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Losses for Lada Manufacturer AvtoVAZ Increase Eightfold

Underproduction at factories owned by the iconic Russian car manufacturer has led to depreciating industrial assets.

By Vladimir Shtanov

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Denis Abramov / Vedomosti

Net losses for Russian car manufacturer AvtoVAZ have ballooned by 800 percent in the first half of 2016, reaching some 27.15 billion rubles ($404 million).

The company, which produces the iconic Russian car brand Lada, reported that revenues were down 5 percent to 87.1 billion rubles ($1.3 billion) for the six months of the year.

The devaluation of non-circulating assets has been blamed for growing operating losses, which hit 27.6 billion rubles ($4.11 million) in 2016, against 5.16 billion rubles ($77 million) a year earlier.

Underproduction at the company's manufacturing plants is believed to be one of the major contributing factors to the devaluation.

AvtoVAZ produced 200,424 cars in its Togliatti and Izhevsk plants in the first half of 2016, including sub-assemblies and orders for Renault-Nissan. Renault, which owns a 37.3 percent stake in AvtoVAZ, reported 75 million euros ($83 million) in losses connected with the company for the first half of 2016, down 14 percent from 2015.

Company president Nicolas Maure announced that the company would be likely to produce 416,000 cars by the end of the year, or 25 percent less than last year, according to the company's annual report. The AvtoVAZ plants in Togliatti and Izhevsk have a combined annual production capacity of 1.1 million automobiles, and are currently operating at 38 percent capacity.

The situation is far from unique to AvtoVAZ. According to the Industry and Trade Ministry, Russian car factories are currently operating at 40 percent of capacity on average.

Car manufacturing plants work best at 80 percent of capacity — or twice the current level that AvtoVAZ is operating, according to VTB Capital analyst Vladimir Bespalov. He said the automaker would not achieve that level earlier than 2020.

In order to boost production, AvtoVAZ is looking to develop its exports and expanding into new markets. The automaker primarily exports to Kazakhstan, but thanks to a car recycling tax introduced in early 2016, the company has been forced to change its business model. Rather than send finished automobiles to the country, assembly sets of various Lada models are now sent for assembly at the facilities of its partner Bipek Auto – Asia Auto.

If production at AvtoVAZ continues to decline, the size of their devaluation reserves could increase, said King & Spalding partner Ilya Rachkov. If that happens, the company would face even greater difficulty obtaining credit on the market and restructuring its existing debt. It also risks defaulting on its covenant current loans, Rachkov said.

AvtoVAZ has defaulted on loans in the past. In June of this year, the company failed to meet minimum repayment terms on

its
35.13 billion rubles
($524 million) of
debt, although the banks did not require AvtoVAZ to make
an early repayment.

AvtoVAZ “needs times to improve its financial performance,” Maure said in the company's latest report. The firm is “using all of the tools and possibilities available, including the support provided by the state and shareholders,” he said.

The car manufacturer is one of the main participants in a 50-billion-ruble government program for stimulating demand in the automobile market. Renault loaned AvtoVAZ 3.4 billion rubles ($51 million) in 2015, and another 4 billion rubles ($60 million) in 2016 to its subsidiary Lada Image which distributes AvtoVAZ parts.

Recapitalization will provide AvtoVAZ's primary means of support, details of which will be made public early this fall. State-owned technology company Rostec is prepared to write-off of two-fifths of the 51 billion rubles ($760 million) the automaker owes, and has agreed to convert the remaining 31 billion rubles into AvtoVAZ shares. The terms for Renault’s participation remain unclear.

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