

## Volkswagen Group Sales India Private Limited

December 21, 2018

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based / Non-fund Based Facilities	739.00	739.00	[ICRA]AA+(Stable)/[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>739.00</b>	<b>739.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

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

The ratings continue to reflect the strong operational and financial support from Volkswagen AG (VW AG, rated A3/Stable by Moody's) and importance for the parent entity to develop its Indian operations for export of small and mid-sized cars. Being wholly-owned subsidiaries, VW-India has access to the technology and product portfolio of VW AG, the world's largest passenger car manufacturer by volume (in CY2017). Over the years, VW AG has provided direct and indirect financial support to the Indian operations in the form of equity infusion, grants, unsecured loans and extended credit period, which has supported liquidity and profitability of the Indian operations. The assigned ratings also favourably factor in the company's strong liquidity profile in the form of sizeable cash surplus and fund-based sanctioned bank lines of over Rs. 2,280 crore.

The strengths of the ratings are partially offset by VW-India's marginal market share in the domestic passenger vehicle (PV) market, intense competition from incumbents, thin dealership and service network and modest product portfolio (especially in the compact/small car segment, which constitute the major share of the overall Indian PV market). ICRA also notes the low local content which exposes the company to foreign exchange movement. However, the Group's plans to gradually increase local content should allay this concern to an extent over the medium term. ICRA further notes a sizeable contingent liability of Rs. 3,965-crore on a Group level (VW-India) pertaining to disputes related with the Government authorities.

### Outlook: Stable

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

### Key rating drivers

### Credit strengths

**Strong operational, managerial and financial support from VW AG** - The VW-India entities are the step-down wholly-owned subsidiaries of VW AG. The promoter Group has regularly supported them both operationally and financially, by direct equity infusion and/or extended credit period for components supplied from VW AG's other units. ICRA notes that the financial support (directly and indirectly) from the promoter Group has supported the company's liquidity position, despite sizeable losses in the initial years of operations. Being wholly-owned subsidiaries, VW-India also has access to the

technology and product portfolio of the VW Group, the world's largest passenger car manufacturer by volume (in CY2017).

VW AG has announced its 2.0 strategy for India, wherein the Group will invest EUR 1 billion (almost Rs. 8,000 crore) in India over the next three years. The planned investment is expected to be deployed towards the launch of four new models on the MQB platform and increase the localisation level, which will help the Group to competitively price the upcoming products. Considering the plans, the Group targets to increase the market share in the domestic market to the 5% level from the existing 1.9% level. A sizeable portion of the incremental investments will be funded by equity as well as promoter debt, though the exact details are not yet finalised.

**Strategic importance of VW AG as export hub for small and mid-sized cars** - Owing to intense competition from incumbents in the Indian PV industry, VIPL was unable to make any meaningful presence in the Indian market. To optimally utilise the production capacity, VIPL has started using the Indian unit as the manufacturing hub for small cars and super-compact sedans. At present, exports constitute about 65% (almost 90% to Mexico) of VIPL's overall sales. It exports the Polo and Vento variants from the Indian operations, whereas SA IPL remains focused on the domestic market. The exports also helped company mitigate the impact of forex volatility, given the sizeable import content in the overall raw material mix.

## Credit challenges

**Marginal player in domestic PV industry** - VW-India is a late entrant in the domestic PV market (which is dominated by incumbents, like Maruti Suzuki India Limited (MSIL) and Hyundai Motors India Limited (HMIL)). The overall market share remains marginal at 1.9% for the VW Group, India. The company's overall product portfolio in the mass-market segment remains limited with its absence in high volume segments, like compact utility vehicle (UV) and super compact UV segments, in the Indian market.

**Thin sales and service network compared to entrenched players; low level of local content:** Despite being a strong brand, VW failed to gain any meaningful presence in the domestic PV market, owing to thin sales and service network, and the overall perceived cost of car ownership. Moreover, the increased share of imported components continues to impact cost competitiveness of the spare parts. As the Indian market is highly cost sensitive, the company is working on increasing its local content, which currently stays at ~65%. The imported raw materials limit pricing flexibility as well as expose the company's cost structure to foreign exchange volatility. While the VW and Skoda brands failed to make any meaningful presence in the mass-market segment, the VW Group enjoys a healthy share in the luxury car segment due to strong demand for the Audi vehicles.

