VDF Filo Kiralama A.S.

Ratings

Foreign Currency

Long-Term IDR	B
Short-Term IDR	B
Shareholder Support Rating	b

National Rating

National Long-Term Rating	AAA(tur)

Sovereign Risk (Turkiye)

Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks

Long-Term Foreign-Currency IDR	Negative
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Key Rating Drivers

Support-Driven Ratings: VDF Filo Kiralama A.S.'s ratings are driven by support from controlling shareholder, Volkswagen Financial Services AG (VWFS), and, ultimately, Volkswagen AG (VW; A-/Stable), and underpinned by its Shareholder Support Rating (SSR) of 'b'. Fitch Ratings views VDF Filo as a strategically important subsidiary of VW, given its mandate to support VW's activity in Turkiye.

Constrained by Country Ceiling: VDF Filo's Long-Term Foreign-Currency (FC) Issuer Default Rating (IDR) and SSR are both constrained by Turkiye's 'B' Country Ceiling. The Country Ceiling captures transfer and convertibility risks and caps the extent to which support from VWFS or VW can be factored into VDF Filo's Long-Term FC IDR. The Negative Outlook on the Long-Term FC IDR mainly reflects the risks stemming from the operating environment, as well as the Negative Outlook on Turkiye's sovereign rating.

Joint-Venture with Dogus Group: VDF Filo is fully owned by VDF Servis ve Ticaret (VDF Servis), which is in turn 51% owned by VW (via VWFS), and 49% by Dogus Group. Dogus is a large Turkish conglomerate with diverse operations and the sole importer of VW vehicles in Turkiye. VW exercises operational control over VDF entities, while Dogus has a significant role in running the company. VDF Filo is reliant on funding from the group, with VW providing 54% of VDF Filo's total funding at end-2022.

Reliance on VW Brands: VDF Filo relies significantly on VW's franchise in Turkiye. At end-2022, around half of VDF Filo's fleet comprised VW group brand vehicles. The company serves VW dealers almost exclusively and operates through over 100 sale points across Turkiye.

Proven Shareholder's Support: VDF Filo previously benefitted from capital injections from VDF Servis, the holding company of the group – receiving TRY25 million in equity in 2020 (around 23% of end-2019 equity) and TRY34 million in 2019 (around 66% of end-2018 equity). VDF Servis redistributes dividends upstreamed from other profitable subsidiaries into group companies that need support. VW has also contributed capital when needed. Fitch believes further capital injections would be forthcoming if required to maintain adequate capitalisation.

Good Profitability; Sound Asset Quality: VDF Filo's profitability has been improving since 2021 and its return on average assets (ROAA) was very strong, at 16.3% in 2022 (2021: 9.5%). This was helped by higher residual value gains on fleet disposal, mainly due to the sharp increase in car demand in Turkiye as vehicles are viewed as a good hedge against inflation.

VDF Filo's asset quality metrics are strong, with a non-performing loans (NPL) ratio of 1.2% at end-2022 (2021: 0.4%). We expect asset quality to deteriorate slightly in 2023 and 2024 as interest rates rise.

Stable National Rating: VDF Filo's 'AAA(tur)' National Long-Term Rating reflects its strong credit profile compared with that of other issuers in Turkiye, due to the high propensity of support from VWFS and VW. The Stable Outlook reflects our expectations of no changes to VDF Filo's creditworthiness relative to other Turkish issuers.

Applicable Criteria

National Scale Rating Criteria (December 2020)

Non-Bank Financial Institutions Rating Criteria (May 2023)

Related Research

Fitch Rates VDF Filo 'B'/Negative; 'AAA(tur)'/Stable (June 2023)

Emerging Europe Finance and Leasing Companies Outlook 2023 (November 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

VDF Filo's Long-Term FC IDR and SSR would likely be downgraded following a downgrade of Turkiye's Country Ceiling, which would most likely be triggered by a sovereign rating downgrade.

Changes in propensity of support from VW, for example, as a result of dilution of ownership, a loss of operational control, or lessening importance of the Turkish market, could also trigger a downgrade of the Long-Term IDR and SSR.

