

May 08, 2020

ALD Automotive Private Limited: Rating reaffirmed; provisional rating confirmed as final

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Lines	1,008.30	1,023.30	[ICRA]AAA(CE)(Stable); reaffirmed
Long-term Fund-based Bank Lines -	-	53.95	[ICRA]AAA(CE)(Stable) reaffirmed; provisional rating confirmed as final
Long-term Non-fund Based Bank Lines	20.00	5.00	[ICRA]AAA(CE)(Stable); reaffirmed
Long-term Fund-based/Non-fund Based Bank Lines - Unallocated	121.70	67.75	[ICRA]AAA(CE)(Stable) reaffirmed; provisional rating confirmed as final
Total	1,150.00	1,150.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]AA

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in the suffix is not to be construed as a change in the rating. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The reaffirmed rating takes into account the strong parentage of ALD Automotive Private Limited (AAPL), by virtue of being a part of Société Générale (Soc Gen) Group. Soc Gen, which is a globally systemically important bank based in France, holds a 79.82% stake in ALD S.A. (ALD; the flagship and the ultimate holding company of the ALD Automotive Group), which is a listed company in Paris (France) with a market capitalisation of €3 billion as on April 21, 2020. AAPL is entirely held by ALD International GmbH (ALD International; Erstwhile ALD International SAS & Co. KG), which is a holding company of the ALD Automotive Group. The ALD Automotive Group is an international fleet management and operational car leasing group with a track record of six decades. It has a presence in 43 countries with a total fleet of more than 1.76 million vehicles as of December 2019. The rating further considers the demonstrated track record of operational and financial support along with AAPL's strategic importance to the parent companies (ALD and Soc Gen). AAPL receives constant operational guidance and support from the parent in terms of reporting, commercials/marketing, treasury management and information technology (IT). The financial support is reflected by the fact that the entire funding of AAPL is backed by an unconditional and irrevocable corporate guarantee from Soc Gen (the guarantor; long-term debt/deposit rated A1/Stable by Moody's Investors Service). Further, ICRA notes that AAPL is one of the leading automobile leasing players in the domestic market with a growing fleet size. ICRA also notes the company's diversified geographical presence and the strong relationships with a reputed client base built over the years.

Soc Gen runs a well-diversified international banking business, which provides a stable earnings profile. The bank has presence in 67 countries across Europe, Africa, Russia and America. Apart from retail banking, the bank offers diversified products like cross-selling bancassurance products, financing and advisory, asset management, structured products, and

commodity trading among others. Soc Gen's capitalisation profile has been improving (CET 1 of 12.7% and total capital ratio of 18.3% as on December 31, 2019), underpinned by its strong earnings generation capacity. Despite the high share of wholesale funding in its balance sheet, the bank has a fairly diversified funding structure and maintains adequate liquidity. The refinance risk associated with wholesale funding is partly mitigated by the good diversification of the wholesale funding sources, both by investor base and currency, and its lengthening maturity profile. Further, the bank maintains a high level of liquidity buffers (€190 billion as of December 2019). The average liquidity coverage ratio (LCR) stood at 124% in Q4 2019. Soc Gen maintains 2x coverage for 12-months' obligations. Its asset quality improved in 2019 and remains comfortable with the gross non-performing loans at 3.2% of the gross loans (including customer loans, deposits at banks and loans due from banks, leasing and lease assets) as on December 31, 2019 compared to 3.6% as on December 31, 2018. The improvement was mainly driven by accelerated write-off measures and the sale of non-performing loans. As of December 31, 2019, the provision coverage ratio was adequate at 55%, including specific and portfolio-based provisions. The Group's cost of risk remained at a low level of 25 bps in 2019 (marginally above the 2018 average of 21 bps).

AAPL's rating will remain sensitive to any change in ICRA's assumptions related to the company's strategic importance to ALD and Soc Gen and any reduction in the linkages between them. While AAPL does not share the brand name of the guarantee provider, ICRA has assumed a high level of reputational sensitivity as ALD (AAPL shares its name with ALD S.A.) represents a key business segment for Soc Gen. The rating will also remain sensitive to any deterioration in the credit profile of the guarantor.

