

IZHAUTO TO SEE GREAT CHANGES

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, 14 AUGUST, 2009

Following a series of defaults, Russia's IzhAuto filed for bankruptcy with the Udmurtia's Arbitrary Court.

The plant first faced financial troubles last year when it defaulted on four-year bond issuance (placed 14 June, 2007, amount – RUR 2 billion). In December 2008, the plant was to redeem the bonds on bondholders' claim, but had no possibility to do it. 16 April, 2009 IzhAuto failed to redeem bonds worth RUR1.2 billion and missed debt coupon payments worth RUR 76 million. At the same time, the SOK group, holding a nearly 75% stake in the plant, sold its shares to IzhAuto for RUR 700 million. Two months later, the plant defaulted again failing to make a debt coupon payment of RUR 170 million.

Now the plant's liabilities total more than RUR 11 billion, of which 70% is short-term debts. An overdue payment stands at RUR 3 billion. The drastic devaluation of the ruble (it depreciated almost 40%) has driven up the cost of parts of Korean KIA vehicles assembled at IzhAuto. The Izhevsk plant had heavy operational losses as KIA refused to lower the prices. As soon as an insolvent borrower has little chance to raise new loans, the plant filed for bankruptcy.

However, the plant will not be stopped or liquidated, nor qualified staff will be fired (which was the case with the Moscow Automotive Plant).

IzhAuto owes almost RUR 8 billion to its main creditor, Sberbank. A state-run bank most probably would not want to liquidate this important machine-building enterprise.

Cooperation with KIA will not be ceased, either. The company still sees Russia as a very perspective marketplace for its economy class cars, so it does not intend to leave the market. In case of IzhAuto liquidation, KIA will either seek alternative capacities for its assembly production or build a new plant, which are not the best options in the time of the crisis.

IzhAuto remains an attractive asset for AutoVAZ in terms of its strategic relationship with Renault. Under AutoVAZ-Renault agreements, AutoVAZ will provide

production facilities to Renault in exchange for quality control systems, technology and new developments. Hence, AutoVAZ needs IzAuto's capacities and personnel.

If IzAuto is declared bankrupt, its external management will restructure the plant's debt with the state's and state-run banks' support. Afterwards, the plant will most likely be owned by a different company.