

November 24, 2020

## Fiat India Automobiles Private Limited: Change in limits

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	625.00	625.00	[ICRA]A1+ outstanding
Fund-based – Working Capital Facilities	625.00	610.00	[ICRA]AA-(Stable); outstanding
Fund Based – Term Loan	1380.00	1291.00	[ICRA]AA-(Stable); outstanding
Non fund based facilities	10.00	10.00	[ICRA]AA-(Stable)/[ICRA]A1+; outstanding
Long/Short-term Unallocated	35.0	139.0	[ICRA]AA-(Stable)/[ICRA]A1+; outstanding
<b>Total</b>	<b>2675.00</b>	<b>2675.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The outlook on the long-term rating of Fiat India Automobiles Private Limited was revised to Stable from Negative in October 2020. The outlook revision reflects ICRA's expectation that FIAPL's operating as well as financial performance will improve going forward, supported by assured healthy profits under take-or-pay (ToP) arrangement with its primary customers. FIAPL is a 50:50 joint venture between Tata Motors Limited and Fiat Chrysler Automotive (FCA). It is sole the manufacturer of TML's compact UV (Nexon) and FCA's Jeep Compass model. FIAPL supplies engines for TML's premium models like Harrier and Altroz. Earlier, in September 2019, ICRA had revised the long-term outlook to Negative in expectation of weakening in demand outlook due to the ongoing slowdown in the automobile industry as well as moderation in credit profile of its principal customer. The overall revenue declined by 17% in FY2020 and the demand momentum remained muted in Q1 FY2021 on account of the lockdown imposed to contain the Covid-19 pandemic. However, smart recovery in volumes of Nexon and Jeep Compass and incremental revenue contribution by engine supplies to TML's premium hatchback Altroz will support revenue going forward and reduce its dependency on the ToP arrangement.

As per the ToP agreement, FIAPL's fixed costs as well as agreed fixed returns are ensured by its principal customers and shareholders, mitigating the demand-related risks to a large extent. In the past, despite minimal capacity utilisation, the ToP arrangement has helped the company to generate healthy profits, which is expected to continue going forward. Under the ToP arrangement, even in case of minimal capacity utilisation, FIAPL's management expects an operating profit of more than Rs. 850 crore, which provides stability to the overall cash flows. Any adverse revision in ToP arrangement, which could materially impact profitability or steep deterioration in the credit profiles of the JV partners on a sustained basis, remain a key sensitivity for FIAPL's credit profile. The company has a capex plan of Rs. 700 crore in the current fiscal towards its assembly and engine manufacturing lines, which is being funded through Rs. 500 crore of term loans and the rest through internal accruals. Nevertheless, its capitalisation and coverage indicators are expected to remain comfortable in the medium term.

The rating strengths are partially offset by the weak position of FIAPL's principal customers in the Indian passenger vehicle (PV) market. FIAPL is eligible for subsidy from the Government of Maharashtra (GoM) under the Industrial Promotion Scheme (IPS), wherein it is eligible to recover 150% of its investment in the form of the SGST refund.

While the subsidy provides support to the overall cash flows and profitability, payments from the Government authorities are generally delayed by 18-24 months, resulting in a substantial build-up of receivable and stretched working capital cycle in the interim. Consequently, the company's dependence on external borrowings to fund its working capital requirement shoots up over the aforesaid period. As of September 2020, FIAPL had subsidy outstanding of Rs. 631 crore from the the GoM and has received Rs. 275 crore till H1 FY2021 towards the past outstanding dues. Going forward, timely recovery of the subsidy remains crucial for the company's liquidity position and for funding its incremental working capital as well as capex requirements.

## Key rating drivers and their description

### Credit strengths

**Strong operational and managerial support from promoter group** – FIAPL is of strategic importance to both the promoter groups being the sole manufacturing unit for all FIAT and JEEP branded vehicles in India as well as TML's Nexon compact utility vehicle. The company manufactures 1.2 Litre engines for TML's premium hatchback Altroz and 2 litre engines for Harrier. As per the management, FIAPL is the sole supplier of the JEEP Compass for the right-hand<sup>3</sup> drive markets globally.

**ToP arrangement with TML and FCA US LLC protects profitability from demand-related risks** – FIAPL's ToP arrangement for its manufacturing capacity allows an assured fixed return on assets, over and above its fixed cost recovery. Furthermore, the overall profitability is supported by the sales tax incentive earned on the cars and engines manufactured by it. FIAPL's earlier ToP arrangement for FCA's share of the manufacturing capacity with FCA India Automobiles Private Limited (a step-down subsidiary of FCA NV) has been replaced by FCA US LLC jointly and severally also with FCA SpA Italy. FCA US LLC is one of the strongest entities in the FCA Group, globally. The proposed merger of FCA with Groupe PSA could provide additional business opportunity for FIAPL in the medium to long term.

### Credit challenges

**Marginal market share of TML and FCA in Indian PV market** – FIAPL's primary customers, TML and FCA India, are relatively small players in the Indian passenger vehicle industry, with market share of 7.9% and 0.2%, respectively, in H1 FY2021. With improvement in consumer sentiments and favourable reception for TML's Nexon and Altroz, the company's capacity utilisation improved in Q2 FY2021, which is likely to sustain in H2 FY2021.

**Stretched working capital cycle** – FIAPL is eligible for the IPS subsidy from the GoM, wherein it is eligible to recover 150% of its investment in the form of SGST refund. While the subsidy provides support to its overall cash flows and profitability, payments from Government authorities are generally delayed by 18-24 months, resulting in substantial build-up of receivable and stretched working capital cycle in the interim. Consequently, the company's dependence on external borrowings to fund its working capital requirement shoots up over the aforesaid period. As of September 2020, FIAPL had subsidy outstanding of Rs. 631 crore from GoM and recovered Rs. 275 crore till H1 FY2021. Going forward, the timely recovery of the same remains crucial for the company to maintain its liquidity position and fund incremental working capital as well as capex requirement.

### Liquidity position: Strong

The company's liquidity position is **strong** with cash and bank balances to the tune of Rs. 783 crore as on September 30, 2020 and sufficient buffer in working capital lines. Further, due to the ToP agreement with the JV partners, FIAPL's operating profits are expected to be protected and sufficient to meet debt repayments as well as margin requirement for incremental capex/investments.

## Rating sensitivities

**Positive triggers** – Improved diversification in the product profile leading to sustained revenue growth, along with substantial improvement in coverage indicators such that net debt/OPBIDTA is below 1 times, on a sustained basis, may trigger a rating upgrade.

**Negative triggers** – Any adverse revision in the ToP arrangement with the promoter group entities or steep deterioration in the credit profile of counterparties under the ToP arrangement will result in a rating downgrade. Substantial built-up in receivables or large debt-funded capex, which could result in TD/OPBIDTA more than 2.5 times, on a sustained basis, could exert downward rating pressure.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for passenger vehicle manufacturers</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

FIAPL is a 50:50 JV between TML and FCA Italy Spa. FIAPL's manufacturing unit in Ranjangaon (Pune) has an annual production capacity of 3,00,000 1.2 Litre engines, 1,00,000 2 litre engines and 1,70,000 passenger vehicles. At present, FIAPL is the sole manufacturing unit for TML's Nexon compact utility vehicles, and FCA's JEEP models in India. In addition, it is the sole manufacturer of the right-hand drive Jeep Compass model for FCA's global requirement. Its board of directors comprise eight people, with equal participation from TML and FCA.

## Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	7217.9	5969.6
PAT (Rs. crore)	190.2	286.9
OPBDIT/OI (%)	12.4%	14.1%
PAT/OI (%)	2.6%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8
Total Debt/OPBDIT (times)	1.6	2.0
Interest Coverage (times)	6.2	6.4

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

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding*	Rating		FY2020		FY2019	FY2018
					24-Nov-2020	06-Nov-2020	12-Dec-2019	23-Aug-2019	27-Sep-2018	16-Mar-2018
1	Commercial Paper	Short-term	625.00	74.65	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund-based – Working Capital Facilities	Long-term	610.00	75.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Fund Based – Term Loan	Long-term	1291.00	1291.0	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
4	Non-fund based facilities	Long/Short	10.00	NA	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+
5	Long/Short-term Unallocated	Long/Short	139.0	NA	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-

Amount in Rs.Crore; as of Sep 30,2020; NA – Not applicable

### 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	610.00	[ICRA]AA-(Stable)
NA	Term Loan 1	FY2016	1m LIBOR + 163 bps	FY2024	439.00	[ICRA]AA-(Stable)
NA	Term Loan 2	FY2016	1m LIBOR + 163 bps	FY2024	220.00	[ICRA]AA-(Stable)
NA	Term Loan 3	FY2016	1m LIBOR + 163 bps	FY2024	132.00	[ICRA]AA-(Stable)
NA	Term Loan 4	FY2020	6M MCLR + 0.6%		500.00	[ICRA]AA-(Stable)
NA	Non fund based	NA	NA		10.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA		139.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	625.00	[ICRA]A1+

Source: Company

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

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