The Stable outlook reflects ICRA's opinion that AAPL will continue to benefit from being a part of the Soc Gen Group and the support provided by Soc Gen for the funding programmes of AAPL.

AAPL's standalone credit profile is constrained due to weak profitability and a leveraged capital structure. The rating is also constrained by the low maturity of the automobile leasing industry in India and the residual value risk (of the fleet of cars) inherent in the business, which can affect its profitability and net worth. Any deterioration in AAPL's standalone credit profile may not impact the rating assigned.

Adequacy of credit enhancement

The rating factors in the presence of a corporate guarantee, which is legally enforceable, irrevocable, unconditional and covers the entire amount (103% of the loan amount) and tenor of the rated instrument. The rating also factors in the strategic importance of AAPL to Soc Gen, the support provider, and the high reputational sensitivity of Soc Gen even though the companies do not share a common brand name. Therefore, despite the absence of a well-defined payment mechanism in the corporate guarantee, the guarantee provided by Soc Gen is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AAA(CE)** against the rating of **[ICRA]AA** without explicit credit enhancement. In case the rating of the guarantor, as assessed by ICRA, was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- ✓ The guarantor irrevocably and unconditionally guarantees, as a primary obligor, the payment of all the amounts due to the bank, on first demand.
- ✓ This guarantee amount is higher than the outstanding term loan facility amount, which is being rated. Hence, the guarantee amount would be sufficient to cover the entire principal amount along with the interest amount for 3-4 months. In this regard, as per the loan agreement, the banks have an option to accelerate all the outstanding amounts under the loan (including principal, interest charges, expenses) in the event of default on the payment of the interest amount or any other amount due by the borrower.

- ✓ The guarantor agrees that their obligation under the guarantee will remain valid irrespective of any change / amendment of any term of any document evidencing the obligation of the borrower.
- ✓ The guarantee remains valid for the period more than the term of the underlying facility in case of all the Deeds of Guarantee.
- ✓ There is no well-defined payment mechanism.

Key rating drivers and their description

Credit strengths

Corporate guarantee and demonstrated track record of support from Soc Gen – Soc Gen has provided an unconditional and irrevocable guarantee to AAPL's rated bank facilities. AAPL is a wholly-owned subsidiary of ALD, which, in turn, is majorly held by Société Générale Group. Société Générale Group is one of the largest European financial services groups. By virtue of being a part of a prominent banking group, AAPL has ready access to funds to support growth and meet working capital requirements. AAPL's cost of funds is also low, supported by the availability of low-cost foreign funds and the unconditional and irrecoverable guarantee provided by Soc Gen for its bank borrowings.

Strategic importance to ALD, a leading entity in operational leasing and fleet management in Europe – AAPL remains strategically important to the parent, ALD, as a vehicle for expanding in Indian markets. ALD is the market leader in Europe and a leading player in automotive leasing worldwide, with a presence in 43 countries and a track record of almost six decades. ALD remains focused on the Indian operations, which is a developing market for operational leasing with sizeable growth potential, given the large market size and the currently low penetration level. ICRA, however, notes that consumer preference in the country remains skewed towards ownership instead of leasing, in contrast to European countries.

Strong business and credit profile of Soc Gen – Soc Gen runs a well-diversified international banking business, which provides a stable earnings profile. The bank has a presence in 67 countries across Europe, Africa, Russia and America. Apart from retail banking, it offers diversified products like cross-selling bancassurance products, financing and advisory, asset management, structured products, and commodity trading among others. The bank's capitalisation profile has been improving (CET 1 of 12.7% and total capital ratio of 18.3% as on December 31, 2019), underpinned by its strong earnings generation capacity. Despite the high share of wholesale funding in its balance sheet, the bank has a fairly diversified funding structure and maintains adequate liquidity. The refinance risk associated with wholesale funding is partly mitigated by the good diversification of the wholesale funding sources, both by investor base and currency, and its lengthening maturity profile. Further, Soc Gen maintains a high level of liquidity buffers (€190 billion as of December 2019). The average LCR for Q4 2019 stood at 124%. The bank maintains 2x coverage for 12-months' obligations. Its asset quality improved in 2019 and remains comfortable with the gross non-performing loans at 3.2% of the gross loans (including customer loans, deposits at banks and loans due from banks, leasing and lease assets) as on December 31, 2019 compared to 3.6% as on December 31, 2018. The improvement was mainly driven by accelerated write-off measures and the sale of non-performing loans. As of December 31, 2019, the provision coverage ratio was adequate at 55%, including specific and portfolio-based provisions. The Group's cost of risk remained at a low level of 25 bps in 2019 (marginally above the 2018 average of 21 bps).

