August 10, 2022

CAE Simulation Training Private Limited: Rating assigned for enhanced bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	155.78	185.78	[ICRA]A (Stable); rating assigned/outstanding
Total	**155.78**	**185.78**	

**Instrument details are provided in Annexure-I*

Rationale

The rating takes comfort from CAE Simulation Training Private Limited's (CSTPL) healthy financial profile, characterised by low leverage, strong liquidity position with cash and equivalents of ~Rs. 165.4 crore as on June 30, 2022, and comfortable debt coverage indicators. The rating notes the company's leadership position in the Indian flight simulation market for Airbus A320 family of planes. Further, the limited number of players in the flight simulation business, regulatory requirement for all pilots to mandatorily undergo periodic simulation training, and a 15-year MoU till FY2028 with Interglobe Aviation Limited (IAL), which has the largest fleet of Airbus A320 aircrafts in the country, results in a strong operational risk profile. The rating derives comfort from CSTPL's resourceful promoters – CAE Inc. (CAE, through its subsidiary) and InterGlobe Enterprises Private Limited (IGE), holding 50% stake each, which have a long and successful track record in flight simulation and aviation businesses, respectively. CAE is one of the key players in the global flight simulation market with a track record of over 70 years in the industry. IGE is the promoter and one of the largest shareholders in IAL, the owner of IndiGo Airlines, with nearly 55% share of the domestic passenger traffic in FY2022. Further, CSTPL has committed tie-ups for four simulators from its largest customer (IAL) and one simulator from CAE Bangalore, irrespective of the actual usage, providing healthy revenue visibility. The new facility (soon to be operationalised in Gurgaon) is close to the Delhi Airport, which is expected to result in a relatively faster ramp-up for the new unit and healthy capacity utilisation over the medium term.

The rating, however, is constrained by the company's modest scale of operations (OI of Rs. 119.3 crore in FY2022 (provisional)), high single client concentration risk and susceptibility of its revenues to changes in regulatory requirement for pilots to undergo mandatory training on simulators. While the capital-intensive nature and technical knowhow results in high entry barrier, the return indicators are closely linked to asset utilisation and the pricing arrangement with its customer. Notwithstanding the offtake agreements for five of the seven operational simulators, sustained moderation in capacity utilisation could impact the company's revenue and coverage metrics. This is also evident from the decline in utilisation from 112% in FY2020 to 83% in FY2021, though the same has improved to 90% in FY2022. Any adverse fleet rationalisation by airlines, shift to other models of aircrafts, expansion by any existing competitor, or entry of a new competitor in the Indian simulation market may affect its revenues.

ICRA draws comfort from the strong liquidity cushion available with CSTPL, which would support its ability to withstand any short-term cash flow mismatches and working capital elongation. However, any significant and prolonged deterioration in IAL's credit profile will adversely affect CSTPL's credit profile, which derived 82% of its revenue from IAL in FY2022.

CSTPL has significant capacity expansion plans over the next two years, which will be partly funded by debt. The proposed capex would expose the company to funding and market risks. However, ICRA draws comfort from the support from its strong and resourceful promoters, and its established market position in the flight simulation business in India. CSTPL is likely to take over customer contracts with Air Asia from CAE Bangalore (100% CAE-owned enterprise), which is expected to be funded by internal accruals. Any higher-than-expected outflow towards the same, or drawdown of debt for the transaction, materially impacting the coverage indicators would be a credit negative for the company.

The Stable outlook on rating reflects ICRA's opinion that the capacity utilisation of the simulators would continue to be driven by the regulatory guidelines, which along with its ties with IndiGo as well as Air Asia would benefit the company.

Key rating drivers and their description

Credit strengths

High degree of recurring business and limited number of flight simulator players in India – As per extant regulatory guidelines, pilots have to undergo 200 hours of simulator training to obtain a commercial pilot license. Further, according to the regulatory norms issued by the Directorate General of Civil Aviation (DGCA), Government of India, pilots with active licenses have to undergo 20 hours of simulator training per year to maintain the validity of the license. This ensures a high degree of recurring business for players including CSTPL. Limited number of flight simulators in India enables healthy business flow to all domestic players. The company also operates seven Airbus A320 simulators, out of the total of 15 Airbus A320 simulators that are operational in India, giving it a strong market position.

Healthy liquidity buffer and financial risk profile – CSTPL has healthy liquidity buffer as evidenced by cash and liquid balances of ~Rs. 131.2 crore as of March 2022 compared to a total debt (including lease liabilities) of Rs. 281.1 crore, leading to a net debt of Rs. 149.6 crore as of March 2022. Its gearing and debt coverage indicators remained comfortable, despite some moderation due to the Covid-19 pandemic. The interest coverage ratio stood at 6.7 times in FY2022 and 5.8 times in FY2021 vis-à-vis 10.0 times in FY2020 and net debt/OPBDITA stood at 1.5 times in FY2022 and 1.7 times in FY2021.

Strong promoter group and association with market leader in civil aviation in India – CSTPL is a joint venture (JV) between InterGlobe Enterprises and CAE holding 50% stake each. CAE is one of the key players in global modelling, simulating, and training for civil aviation. CAE delivers training for civil aviation in over 35 countries, while IndiGo Airlines (operated by IAL) is a leading player in the Indian aviation sector with nearly 55% share of the domestic passenger traffic in FY2022.

