July 17, 2023

Tata SIA Airlines Limited: Continues on 'Rating Watch with Positive Implication'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term Non-fund Based (SBLC/BG)	1,789.35	2,515.60	[ICRA]A; Continues on Rating Watch with Positive Implications/ [ICRA]A1; Continues on Rating Watch with Positive Implications
Short-term Fund-based Interchangeable Limits (Overdraft/WCDL)	(11.74)	(10.74)	[ICRA]A1; Continues on Rating Watch with Positive Implications
Short-term Fund-based Limits (Overdraft)	2.10	22.10	[ICRA]A1; Continues on Rating Watch with Positive Implications
Unallocated – Long-term/ Short-term	878.65	400.40	[ICRA]A; Continues on Rating Watch with Positive Implications/ [ICRA]A1; Continues on Rating Watch with Positive Implications
Unallocated – Short-term	597.90	329.90	[ICRA]A1; Continues on Rating Watch with Positive Implications
Total	**3,268.00**	**3,268.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings for Tata SIA Airlines Limited (Tata SIA/ Vistara) continues to be on watch, taking into consideration the proposed merger of Air India and Vistara (targeted to be completed by H1 CY2024), subject to regulatory approvals. The development is likely to influence the credit profile of the company, the extent of which is unclear currently. As per the Singapore Airlines Limited (SIA) press release of November 2022, it would have a 25.1% stake in an enlarged Air India Group, which would have a significant presence in all key market segments in the Indian aviation industry. SIA also plans to invest ~Rs. 2,058.5 crore (~$250 million) in Air India as part of the transaction.

The ratings continue to favourably factor in the strong parentage of the company, with the airline being a 51:49 joint venture (JV) between Tata Sons Private Limited (rated [ICRA]AAA(Stable)/A1+) and SIA; both partners have supported the company operationally as well as financially since its inception in 2015. Further, the ratings take into account the continued improvement in passenger traffic (both domestic and international) and healthy yields, which together with Tata SIA's expanding network and scale are likely to result in improved cash flows for the entity, going forward.

Vistara, being the one of only two domestic full-service-carriers (FSCs[1]) remains well placed to benefit from a healthy air travel trend. This has been reflecting in the company's market share, which improved consistently on a YoY basis to ~9.2% in FY2023, healthy load factors (averaged at 85% in FY2023) and strong yields, which cumulatively led to a 130% YoY increase in its revenues in FY2023. Going forward, the company is likely to continue to record healthy capacity utilisations aided by healthy demand from leisure and business segments and an uptick in its international operations. The airline added two wide-body aircrafts in FY2023 and has another three in the pipeline, to be added in the current fiscal, which will help it expand its international operations.

The long-term commitment of the promoters has been evidenced by the regular equity infusion from both the JV partners. In FY2023, Tata SIA received equity infusion of ~Rs. 650 crore (PY: Rs. 1,715 crore) from the JV partners. As per the management

[1] *Being a full-service carrier, Vistara provides services such as lounge access, in-flight entertainment systems for business class passengers, frequent flyer program, free check-in baggage, complimentary in-flight food, etc.*

discussions, the entity did not utilise the equity portion infused during the year, as it was able to make pre-delivery payments towards purchase of aircraft and other debt obligations through internal accruals and existing liquidity levels. ICRA continues to take comfort from the exhibited commitment of the promoters to the business, and their strong credit profile, which supports our expectation that the parent companies would continue to support the entity.

The competitive intensity in the domestic airline industry is expected to intensify in the near to medium-term, with entry of new players and sizable fleet addition by incumbent players. Further, while the industry witnessed a sequential decline in aviation turbine fuel (ATF) pricing over the last few quarters, it still remains at elevated levels over pre-Covid times. ICRA expects an improvement in the company's financial leverage and coverage indicators as the operations scale up further; however, the impact of unfavourable movements in fuel prices and INR depreciation against the USD over the company's credit metrices, will remain a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage as JV between Tata Sons and SIA ensures financial and business support – Tata SIA benefits from its strong parentage, with one of its parent companies being an established and well-regarded international FSC, and the other a well-entrenched Indian conglomerate. SIA shares best practices in terms of operations, fleet and ancillary selection, service standards, ground operations and engineering practices, from its extensive experience. Both parents have extended their strong operational and financial support to the airline (~Rs. 10,020 crore funds infused since inception), which has enabled it to scale up successfully at a rapid pace over the past eight years. Moreover, the promoter companies remain committed to the airline's ongoing expansion plans, with equity infusion expected as and when required.

Superior service offering vis-à-vis competitors supports positioning in business traveller and international passenger segment – Following the cessation of Jet Airways' services from April 2019, Tata SIA emerged as one of the only two FSCs from India, the other being Air India. Tata SIA's premium offerings and additional passenger services vis-à-vis other domestic carriers have aided it in capturing a fair share of the business traveller market and scaling up its operations, resulting in steady expansion of its market share—from 5.8% in FY2020 (pre-pandemic) to 9.2% in FY2023. It also captured 52% of the FSC market during FY2023 benefitting from its established brand reputation and an array of premium services offered by it.