Deterioration of VDF Filo's creditworthiness relative to other Turkish issuers' would likely trigger a downgrade in its National Ratings, although this is unlikely given the high level of potential support from VW.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of the Long-Term IDR is unlikely in the short term, given the Negative Outlook, but an upgrade of Turkiye's Country Ceiling as a result of a sovereign rating upgrade would likely be reflected in VDF Filo's Long-Term TFC IDR.

A revision of the sovereign Outlook to Stable would also be reflected in VDF Filo's Long-Term FC IDR Outlook.

Shareholder Support Assessment

Shareholder Support	
Shareholder IDR	A-
Total Adjustments (notches)	-8
Shareholder Support Rating	b

Shareholder ability to support	
Shareholder Rating	A-/Stable
Shareholder regulation	1 Notch
Relative size	Equalised
Country risks	2+ Notches

Shareholder propensity to support	
Subsidiary role and relevance	1 Notch
Reputational risk	2+ Notches
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	1 Notch

The colours indicate the weighting of each KRD in the assessment.

Higher influence   Moderate influence   Lower influence

Business Profile and Key Qualitative Factors

Established in 2016, VDF Filo is a small Istanbul-based operating leasing company, with an 8% market share. As of end-2022, the company served about 2,000 customers from its sole office in Istanbul.

VDF Filo's main activity is the operating leasing of passenger cars to SMEs and large corporates. The sole distributor of VW cars in Turkiye is Dogus Otomotiv, its joint-venture parent. VDF Filo has an important role in the sale of VW brands in Turkiye. By units, in 2022 around 45% of the fleet consisted of VW cars, but by value, the share of VW brand cars represented 50% of the portfolio (2021: 58%; 2020: 59%).

Prior to 2016, VW operated in Turkiye through an operating leasing subsidiary jointly owned by VW and Fleet Investment JV (LeasePlan Corporation N.V.'s then shareholder). In 2016, LeasePlan was sold to a consortium of pension funds. Following this sale, VW set up VDF Filo, a wholly-owned operating leasing company in Turkiye.

The VW group brands ranked fourth in Turkiye by number of cars sold in 2022, behind Fiat, Renault and Ford.

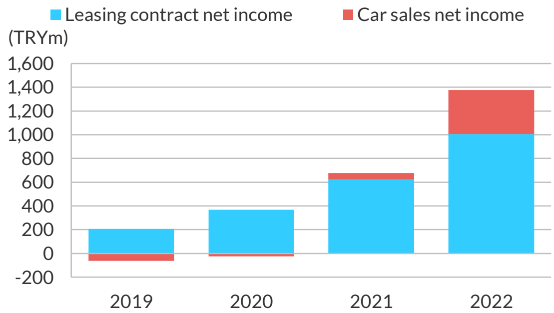
Financial Profile

Asset Quality

Fitch views VDF Filo's depreciation policy as adequate. The company has recorded gains on the disposal of used cars since 2021 due to a significant appreciation in the value of second-hand vehicles, as they are viewed as a hedge against high inflation and the depreciation of local currency.

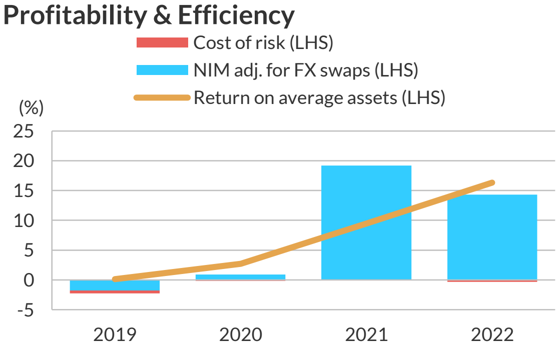
The portfolio is fairly diversified with the ten largest customers representing around 20% of the total portfolio at end-2022. VDF Filo's non-performing leases/total leases ratio was low at 1.2% at end-2022 (0.4% at end-2021).

