Volkswagen Finance Private Limited

November 16, 2017

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	3,000.00	[ICRA]A1+; Assigned
Total	**3,000.00**	

Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 3,000-crore commercial paper programme of Volkswagen Finance Private Limited (VFPL).

Rationale

The rating favourably factors in VFPL's strong parentage, with the entity being a wholly owned step-down subsidiary of Volkswagen AG (rated A3/Prime-2 Negative by Moody's) through Volkswagen Financial Services AG (VFSAG, rated A3/Prime-2 Negative by Moody's; a subsidiary of Volkswagen AG and owns 91% in VFPL) and Volkswagen Finance Overseas B.V. (a subsidiary of VFSAG and owns the balance 9% in VFPL). The rating also takes into account the company's strong management team consisting of experienced industry professionals, and its close integration with the parent group in implementation of business policies. The rating factors in VFPL's adequate capitalisation levels (CRAR of 20.8% as on March 31, 2017), with demonstrated capital support and commitment from the parent, its well-diversified financial resource profile and comfortable liquidity profile supported by substantial back-up of credit lines. The rating also takes into account VFPL's adequate risk management and loan monitoring systems which have enabled it to maintain a moderate asset quality (gross NPAs of 2.71% and net NPAs of 1.27% as on March 31, 2017).

ICRA takes note of the company's slow portfolio growth on account of the low market share of the Volkswagen Group automotives in the Indian market and VFPL's own moderate penetration. ICRA also takes note of the company's limited track record of operations and its relatively late entry into the highly competitive vehicle financing market. The rating also takes into consideration VFSL's subdued profitability arising out of a pressure on NIMs and relatively high operating and credit costs. Going forward, any material changes in the credit profiles of the parent company or in their shareholdings in VFPL, or any significant changes in the Group's India focus would be key rating monitorables.

Outlook: Not Applicable

Key rating drivers

Credit strengths

Strong parentage, being a wholly owned step-down subsidiary of Volkswagen AG – By virtue of its parentage, the company derives substantial operational, financial and management support from the Group. Given the focus of the Group on the Indian automotive market, VFPL is strategically important as the captive financier of the Group. The support from the parent has been demonstrated in the form of regular capital infusions and guarantees for VFPL's credit facilities.

Experienced Board and senior management team - The company's five-member Board includes the Chief Executive Officer(CEO), Chief Financial Officer(CFO), two independent directors and one non-executive director with diverse experience in financial services, automotive, information technology (IT) and manufacturing sectors. The company also has a strong senior management team with significant experience across banking, audit, sales and marketing and IT. Additionally, the company benefits from the management support and regular guidance from its parent.

Adequate capitalisation profile – VFPL's capitalisation profile remains comfortable with Tier 1 and total CRAR of 20.42% and 20.76% respectively and a gearing of 3.35 times as on March 31, 2017. Also, the company has sufficient headroom to raise tier II capital if required to support the regulatory capital adequacy. ICRA expects the company to maintain prudent capitalsation levels going forward as well and expects VFSAG to infuse additional capital to support VFPL's growth plans when required.

Diversified funding mix; strong unutilised credit lines support liquidity – The company's borrowing profile is diversified with non-convertible debentures and commercial papers accounting for 37% and 43% of total outstanding debt respectively and balance 20% from banks as on March 31, 2017. The company has a diverse lender base including banks (public sector, private and foreign), mutual funds and foreign portfolio investors. The company also maintains adequate unutilised bank lines (Rs. 3,739 crore as on October 31, 2017) to cover the outstanding quantum of short term borrowings which along with its relatively low gearing and the high likelihood of support from parent, strengthens the liquidity profile.

Moderate asset quality indicators - VFPL's good risk management and loan monitoring systems have enabled it to maintain a moderate asset quality, albeit improving, with gross and net NPAs[1] of 2.71% and 1.27% respectively as on March 31, 2017. The asset quality of the wholesale portfolio (dealer financing) has improved significantly over the past few years (gross NPAs of 2.22% as on March 31, 2017 as compared with 9.03% as on March 31, 2015) with improved risk control and portfolio monitoring. The gross NPAs in the retail portfolio however increased to 3.00% as on March 31, 2017 from 1.72% as on March 31, 2016 mainly on account of demonetisation. Going forward, the company's ability to grow its portfolio while maintaining asset quality will be a key monitorable.