## Liquidity position

The company's working capital limit utilisation has been low with average fund-based utilisation of below 3% and non-fund based utilisation below 20% over the last one year. There is strong liquidity comfort available with the company in the form of undrawn banks lines, from the sanctioned fund-based lines of over Rs. 2,280 crore and non-fund based facilities of over Rs. 1,840 crore. The company's liquidity profile is supported by financial grants from the promoters and indirect financial support from the Group companies in the form of an extended credit period.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Passenger Vehicle Manufacturers</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	Parent/Group Company: Volkswagen AG ICRA expects VW AG to be willing to extend financial support to VGS IPL, should there be a need, given the importance VGS IPL holds for VW AG for meeting its diversification objectives. VGS IPL and VW AG also share a common name, which in ICRA's opinion would persuade VW AG to provide financial support to VGS IPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone - For arriving at the ratings, ICRA has combined the financials of VIPL, VGS IPL and SAIPL, together referred to as VW-India, considering the strong operational and financial linkages among these entities.

## About the company

Headquartered in Pune, Maharashtra, the Volkswagen Group in India is represented by five brands - Skoda Auto, Volkswagen, Audi, Porsche and Lamborghini. The Indian journey began with the launch of Skoda Auto 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 (Octavia, Kodiaq and Superb), Volkswagen (Passat and Tiguan) and Audi brands (A4, A6, Q5, Q7). It has a capacity to produce 41,180 cars per annum. Incorporated in 2007, VIPL and VGS IPL are wholly-owned subsidiaries of Volkswagen AG. VIPL has a manufacturing plant in Pune with a capacity of 2,00,000 vehicles per annum; its establishment cost was Rs. 3,900 crore. This plant produces the Polo and Vento variants of the Volkswagen brand. The plant also manufactures SAIPL's mid-size car, Rapid. VGS IPL is the sales and marketing arm for the Volkswagen, Audi, Porsche and Lamborghini brands in India.

## Key financial indicators (audited)

VGS IPL	FY2017	FY2018
Operating Income (Rs. crore)	7,431.9	6,098.6
PAT (Rs. crore)	69.7	83.4
OPBDIT/OI	0.8%	-1.2%
RoCE	18.3%	21.6%
Total Debt/TNW (times)	0.8	0.5
Total Debt/OPBDIT (times)	6.5	-3.9
Interest Coverage (times)	0.9	-1.3

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); NWC: Net Working Capital*

## Key financial indicators

Combined (VIPL+SAIPL+VGS IPL)	FY2017	FY2018
Operating Income (Rs. crore)	13,271.5	12,089.5
PAT (Rs. crore)	348.1	225.6
OPBDIT/OI	6.4%	6.9%
Total Debt/TNW (times)	0.7	0.7
Total Debt/OPBDIT (times)	2.9	2.8
Interest Coverage (times)	2.8	3.7

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

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

## Any other information: None

## Rating history for last three years

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	Date & Rating	Date & Rating	Date & Rating	Date & Rating	Date & Rating
				Dec 2018	Apr 2018	May 2017	Jan 2017	Nov 2015	Oct 2015	May 2015
1 Fund-based/ Non-fund Based Facilities	Long Term / Short Term	739.00	11.00	[ICRA]AA+ (Stable) and [ICRA]A1+	[ICRA]AA+ (Stable) and [ICRA]A1+	[ICRA]AA+(Negative) and [ICRA]A1+	[ICRA]AA+(Negative) and [ICRA]A1+	[ICRA]AA+(Negative) and [ICRA]A1+	[ICRA]AA+(Negative) and [ICRA]A1+	[ICRA]AA+(Negative) and [ICRA]A1+

Source: The company; \*: Fund based Amount outstanding as on June 30, 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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based/Non-fund Based Facilities	-	-	-	739.00	[ICRA]AA+(Stable)/[ICRA]A1+

Source: The company

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership**	Consolidation Approach
Volkswagen India Private Limited	100.00%	Full Consolidation
Volkswagen Group Sales India Private Limited	100.00%	Full Consolidation
Skoda Auto India Private Limited	100.00%	Full Consolidation

\*\*ownership of VW AG

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