA	26-Feb-19	1.73	[ICRA]AAA(SO)(stable)
NA	Term loan - 32	29-Feb-16	NA	28-Feb-19	0.65	[ICRA]AAA(SO)(stable)
NA	Term loan - 33	4-Mar-16	NA	4-Mar-19	0.74	[ICRA]AAA(SO)(stable)
NA	Term loan - 34	8-Mar-16	NA	8-Mar-19	1.97	[ICRA]AAA(SO)(stable)
NA	Term loan - 35	14-Mar-16	NA	14-Mar-19	1.23	[ICRA]AAA(SO)(stable)
NA	Term loan - 36	22-Mar-16	NA	22-Mar-19	3.70	[ICRA]AAA(SO)(stable)
NA	Term loan - 37	26-Jul-16	NA	26-Jul-21	3.27	[ICRA]AAA(SO)(stable)
NA	Term loan - 38	28-Jul-16	NA	28-Jul-21	6.54	[ICRA]AAA(SO)(stable)
NA	Term loan - 39	5-Aug-16	NA	5-Aug-21	2.68	[ICRA]AAA(SO)(stable)
NA	Term loan - 40	26-Aug-16	NA	26-Aug-21	5.36	[ICRA]AAA(SO)(stable)
NA	Term loan - 41	31-Aug-16	NA	31-Aug-21	19.18	[ICRA]AAA(SO)(stable)
NA	Term loan - 42	28-Sep-16	NA	28-Sep-21	5.47	[ICRA]AAA(SO)(stable)
NA	Term loan - 43	29-Sep-16	NA	29-Sep-21	11.63	[ICRA]AAA(SO)(stable)
NA	Term loan - 44	16-Nov-16	NA	16-Nov-21	14.27	[ICRA]AAA(SO)(stable)
NA	Term loan - 45	24-Mar-17	NA	24-Mar-22	17.74	[ICRA]AAA(SO)(stable)
NA	Term loan - 46	24-Mar-17	NA	24-Mar-21	42.10	[ICRA]AAA(SO)(stable)
NA	Term loan - 47	29-Mar-17	NA	29-Mar-21	2.10	[ICRA]AAA(SO)(stable)

NA	Term loan - 48	30-Mar-17	NA	30-Mar-21	6.31	[ICRA]AAA(SO)(stable)
NA	Term loan - 49	3-Apr-17	NA	3-Apr-21	2.88	[ICRA]AAA(SO)(stable)
NA	Term loan - 50	28-Jun-17	NA	28-Jun-22	62.80	[ICRA]AAA(SO)(stable)
NA	Term loan - 51	29-Jun-17	NA	29-Jun-22	11.42	[ICRA]AAA(SO)(stable)
NA	Term loan - 52	21-Dec-17	NA	21-Dec-22	53.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 53	21-Dec-17	NA	21-Dec-22	35.33	[ICRA]AAA(SO)(stable)
NA	Term loan - 54	29-May-18	NA	29-May-21	142.64	[ICRA]AAA(SO)(stable)
NA	Term loan - 55	30-Jun-15	NA	22-Oct-19	4.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 56	30-Jun-15	NA	25-Apr-19	8.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 57	26-Aug-15	NA	30-Sep-19	6.50	[ICRA]AAA(SO)(stable)
NA	Term loan - 58	26-Aug-15	NA	29-May-19	3.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 59	26-Aug-15	NA	4-Jun-19	3.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 60	22-Aug-14	NA	22-Aug-18	0.06	[ICRA]AAA(SO)(stable)
NA	Term loan - 61	26-Aug-14	NA	26-Aug-18	0.04	[ICRA]AAA(SO)(stable)
NA	Term loan - 62	27-Aug-14	NA	27-Aug-18	0.10	[ICRA]AAA(SO)(stable)
NA	Term loan - 63	28-Aug-14	NA	28-Aug-18	0.21	[ICRA]AAA(SO)(stable)
NA	Term loan - 64	19-Sep-14	NA	19-Sep-19	1.17	[ICRA]AAA(SO)(stable)
NA	Term loan - 65	13-Apr-16	NA	13-Oct-19	1.79	[ICRA]AAA(SO)(stable)
NA	Term loan - 66	10-Jun-16	NA	10-Jun-21	13.42	[ICRA]AAA(SO)(stable)
NA	Term loan - 67	14-Jun-16	NA	14-Jun-21	2.92	[ICRA]AAA(SO)(stable)
NA	Term loan - 68	29-Jun-16	NA	29-Jun-21	30.33	[ICRA]AAA(SO)(stable)
NA	Term loan - 69	29-Jul-16	NA	29-Jul-21	6.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 70	31-Aug-16	NA	31-Aug-21	7.40	[ICRA]AAA(SO)(stable)
NA	Term loan - 71	29-Sep-16	NA	29-Sep-21	2.53	[ICRA]AAA(SO)(stable)
NA	Term loan - 72	30-Sep-16	NA	30-Sep-21	3.80	[ICRA]AAA(SO)(stable)
NA	Term loan - 73	30-Nov-16	NA	30-Nov-21	28.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 74	30-Dec-16	NA	30-Dec-21	21.87	[ICRA]AAA(SO)(stable)
NA	Term loan - 75	4-Sep-17	NA	4-Sep-22	80.00	[ICRA]AAA(SO)(stable)
NA	Term loan - 76	29-Sep-17	NA	29-Sep-22	44.17	[ICRA]AAA(SO)(stable)
NA	WCDL	NA	NA	-	30.00	[ICRA]AAA(SO)(stable)
NA	Unallocated	NA	NA	-	149.38	Provisional [ICRA]AAA(SO)(stable)
NA	Long-term Non-fund Based Bank Lines	-	-	-	9.83	[ICRA]AAA(SO)(stable)

Source: Company data

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About ICRA Limited:

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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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