CSTPL has a 15-year MoU (till FY2028) with IndiGo Airlines (having ~55% passenger market share for FY2022), which currently has the largest fleet of Airbus A320 aircraft in India. ICRA also notes that post a change in terms in December 2019, the company would receive committed payments for four simulators from its largest customer (IAL) and one simulator from CAE Bangalore, irrespective of the actual usage, thereby providing healthy revenue visibility.

Credit challenges

High dependence on IndiGo Airlines and adverse impact of pandemic on aviation sector – CSTPL derives a major part of its revenues from IAL (operator of IndiGo Airlines), leading to high single client concentration risk. IAL accounted for ~82% of the capacity utilisation in FY2022 and 91% in FY2021. It has entered into a long-term (15 year) arrangement with IndiGo for usage of its simulators. Subsequently, the terms were amended (effective December 2019) to have committed payment from IndiGo for four simulators irrespective of its actual usage. The company's capacity utilisation declined in to 83% in FY2021 due to the Covid-19 pandemic and the restrictions imposed on air traffic movement. However, the same improved to 90% in FY2022 despite the increase in capacity with the addition of new simulator in November 2020. CSTPL has tied up with CAE Bangalore for the captive use of another simulator (where payment would be received irrespective of usage). Nevertheless, the concentration on IAL remains high, which exposes its revenues to the performance of its client.

Modest scale of operations and exposure to regulatory changes in civil aviation sector – CSTPL has modest scale of operations with an OI of Rs. 36.9 crore in 3M FY2023 and Rs. 119.3 crore in FY2022 (Rs. 104.9 crore in FY2021). Any adverse fleet rationalisation by airlines, shift to other models of aircrafts, expansion by any existing competitor, or entry of a new competitor in the Indian simulation market may affect the company's revenues. Further, the revenues are mainly driven by the regulatory requirement to provide simulation training to all pilots. As such, any adverse change in regulation may impact its cash flows.

Capital-intensive business and significant capacity expansion plans – Simulation training is a capital-intensive business due to the high prices of simulators. Each simulator costs around USD 10-12 million. The company has recently set up a new facility in Gurgaon and installed one simulator for which DGCA approval is awaited. Further, CSTPL is expecting another three simulators to be added over the next two-three years, which will be partly funded by debt. The proposed capex would expose the company to funding and market risks. Besides, there will be significant cash outflow towards maintenance/upgradation of the existing simulators, and purchase of two leased simulators. While the capital-intensive nature and technical knowhow results in high entry barrier, the return indicators are closely linked to asset utilisation and pricing arrangement with its customer.

Liquidity position: Strong

CSTPL's liquidity position is strong as evidenced by healthy unencumbered cash and liquid balances of Rs. 131.2 crore as of March 2022, compared to a total debt outstanding of Rs. 161.7 crore and lease liabilities of Rs. 119.4 crore. Although significant debt repayments are due in FY2023 and FY2024 (~Rs. 42.89 crore and ~Rs. 47.43 crore in FY2023 and FY2024, respectively, assuming conversion of buyers' credit to foreign currency term loan), these are estimated to be met comfortably from its estimated cash flow from operations and available cash balances. The management's commitment to maintain liquidity of over $10 million (~Rs. 80 crore) on a consistent basis, along with healthy cash flow from operations are expected to help the company in maintaining a strong liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade CSTPL's rating in case of a significant increase in scale of operations, which supports improvement in the coverage metrics and credit profile. Moreover, DSCR over 2.25 times on a sustained basis, or an improvement in the credit profile of its key customer (IAL) would be crucial for a rating upgrade.

Negative factors – Negative pressure on the rating could arise in case of a prolonged decrease in capacity utilisation or sizeable debt-funded capex undertaken by CSTPL, which results in weakening of its credit metrics on a sustained basis. Additionally, net debt/OPBDITA over 2 times on a consistent basis, or deterioration in the credit profile of the associate entity and its key customer (IAL) could also adversely impact its rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

CAE Simulation Training Private Limited (CSTPL) is a JV between InterGlobe Enterprises Private Limited and CAE Middle East Holdings Ltd., with 50% stake each. The company is involved in modelling, simulation and training for civil aviation and defence. CSTPL provides facilities in the form of pilot training, pilot selection tools and renewal of license for the existing pilots.

CSTPL has seven A320 Level-D full-flight simulators approved by the DGCA for pilot training, with the latest one becoming operational in November 2020. Its main customer is IndiGo Airlines. The facility located in Greater Noida has five simulators, which are operational since July 2013, while the sixth and seventh simulators have been set up in Bangalore. The eighth simulator, which has been recently set up in Gurgaon, is expected to become operational shortly and DGCA approval is awaited for starting operations. It is further planning to expand in Gurgaon this year, by adding one more simulator in Q4 FY2023.

Key financial indicators (audited)

CSTPL	FY2021	FY2022*
Operating income	104.9	119.3
PAT	26.0	33.4
OPBDIT/OI	80.8%	81.8%
PAT/OI	24.8%	28.0%
Total outside liabilities/Tangible net worth (times)	1.3	1.1
Total debt/OPBDIT (times)	3.2	2.9
Interest coverage (times)	5.8	6.7

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Aug 10, 2022	Aug 05, 2022	Feb 28, 2022	Dec 31, 2020	Sept 27, 2019	Jul 17, 2019
1	**Term loans**	Long term	185.78	161.7	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	FY2018-FY2023	NA	FY2023-FY2026	185.78	[ICRA]A (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: NA

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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