November 11, 2022

Taj SATS Air Catering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based/ CC	10.00	10.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-Fund based	5.00	5.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Interchangeable (sub limit)	(5.00)	(5.00)	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Long-term Unallocated	4.00	4.00	[ICRA]AA- (Stable); reaffirmed
Total	**19.00**	**19.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings favourably factors in Taj SATS Air Catering Limited's (TSACL/the company) strong parentage by virtue of The Indian Hotels Company Limited (IHCL, rated [ICRA]AA+ (Stable)/[ICRA]A1+) being a JV partner, its strong financial and operational linkages with IHCL and IHCL's commitment to extend timely and adequate financial support as and when required to TSACL. ICRA also draws comfort from TSACL's strong financial flexibility and its lender/investor comfort by virtue of its parentage. TSACL receives considerable operational support from SATS Limited, the other JV partner, which has a long-standing experience in international air catering.

The ratings also draw comfort from TSACL's sustained market leadership in the air catering industry in India, with consolidated (domestic and international routes) market share of 47% (in terms of number of flights handled) as of August 2022. TSACL's performance improved in Q1 FY2023 aided by increase in business and leisure travel and sustenance of incremental contracts which came to TSACL post Sky Gourmet's closure. TSACL reported revenues of Rs. 132.0 crore in Q1 FY2023, a 54% growth over pre-Covid revenues of Rs. 85.9 crore in Q1 FY2020. Further, the company's operating margins in Q1 FY2023 stood at 14.5%, significantly higher than pre-Covid margins, aided by operating leverage benefits and sustenance of cost optimisation initiatives undertaken in the last 1-2 years. The company has remained conservative in borrowings. Going forward, ICRA expects TSACL's revenues to witness significant improvement in FY2023, aided by sustenance of improvement in air traffic, healthy market share with existing customers and new customer additions in both, the airline and non-airline segments. The coverage metrics are expected to be comfortable going forward with improvement in accruals amidst anticipated conservative debt levels.

The ratings remain constrained by the company's moderate scale of operations and relatively high customer concentration, although TSACL's established relationship with customers mitigates the latter risk to an extent. Also, the company is exploring new avenues for undertaking catering supplies including, among others, to corporates, educational institutions and hospitals, and this is expected to aid in customer diversification over the medium to long term. TSACL remains exposed to intense competition owing to the presence of low-cost carriers, resulting in pricing pressures. Nevertheless, the company's healthy market share, benefits from operating leverage and cost-optimisation measures undertaken would continue to support its revenues and margins and mitigate the risk to an extent. Further, TSACL has a stretched receivable cycle, although it has improved to 70 days as on March 31, 2022 from 124 days as on March 31, 2021.

Key rating drivers and their description

Credit strengths

Strong parentage – IHCL owns 51% stake in TSACL, and its representatives are a part of TSACL's board of directors. Apart from the ownership, the company has strong operational and financial linkages with IHCL, including access to IHCL's central treasury, which leads to temporary liquidity support, as and when required. TSACL also enjoys strong financial flexibility and lender/investor comfort, by virtue of IHCL being a JV partner. Further, IHCL is committed to extending timely and adequate financial support to TSACL in the future, as and when required. The company also derives considerable operational support from SATS Limited, the other JV partner, which is a leading provider of gateway services and food solutions and is an established ground-handling and in-flight service provider at the Singapore Changi Airport.

Sustained market leadership in air catering industry in India – The strong brand reputation and its established presence of more than four decades in the airline catering industry have enabled TSACL in sustaining its market leadership position in air catering services in India. The company had a consolidated (domestic and international routes) market share of 47% (in terms of number of flights handled) as of August 2022, broadly in line with its pre-Covid market share. Further, it is expected to sustain its market share with most existing customers, improve market share with certain customers as part of its strategic initiatives and benefit from its recent additions like Akasa Air and Qantas Airways in Q2 FY2023, going forward.

Improvement in revenues and margins in Q1 FY2023; established relationships with airlines and new business additions in the airline and non-airline segment to support the revenues going forward - The recovery in air traffic with relaxation of lockdowns and increase in business and leisure travel, supported the improvement in operating income in H2 FY2022. Further, the revenues were supported by full-year impact of incremental contracts which came to TSACL post Sky Gourmet's closure. TSACL reported revenues of Rs. 285.9 crore in FY2022, which was 73% of pre-Covid revenues (FY2020). Sharp sequential improvement in air traffic resulted in healthy revenues in Q1 FY2023, and the company's revenues stood at Rs. 132.0 crore, 54% growth over pre-Covid revenues of Rs. 85.9 crore in Q1 FY2020. While the company reported operating losses in FY2022 because of lower operating income, the company's operating margins in Q1 FY2023 stood at 14.5%, significantly higher than pre-Covid margins. This was aided by operating leverage benefits and sustenance cost optimisation initiatives undertaken during the Covid period. The company enjoys strong relationships with most major domestic as well as certain international airlines and has been adding new customers for both domestic and international catering in the last few years. ICRA expects revenues to witness significant improvement in FY2023, aided by improvement in air traffic, healthy market share with existing customers and new customer additions in both, the airline and non-airline segments. The revenue proportion from the non-airline segment improved to 25% in FY2022 (Rs. 72.8 crore) from 11% in FY2020 (Rs. 44.7 crore), and the company's new business wins in the non-airline segment in YTD FY2023 are expected to increase the share of non-airline revenues going forward.

Comfortable capital structure and coverage metrics – The company has remained long-term debt free for the last several years. TSACL's short-term debt has also remained minimal, resulting in comfortable gearing of 0.2x as of June 30, 2022. In the absence of significant debt-funded capex plans, the gearing is expected to remain comfortable going forward as well. While the coverage metrics were impacted by the net losses in FY2022, they have improved in Q1 FY2023. The interest coverage stood at 38.0x for Q1 FY2023, while the net debt[1]/OPBDITA was 0.4x. The coverage metrics are expected to be comfortable going forward with improvement in accruals amidst conservative debt levels.