Gross Operating Income



Source: Fitch Ratings, VDF Filo

Profitability & Efficiency



Source: Fitch Ratings, VDF Filo

Earnings and Profitability

VDF Filo has reported very strong financial performance metrics since 2021, supported by strong net gains from fleet disposals. This was due to a continuous shortage of cars in Turkiye. In 2022, the company posted a ROAA at 16.3% (2021: 9.5%) and a ROAE of 93% (2021: 86%). We do not expect this extraordinarily high profitability to be sustained in the medium term and expect it to slow as interest rates and residual values normalise.

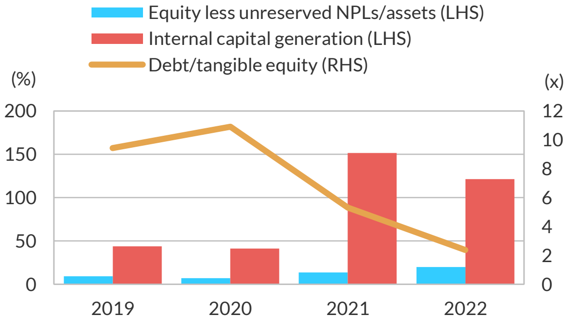
Capital and Leverage

VDF Filo's leverage ratio, defined as gross debt/tangible equity, decreased to 2.4x at end-2022 (end-2020: 10.9%). This was mainly driven by strong profits. We expect VDF Filo's leverage ratio to increase as the company plans to raise debt to finance asset growth. Moreover, we also expect VDF Filo to distribute dividends to support its sister companies. Its direct parent company, VDF Servis, redistributes capital between its subsidiaries. It channels the dividends from profitable companies, mostly from VDF Faktoring and VDF Filo to VDF Finansman.

The company has benefitted from several capital injections in the past: TRY25 million in 2020 (23% of end-2019 Equity) and TRY34.2 million in 2019 (66% of end-2018 equity). However, we do not expect a further equity injection in 2023. We believe that, if need arises, the shareholder will make support available.

VDF Filo's regulatory leverage (assets/equity) is well above the loose regulatory limit of 3%. Its end-2022 equity/assets ratio strengthened to 20%, from 14% at end-2021.

Capitalisation & Leverage



Source: Fitch Ratings, VDF Filo

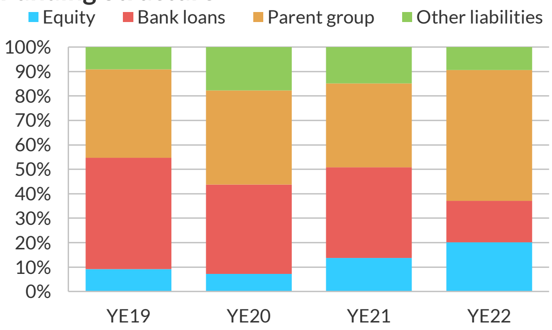
Funding, Liquidity and Coverage

VDF Filo's main funding source is parental funding (end-2022: 54%; end-2021: 34%; end-2020: 39%). The loans are mainly contracted with the parent group via the parent's financial services subsidiary, VW Financial Services AG. Bilateral bank loans with local banks represented a significant portion of total funding 17% at end-2022 (end-2021: 37%).

There has been a marked shift from foreign-currency-denominated funding to local-currency funding in the past two years. Currently, almost all funding is denominated in Turkish lira – just 3% of total loans are denominated in foreign currency.

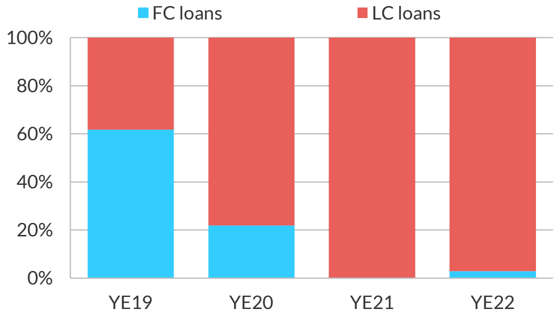
The company issued its first bond (short-term and in local currency) on the local market in 1Q23.

