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Renault Plans Potential $386M Investment in Russian Car Manufacturer AvtoVAZ

By Vladimir Shtanov

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Andrei Makhonin / Vedomosti

AvtoVAZ, the Russian car manufacturer behind the country's iconic automobile brand Lada, could issue 25 billion rubles ($386 million) in additional shares by December in a bid to secure additional investment from French company Renault.

Denis Le Vot, AvtoVAZ Board Deputy Chairman and Renault Group Senior Vice President and Eurasia Region Chairman, said that while he hoped minority shareholders would take part in the transaction, Renault were willing to buy all of the new shares.

"Of course we'll look at the market reaction to this operation, but Renault is absolutely ready to go up to 25 billion rubles," he said.

The Renault-Nissan-Alliance already owns 49.9 percent of AvtoVAZ shares as the major partner in the company's main stakeholder, Alliance Rostec Auto BV, a joint venture between the Renault-Nissan Alliance and Russian state technology firm Rostec.

While AvtoVAZ has not disclosed the terms of the additional issue, if based on the company's current capitalization of 17 billion rubles ($262 million), the move could increase the company's authorized capital by up to 250 percent. The new shares could also see Renault increase its effective share from 37 percent to 70 percent.

The planned issue is only be the first step in a long-term plan, said Chairman of AvtoVAZ Board and Rostec advisor to the CEO, Sergei Skvortsov. "On the whole, the AvtoVAZ additional issue will total 85 billion rubles ($1.3 billion)," he said. A further decision, which could involve the conversion of the company's debt, is expected in January-February 2017, Skvortsov said.

AvtoVAZ has struggled financially in recent years, with the ailing automaker reporting a record loss of 74 billion rubles ($1.1 billion) in 2015. The company's debt totaled 97 billion rubles ($1.5 billion) in late June 2016, following further 27.2 billion ruble ($421 million) losses in the first half of 2016.

Yet Renault could be willing to copy a recent initiative by Rostec to convert AvtoVAZ debt into capital, Le Vot said. The state corporation announced in June that it was willing to write off 20 billion rubles of the company's debt, converting the remaining 31 billion rubles into shares. "Renault is prepared for similar action," Le Vot confirmed, although did not disclose the size of the AvtoVAZ debt to Renault.

Renault currently has a 37 percent effective share in AvtoVAZ capital, Nissan holds 13 percent, and Rostec owns approximately 25 percent, said VTB Capital analyst Vladimir Bespalov. With Rostec planning to convert 31 billion rubles into shares to maintain its stake in AvtoVAZ, Renault-Nissan Alliance must add more than 60 billion rubles to the automaker's capital as a result of the overall program for capitalization increase, he said. AvtoVAZ would then use the funds it receives from Renault to pay off debt.

As well as reducing debt, the increase in capitalization would help reduce the company's interest payment burden. That "would help increase confidence in AvtoVAZ as a borrower in negotiations with banks," said AvtoVAZ Vice President of Finance Dr. Stefan Mauerer.

AvtoVAZ plans to start production of a number of new models in 2017, including the Vesta station wagon, and a next generation Lada 4x4 crossover. The expanded model range, the production of new products, and the expected stabilization of the market in 2017 will help the company improve its financial performance, Bespalov said.

"The Russian market is now in recession and we very much hope that 2016 marked the low point. That will become clear in 2017," said AvtoVAZ President Nicolas Mohr.

AvtoVAZ calculates that it will begin turning a profit in 2018.

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