Business stability supported by fixed revenues and volume growth; diversified geographical reach and reputed clientele base – AAPL is one of the leading players in the domestic automobile leasing market with a diversified vehicle profile comprising a range of low-priced to premium-priced vehicles. As the revenues are fixed for the duration of the

lease period, the vehicle leasing industry is a stable industry with revenue visibility for the medium term. AAPL registered 17% growth in its operating fleet size in FY2019, which increased to 13,307 as of March 31, 2019 from 11,391 as on March 31, 2018. AAPL continued to increase its operating fleet size in FY2020 with 14,814 vehicles as on December 31, 2019, which supports revenue feasibility and business stability in the medium term. Further, the company's geographical reach remains diversified with a presence in over 30 states/Union Territories (UTs) in India as of December 31, 2019. AAPL has developed strong relationships with a reputed client base comprising multinational companies (MNCs) as well as large Indian corporates.

Credit challenges

Low maturity of automobile leasing industry in India – The vehicle 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 on the benefits of lease over ownership and is also foraying into the small and micro enterprises (SME) segment.

Residual value risk – AAPL's profitability remains exposed to residual value risk, which is the risk arising out of a divergence in the book value of assets on the termination of the operating lease compared to the market value at that point of time. Given its established market position as well as vast experience, the company was able to price its residual values well, which enabled it to consistently generate a profit on the sale of assets (fleet) till FY2017. However, due to changes in the tax structure post the implementation of the Goods and Services Tax (GST), AAPL has been reporting losses on asset sales in the secondary market with the same expected to continue till FY2021, leading to lower profitability and depletion of net worth.

Modest financial profile with stagnant revenues and leveraged gearing level – AAPL's operating income (OI) remained stagnant in the range of Rs. 310-330 crore during FY2017 to FY2019, which continued in FY2020 with an OI of Rs. 258.28 crore in 9M FY2020. Further, AAPL continued to report losses of Rs. 9.68 crore in FY2019 and Rs. 6.30 crore in 9M FY2020 on the sale of assets owing to the increase in the applicable tax rates on the sale of used cars under the GST regime and impairment losses on unsold vehicles, leading to a net loss of Rs. 1.99 crore in FY2019 and a marginal profit before tax of Rs. 5.58 crore in 9M FY2020. The significant losses over the years led to an erosion in the company's tangible net worth. This, coupled with the increase in borrowings, resulted in a high gearing level of 41.69 times as on March 31, 2019 against 35.19 times as on March 31, 2018. Although the company's gearing improved to 36.51 times as on December 31, 2019 due to the positive accrual to the net worth during this period, the same remains high.

Liquidity position - Adequate

The company had a cash and bank balance of Rs. 10 crore and unutilised bank lines (guaranteed) of Rs. 328.73 crore as of March 31, 2020, of which Rs. 74 crore is from the parent group. AAPL's debt repayment obligations (including interest) remain sizeable at Rs. 174.20 crore for Q1 FY2021 and Rs. 484.48 crore for FY2021. However, its unutilised bank lines remain sufficient to provide liquidity support if the need arises. The company also draws the advantage of support from the parent in the form of a corporate guarantee as well as access to loans if required.