[1] net debt = total debt minus lease liabilities and cash and liquid investments

Credit challenges

High customer concentration - The company is exposed to risks arising from high customer concentration, with its top five customers accounting for 61% of revenues in FY2022. Nevertheless, established relationships with its customers mitigates the risk to an extent. Also, the company is exploring new avenues for undertaking catering supplies including, among others, to corporates, educational institutions and hospitals, and this is expected to aid in customer diversification over the medium to long term.

Moderate scale of operations; intense competition in the industry - TSACL's scale is expected to remain moderate at sub Rs. 600 crore for FY2023. The company reported revenues of Rs. 285.9 crore in FY2022, which was 73% of pre-Covid revenues (FY2020). The company remains exposed to intense competition owing to the presence of low-cost carriers, resulting in pricing pressures. This, in turn, constrains TSACL's operating margins, akin to other players in the industry. Nevertheless, the company's healthy market share, benefits from operating leverage and cost-optimisation measures undertaken would continue to support its revenues and margins and mitigate the risk to an extent.

Stretched receivable cycle - The company generally offers a credit period of 45-60 days to its customers, primarily airlines. While the company receives majority of its dues within the scheduled period, the overall receivables get elongated to 75-80 days, due to receivables getting stretched from a few customers. However, the company's debtors have reduced to 70 days, as on March 31, 2022 from 124 days as on March 31, 2021. Also, there were no bad debts in FY2022.

Liquidity position: Adequate

TSACL's liquidity is adequate supported by its anticipated cash flow from operations, undrawn lines of credit and financial flexibility arising from its strong parentage. The company had undrawn lines of credit of Rs. 52.5 crore (including an undrawn term loan of Rs. 20.0 crore) as on July 31, 2022, and its average working capital utilisation remained moderate at ~51% of the drawing power for period August 2021 to July 2022. TSACL's cash balance was minimal at Rs. 0.3 crore as of June 2022. As against these sources of cash, the company has no debt repayment obligations owing to the absence of long-term loans on its books. TSACL has capex plans of about Rs. 40 crore in H2 FY2023 and Rs. 15.0-20.0 crore each in FY2024 and FY2025 to be funded through internal accruals and debt beyond internal accruals. The company enjoys strong financial flexibility and lender/investor comfort by virtue of its parentage, and this is expected to continue going forward as well. Further, IHCL has committed to extending timely and adequate financial support, as and when required.

Rating sensitivities

Positive factors - TSACL's ratings are uplifted by virtue of its strong parentage (IHCL, rated [ICRA]AA+ (Stable)/[ICRA]A1+). It may be further upgraded in case of a sustained and significant improvement in its scale of operations and profitability, and adequate diversification beyond the airline segment, while maintaining a strong credit profile.

Negative factors - Negative pressure on TSACL's rating could emerge with deterioration in the credit profile of the parent (IHCL, rated [ICRA]AA+ (Stable)/[ICRA]A1+) or weakening of TSACL's operational/ financial linkages with the parent. Further, sharp deterioration in the earnings or significant rise in net debt, leading to deterioration in the credit metrics on a sustained basis also could result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Impact of parent or group support on an issuer's credit rating](#)
Parent/Group support	Parent Company: The Indian Hotels Company Limited (IHCL). IHCL (rated [ICRA]AA+ (Stable)/[ICRA]A1+) is expected to extend timely and adequate financial support to TSACL, as and when required.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

TSACL is a 51:49 joint venture between IHCL and SATS Limited, Singapore. IHCL is one of India's leading hotel companies and at a consolidated level, operates 178 operating hotels consisting of 20,826 rooms (as on June 30, 2022) across four continents, 12 countries and 100+ cities. SATS Limited is a leading provider of gateway services and food solutions and is an established ground-handling and in-flight service provider at the Singapore Changi Airport.

TSACL derived ~75% of its revenues in FY2022 from the airline segment, wherein it provides in-flight catering services to domestic, international airlines and charter flights, besides undertaking other maintenance services such as laundry and aircraft cleaning. The company also undertakes institutional, outdoor and coffee chain catering, which together accounted for ~25% of its operating revenues in FY2022. TSACL's manufacturing facilities are located at Mumbai, Delhi, Bangalore, Kolkata, Chennai and Goa, with an aggregate capacity to produce over 90,000 meals per day.

Key financial indicators (audited)

TSACL	FY2021	FY2022
Operating income	149.1	285.9
PAT	-59.8	-40.0
OPBDIT/OI	-43.8%	-12.6%
PAT/OI	-40.1%	-14.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	-0.2	-0.6
Interest coverage (times)	-43.0	-23.9

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

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 of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 11, 2022	Oct 04, 2021	Aug 31, 2020	May 17, 2019
1	Fund-based Limits	Long- term	10.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund-based Limits	Short-term	5.00	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based / Non-fund Based Limits	Long- term / Short-term	(5.00)	NA	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
4	Unallocated	Long-term	4.00	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund based/ CC	Simple
Short-term – Non fund based	Simple
Long-term/ Short-term – Interchangeable (sublimit)	Simple
Long-term - Unallocated	Not Applicable

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: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based - Cash Credit	NA	NA	NA	10.00	[ICRA]AA- (Stable)
NA	Non-fund based – BG	NA	NA	NA	5.00	[ICRA]A1+
NA	Interchangeable	NA	NA	NA	(5.00)	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	4.00	[ICRA]AA- (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 – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
srikumark@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Sriraman Mohan
+91 44 4596 4316
sriraman.mohan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches