

India Ratings Affirms Volkswagen Finance and its NCDs at 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has affirmed Volkswagen Finance Private Limited's (VWFPL) Long-Term Issuer Rating at 'IND AAA' with a Stable Outlook and Short-Term Issuer Rating at 'IND A1+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term bank loans	-	-	-	INR32,000	IND AAA/Stable	Affirmed
Short-term bank loans	-	-	-	INR15,000	IND A1+	Affirmed
Commercial paper	-	-	June 2017 to May 2018	INR30,000	IND A1+	Affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR26,000(reduced from INR35,000)	IND AAA/Stable	Affirmed

* The details of NCDs are given in Annexure.

KEY RATING DRIVERS

Parent Support: VWFPL's ratings are driven by Ind-Ra's expectation of continued support from its parent, Volkswagen Financial Services AG (VWFSAG). VWFPL is fully owned by Volkswagen AG (Fitch Ratings Ltd. Issuer Default Rating: 'BBB+'/Stable) through VWFSAG and VWFSAG's subsidiary Volkswagen Finance Overseas B.V. As a captive finance company of Volkswagen group in India, VWFPL is closely integrated with the parent for the planning and execution of business strategies for the Indian market. VWFSAG has provided unconditional and irrevocable guarantees to banks in India for VWFPL's rupee-based loans facilities. Ind-Ra believes the parent is committed to provide funding support as and when necessary.

VWFSAG's ability to extend support to VWFPL is unlikely to be affected by the emission issue with Volkswagen group in US. VWFSAG has no financing exposure to the US (to which the events mainly pertain) and the impact on its Indian operations (VWFPL; forming less than 1% of VWFSAG global operations) will be neutral. VWFPL plays a key role for Volkswagen Group's sales in India.

India Focus to Continue: The VW management continues to focus on India, with sustained efforts to maintain a high market share of Audi cars (around 42% of VWFPL's retail loan book). VW has two facilities in Maharashtra – one for manufacturing cars and other for assembling luxury cars for sale in India. VW plans to focus on its car segments and

continue to expand its footprints as a premium car manufacturer.

Slow Loan Growth: Post reporting a loan CAGR of 136% in FY12-FY14, CAGR moderated to 11% in FY14-FY17, due to the base effect and lower disbursements in the wholesale portfolio. The loan growth might remain slow as the company continues to consolidate its dealer portfolio. The loan book is primarily driven by retail loans, which formed 65% of the total book at end-March 2017. VWFPL's penetration in financing its group's automotive sales is 26% and is targeted by the company to increase further by FY20. This along with an increase in the group's automotive sales will support portfolio growth in the medium term. VWFS also plans to foray into leasing products for corporate clients. Ind-Ra expects this to be one of the growth drivers along with retail portfolio. While Ind-Ra expects the leasing segment to have higher NPA levels due to the high ticket nature of exposure to corporates, the higher yields in this segment would offset the impact, if any. Also, the group has started dealer financing in the MAN and Scania commercial vehicles segments.

Adequate Capitalisation: The capital buffer (equity to assets ratio of 20.5%) at end-March 2017 along with the retention ratio (5%) is adequate to support loan growth for the medium term, without significant need for further capital infusions. Capital adequacy ratio remained comfortable at 20.76% at end-March 2017.

Improving Asset Quality: VWFPL's asset quality in the dealer portfolio has improved due to sustained recovery efforts (dealer gross NPA at FYE17: 2.2%; FYE16: 3.57%). The company expects the asset quality to remain in check with lower rated dealer portfolio to be reduced. VWFPL remained 53% collateralised on the delinquent accounts in the dealer portfolio as of March 2017. Ind-Ra expects that minimal further slippages from the seasoned dealer loan book. Overall gross NPA deteriorated in FY17 to 2.7% (FYE16: 2.3%) on account of delinquencies in the retail portfolio due to demonetisation; however, the retail delinquencies have reduced as part of the recovery measures implemented after the demonetisation activity. Any sharp rise in delinquencies from retail also is unlikely.

Diversified Funding and Adequate Liquidity: The company has continued to raise long-term funds through the issuance of NCDs and bank loans to fund the longer-duration asset base. Also, VWFPL has adequate near-term liquidity buffers with sanctioned bank credit lines of around INR44 billion. Moreover, Volkswagen Financial Services NV (subsidiary of VWFSAG) has received approval from the regulator for foreign portfolio investment in VWFPL's NCDs of over three years of maturity. Although it may come with a lag of four to five days, VWFPL has adequate unutilised bank lines to cover short term liquidity.

The company remains diversified with funding sources. It has banking lines from a mix of 17 foreign, private and public sector banks.

Stable Earnings Profile: Operating expenses have stabilised (cost to income ratios of FY17: 47%; FY16: 46%). The management targets to bring the ratio down in the long term. Profitability remains comfortable, with net interest margins being 3.35% in FY17 (FY16: 3.55%).

RATING SENSITIVITIES

Ind-Ra expects VWFPL's ratings to remain at the highest end of the national scale with a Stable Outlook. Rating changes, if any, will depend on a significant rating downgrade of Volkswagen AG or a decline in its ownership and support from Volkswagen AG or VWFSAG.

COMPANY PROFILE

VWFPL is owned by VWFSAG, the holding company for the global financial services business of Volkswagen AG. VWFSAG is the largest automobile financial services provider in Europe. VWFPL focuses exclusively on financing the Volkswagen Group's automobile brands in India (Volkswagen, Audi, Skoda, Porsche Lamborghini, Scania and MAN) and provides finance to retail customers and inventory finance to the group's dealers.

FINANCIAL SUMMARY

Particulars	FY17	FY16
Total assets (INR million)	60,617.6	57,313.1
Total equity (INR million)	12,402.0	11,885.0
Net income (INR million)	549.5	826.6

Return on average assets (%)	0.9	1.6
Equity/assets (%)	20.5	20.7
Capital adequacy ratio (%)	20.8	21.1

Source: Company annual report

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	29 November 2016	30 September 2014	31 July 2013
Long-term Issuer Rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
Short-term Issuer Rating	Short-term	-	IND A1+	IND A1+	IND A1+	IND A1+
Long-term bank loans	Long-term	INR32,000	IND AAA/Stable	IND AAA/Stable	IND AAA	IND AAA
Short-term bank loans	Short-term	INR15,000	IND A1+	IND A1+	IND A1+	IND A1+
Commercial paper	Short-term	INR30,000	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR26,000	IND AAA/Stable	IND AAA/Stable	IND AAA	IND AAA

ANNEXURE

Instruments	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs	INE851M07077	1 December 2014	8.85	1 December 2017	INR4,000	IND AAA/Stable	Affirmed
NCDs	INE851M07085	29 May 2015	8.65	30 July 2018	INR2,000	IND AAA/Stable	Affirmed
NCDs	INE851M07093	29 May 2015	8.65	29 May 2020	INR2,000	IND AAA/Stable	Affirmed
NCDs	INE851M07101	28 December 2015	8.63	28 June 2018	INR1,500	IND AAA/Stable	Affirmed
NCDs	INE851M07119	28 December 2015	8.63	28 December 2018	INR1,500	IND AAA/Stable	Affirmed
NCDs	INE851M07127	20 September 2016	8.4	20 September 2018	INR2,000	IND AAA/Stable	Affirmed
NCDs	INE851M07135	20 September 2016	8.47	20 September 2019	INR2,000	IND AAA/Stable	Affirmed
NCDs	INE851M07143	10 October 2016	7.93	10 October 2018	INR1,000	IND AAA/Stable	Affirmed
NCDs	INE851M07150	12 June 2017	7.98	12 June 2019	INR500	IND AAA/Stable	Affirmed
NCDs	INE851M07168	12 June 2017	8.05	19 June 2020	INR1,000	IND AAA/Stable	Affirmed
NCDs	INE851M07176	11 July 2017	7.83	13 July 2020	INR3,000	IND AAA/Stable	Affirmed

Unutilised NCDs amount to INR5.50 billion

COMPLEXITY LEVEL OF INSTRUMENTS

For details on complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

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