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[1] *NPA recognition is at 90+ DPD basis*

Credit weaknesses

Limited track record of operations; late entrant in a highly competitive market - The company began its retail operations in FY2011 and wholesale (dealer) operations in FY2012. Being a relatively late entrant in a highly competitive auto-financing market, the company faces high competition from established players including banks, non-bank finance companies and other auto-financing players.

Slow growth and moderate seasoning of the loan book - The low market share of the Volkswagen Group automotives, a moderate existing loan base and VFPL's moderate financing penetration have resulted in slow growth of VFPL's loan book. While Volkswagen India is among the leading players in the luxury market segment, its initiatives to further penetrate the mass market segment and VFPL's success in increasing its financing penetration will be key drivers of incremental loan book growth. Also, given the limited vintage of VFPL's loan portfolio and the high growth rate in the initial years of operations, the loan book was only moderately seasoned as on March 31, 2017.

Subdued profitability in a highly competitive landscape – Pricing pressure on account of competition has compressed VFPL's yields and profitability. While the company's operating expenses in relation to average assets have been progressively reducing with increased business volumes, the impact was offset by the relatively high credit costs in FY2017 following the deterioration in asset quality after demonetisation. For FY2017, the company's return on assets (PAT/ATA) and return on net worth stood at 0.91% and 4.27%, respectively (1.52% and 6.79% for FY2016). The company's ability to increase its operational efficiencies and contain credit costs would remain crucial to support profitability metrics in a market characterised by competitive pricing.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

ICRA's Credit Rating Methodology for Non-Banking Finance Companies

About the company

Volkswagen Finance Private Limited is a non-deposit taking non-banking finance company registered with the Reserve Bank of India and is primarily engaged in financing retail customers and dealers of Volkswagen Group brands. The company was incorporated in January 2009 and obtained an NBFC licence in March 2011. The company started retail financing in March 2011 and dealer financing in January 2012. VFPL is a wholly owned subsidiary of Volkswagen Financial Services AG (rated A3 by Moody's) which in turn is a wholly owned subsidiary of Volkswagen AG (rated A3 by Moody's).

In FY2017, the company reported a profit after tax (PAT) of Rs. 54.95 crore on an asset base of Rs. 6,224.15 crore, as compared to a PAT of Rs. 82.66 crore on an asset base of Rs. 5,873.32 crore in FY2016. The company's outstanding portfolio was Rs. 6,050 crore as on March 31, 2017 of which 65% was retail and 35% was dealer financing.

Key Financial Indicators (Audited)

	FY2016	FY2017
Total Income (in Rs. crore)	594	622
PAT (in Rs. crore)	83	55
Networth (in Rs. crore)	1,259	1,314
Total Managed Portfolio (in Rs. crore)	5,695	6,050
Total Managed Assets (in Rs. crore)	5,873	6,224
Return on assets (%)	1.5	0.9
Return on equity (%)	6.8	4.3
Gearing (times)	3.3	3.4
Gross NPA (%)	2.3	2.7
Net NPA (%)	1.1	1.3
Net NPA/Net worth (%)	4.8	5.8
Capital adequacy ratio (%)	21.1	20.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
						FY2017	FY2016	FY2015
	Instrument	**Type**	**Amount Rated (Rs. crore)**	**Amount Outstanding (Rs. crore)**	**Nov 2017**	**-**	**-**	**-**
1	Commercial Paper	Short Term	3,000.00	**NA**	**[ICRA]A1+**	-	-	-

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	Commercial Paper Programme	NA	NA	7-365 days	3,000.00	[ICRA]A1+

Source: Volkswagen Finance Private Limited

ANALYST CONTACTS

Karthik Srinivasan
+91 22 61143444
karthiks@icraindia.com

Manushree Saggar
+91 124 4545316
manushrees@icraindia.com

Rohit Gupta
+91 124 4545372
rohit.gupta@icraindia.com

Omkar Athalekar
+91 22 61143439
omkar.athalekar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-3341580 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
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