Funding Structure



Source: Fitch Ratings, VDF Filo

Shift to LC-Denominated Loans



Source: Fitch Ratings, VDF Filo

Environmental, Social and Governance Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Financials

Balance Sheet

(TRYm)	2019	2020 restated	2021	2022	2022 (USDm)
Assets					
Cash & equivalents	2	50	15	1	0
Operating lease & rental fleet	967	1,911	2,824	4,127	221
Memo: impaired leases included above	3	8	6	20	1
Less: loss allowances	4	6	5	10	1
Derivatives					
Goodwill and intangible assets	7	9	12	27	1
Deferred tax assets	3	0	32	255	14
Lease contracts	13	26	36	99	5
Other assets	188	472	340	429	23
Total Assets	**1,179**	**2,467**	**3,258**	**4,938**	**264**
Liabilities					
Total Borrowings	**963**	**1,852**	**2,322**	**2,303**	**123**
Other liabilities	107	436	487	1,640	88
Total Liabilities	**1,071**	**2,288**	**2,809**	**3,943**	**211**
Total Equity	**109**	**179**	**450**	**995**	**53**
Total Liabilities and Equity	**1,179**	**2,467**	**3,258**	**4,938**	**264**
Exchange rate, USD/TRY	5.94	7.43	13.34	18.72	

Source: Fitch Ratings, VDF Filo Kiralama A.S.

Income Statement

(TRYm)	2019	2020 restated	2021	2022	2022 (USDm)
Revenue					
Financial income	28.0	61.1	27.9	19.1	1.0
Operating lease and rental income	218.8	369.4	624.1	1,032.4	55.2
Proceeds of cars sold	56.0	215.4	538.5	1,006.2	53.8
FX and derivatives gains					
Other income	53.2	75.9	49.4	46.6	2.5
Total Revenue	**355.9**	**721.8**	**1,239.9**	**2,104.4**	**112.4**
Expenses					
Interest expense	178.8	395.1	466.2	897.6	48.0
Costs of sales	130.3	244.2	486.1	663.6	35.5
SG&A expenses	13.7	21.5	37.7	82.6	4.4
Impairment charges	2.6	1.8	0.1	5.3	0.3
Other expenses	0.2	1.0	1.0	1.0	0.1
Total Expenses	**325.6**	**663.6**	**991.1**	**1,650.1**	**88.2**
Pre-Tax Income	**30.3**	**58.2**	**248.8**	**454.2**	**24.3**
Income tax	7.5	9.1	-22.3	-214.2	-11.4
Net Income	**22.8**	**49.1**	**271.1**	**668.4**	**35.7**
Memo: Common dividends relating to the period	0	0	0	22	1

Source: Fitch Ratings, VDF Filo Kiralama A.S.

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Summary Analytics

	2019	2020 restated	2021	2022
Asset quality metrics (%)				
Impaired leases/lease contracts	0.6	0.8	0.4	1.2
Impaired lease generation	-30.4	144.7	-28.4	251.0
Loss allowances/impaired leases	111.4	68.2	84.6	50.3
Impaired leases less loss allowances/tangible equity	-0.4	1.5	0.2	1.0
Impairment charges/average gross leases	0.5	0.2	0.0	0.3
Growth of rental fleet	40.7	97.6	47.8	46.2
Earnings and profitability metrics (%)				
Pre-tax income/average assets	0.1	3.2	8.7	11.1
Pre-tax income/average equity	37.7	40.5	79.2	62.9
Net income/average assets	0.1	2.7	9.5	16.3
Net income/average equity	28.4	34.2	86.3	92.5
Interest expense/average debt	20.2	28.1	22.3	38.8
Capitalisation and leverage metrics				
Debt/equity (x)	8.9	10.4	5.2	2.3
Debt/tangible equity (x)	9.4	10.9	5.3	2.4
Tangible equity/tangible assets (%)	8.7	6.9	13.5	19.7
Equity/total assets (%)	9.2	7.2	13.8	20.2
Internal capital generation (%)	43.9	41.2	151.6	121.3
Dividend payout ratio (%)	0.0	0.0	0.0	3.3
Funding and liquidity metrics				
Unsecured debt/total debt (%)	98.0	98.0	98.0	98.0

Source: Fitch Ratings, VDF Filo Kiralama A.S.

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