Rating sensitivities

Positive Triggers – Not applicable

Negative Triggers – Pressure on AAPL's rating could arise if the guarantor's financial performance deteriorates. Any weakening of AAPL's strategic importance to ALD, and thus to Soc Gen, resulting in lower operational linkages and

reduced reputational sensitivity could also impact the rating. While AAPL's standalone performance may not have a direct impact on the rating, a weak performance on a sustained basis could reduce its importance to ALD and Soc Gen.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Immediate Parent: ALD International GmbH (Erstwhile ALD International SAS & Co. KG) Ultimate Parent: Société Générale (Soc Gen; rated A1/Stable by Moody's Investors Service) The rating is credit enhanced by the unconditional and irrevocable guarantee provided by Soc Gen
Consolidation/Standalone	Standalone

About the company

ALD Automotive Private Limited (AAPL) is a 100% subsidiary of ALD International GmbH, which, in turn, is a subsidiary of Société Générale. Commencing operations in 2005, the company offers operating leases for passenger vehicles in India as well as several fleet management services as a part of the lease agreement. AAPL is headquartered in Mumbai with regional offices in Gurgaon, Bangalore, Hyderabad, Chennai and Pune.

About the parent – ALD International GmbH (Erstwhile ALD International SAS & Co. KG)

The ALD Automotive Group is an international fleet management and operational car leasing group with a presence in 43 countries and a total fleet of more than 1.76 million vehicles as of December 2019. ALD S.A. (ALD) is the holding company of the auto leasing business of Soc Gen. Soc Gen holds a 79.82% stake in ALD, a listed company in Paris (France) with a market capitalisation of €3 billion as on April 21, 2020. ALD owns the India business through ALD International, an investment holding company. ALD is the #1 full service leasing service provider in Europe, in terms of fleet size, and #2 globally.

About the guarantor

Société Générale (rated A1/Stable for its long-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. The Group has operations in 76 countries and has been present in India since 1978 in various banking operations.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	9M FY2020 (Provisional)
Total Income (Rs. crore)	324.25	329.59	258.28
Profit after Tax (Rs. crore)	-15.75	-1.99	5.58
Net Worth (Rs. crore)	27.19	25.20	30.78
Total Managed Portfolio (Rs. crore)	787.77	837.11	883.68
Trade Receivables (Rs. crore)	91.16	64.75	57.62
Total Assets (Rs. crore)	1,039.17	1,124.87	1,178.75
Return on Assets	-1.58%	-0.18%	0.65%
Return on Equity	-44.92%	-7.60%	26.57%
Gearing (times)	35.19	41.69	36.51

Source: AAPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating 8-May-2020	FY2020 15-Apr-2019	FY2019 17-Dec-2018	20-Aug-2018	FY2018 8-Sep-2017
1	Fund-based Bank Lines	Long Term	1,077.25	1,077.25*	[ICRA]AAA(CE)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)
2	Non-fund Based Bank Lines	Long Term	5.00	1.56*	[ICRA]AAA(CE)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)	[ICRA]AAA(SO)(Stable)
3	Fund-based/Non-fund Based Bank Lines - Unallocated	Long Term	67.75	-	[ICRA]AAA(CE)(Stable)	Provisional [ICRA]AAA(SO)(Stable)	Provisional [ICRA]AAA(SO)(Stable)	Provisional [ICRA]AAA(SO)(Stable)	Provisional [ICRA]AAA(SO)(Stable)

Amount in Rs. crore

*Outstanding as on March 31, 2020

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Bank Lines – Term Loans	July 2016 to March 2020	NA	July 2021 to March 2024	525.80	[ICRA]AAA(CE)(Stable)
NA	Fund-based Bank Lines – Term Loans	April 2016 to December 2019	NA	October 2019 to December 2023	309.16	[ICRA]AAA(CE)(Stable)
NA	Fund-based Bank Lines – Term Loans	September 2018 to March 2020	NA	September 2022 to March 2024	196.98	[ICRA]AAA(CE)(Stable)
NA	Fund-based Bank Lines – Term Loans	September 2019 to December 2019	NA	September 2023 to December 2023	45.31	[ICRA]AAA(CE)(Stable)
NA	Non-fund Based Bank Lines	NA	NA	NA	5.00	[ICRA]AAA(CE)(Stable)
NA	Fund-based/Non-fund Based Bank Lines - Unallocated	NA	NA	NA	67.75	[ICRA]AAA(CE)(Stable)

Source: AAPL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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