Credit challenges

Profitability susceptible to volatility in crude oil prices and fluctuations in exchange rate – In line with the industry, Vistara's profitability is highly vulnerable to volatility in fuel prices and foreign exchange (forex). Fuel costs pertain to 30-40% of its expenses, which is denominated in USD. The airline also has other operating expenses such as lease liabilities, aircraft and engine maintenance expenses in USD along with foreign debt availed towards aircraft purchases. Despite healthy recovery in passenger traffic, the domestic aviation industry continued to face challenges on account of elevated ATF prices and depreciation of INR against the USD in FY2023; however, an easing in ATF prices has been witnessed over the last few quarters. The average ATF prices, which stood at Rs. 121/L in FY2023 (Rs. 65/L in FY2020) declined to Rs. 90/L in June 2023. Given the limited ability of airlines to pass on the same as price increases, the profitability of the airline industry remained under pressure during FY2022-FY2023. Going forward, healthy demand in domestic and international traffic and higher proportion of the fuel-efficient A320 NEO aircraft in the fleet are expected to continue to mitigate the impact of these cost pressures to an extent. Moreover, expansion of overseas operations is likely to increasingly provide natural hedge against the forex risk.

Intense competition and price-sensitive nature of domestic aviation market restricts pricing power– Although Tata SIA operates as an FSC, at present its ability to command a premium pricing in the domestic market remains restricted, given the cost sensitive nature of the market and the intensely competitive pricing of low-cost carriers. However, this is expected to improve over the near to medium term as the airline expands its international operations, where it would command higher yields, as international routes are dominated by FSCs. On the cost front, while Vistara continued to report losses at net level in FY2023, it was able to generate profits in the second half of the fiscal led by a sustained demand and some easing in fuel prices. Sustainable growth in demand coupled with stable fuel and forex rates remains critical for pruning losses and turning profitable.

Liquidity position: Adequate

Tata SIA maintains an adequate liquidity profile marked by free cash/cash equivalents of ~Rs. 2,000-2,100 crore ($250 million) as of May 2023. Against the same, it has repayment obligations of ~Rs. 362 crore ($44 million) pertaining to ECB borrowings in FY2024. The liquidity levels are likely to remain sufficient for sustaining operations over the near term. The liquidity profile also takes comfort from the likelihood of timely funding support from the promoters as and when needed, as demonstrated in the past.

Rating sensitivities

Positive factors – An improvement in ratings could materialise in case the entity continues to witness a sustained improvement in passenger traffic amid a stabilisation in ATF prices, translating into a positive RASK-CASK spread for the airline on a sustained basis. An improvement in financial profile, demonstrated through an ability to record steady cash flow generation, improvement in liquidity (free cash) and healthy debt coverage indicators would be factored in favourably.

Negative factors - Negative pressure on the rating could emanate from a material decline in its liquidity buffer, due to subdued passenger traffic or sharp and sustained increase in ATF prices and/or adverse movement in USD/INR, resulting in sustained losses from operations. The rating could be revised downwards if ICRA's assessment of the likelihood of support from the parent companies weakens, or the credit profile of the parent companies deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Tata Sons Private Limited and Singapore International Airlines ICRA expects both the JV partners to continue to support Tata SIA financially and operationally, given its strategic importance. It also shares a common name with both the parents, which in ICRA's opinion would persuade them to provide financial support to protect their reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Tata SIA Airlines Limited is a joint venture of Tata Sons Private Limited and Singapore Airlines Limited, wherein Tata Sons holds 51% stake in the partnership and SIA owns the remaining 49%. The company operates under the brand name, 'Vistara', and is positioned as a full-service airline with its hub in New Delhi. It started its operations with a maiden flight from New Delhi to Mumbai on January 09, 2015. At full capacity, the airline serves more than 45 destinations with over 250 daily flights with a fleet of 61 Airbus A320s, Airbus A321s, Boeing 787-9 Dreamliner and Boeing 737-800s. The airline also started its international operations in FY2020, serving 15 destinations at present. The airline plans to have a major share in international flights originating from or terminating in India, with its hub in New Delhi.

SIA and Tata Sons have agreed to merge Air India and Vistara, with SIA investing ~Rs. 2,058.5 crore (~$250 million) in Air India as part of the transaction. The transaction would give SIA a 25.1% stake in an enlarged Air India Group, which would have a significant presence in all key market segments in the Indian aviation industry. SIA and Tata Sons aim to complete the merger by H1 CY2024, subject to regulatory approvals including inter alia anti-trust and merger control approvals (in India, Singapore and other relevant jurisdictions) and approval of the Indian civil aviation authorities. The merged entity is likely to benefit from network and resource optimisation, enabling it to compete as a leading global airline.

Key financial indicators (audited)

TATA SIA Airlines	FY2022	FY2023
Operating income	5,345.0	12,278.2
PAT	(2,031.5)	(1,393.3)
OPBDIT/OI	-0.1%	12.3%
PAT/OI	-38.0%	-11.3%
Total outside liabilities/Tangible net worth (times)	11.4	43.6
Total debt/OPBDIT (times)	(3,642.1)	11.4
Interest coverage (times)	(0.0)	1.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; as per ICRA calculation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jul 17, 2023	Dec 07, 2022	Apr 07, 2022	-	Feb 03, 2021	Jul 17, 2020
1	Long-term/Short-term non-fund Based (SBLC/BG)	Long term & Short-term	2,515.6	--	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications	[ICRA]A (Negative)/ [ICRA]A1	-	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1
2	Short-term Fund-based interchangeable limits (Overdraft/WC DL)	Short-term	(10.74)	--	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1	-	-	-
3	Short term Fund-based limits (Overdraft)	Short-term	22.1	--	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1	-	-	-
4	Unallocated – long term/short-term	Long term & Short-term	400.4	--	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications	[ICRA]A (Negative)/ [ICRA]A1	-	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A (Negative) / [ICRA]A1

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jul 17, 2023	Dec 07, 2022	Apr 07, 2022	-	Feb 03, 2021	Jul 17, 2020
5	Unallocated – short term	short term	329.9	--	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1; Rating watch with Positive implications	[ICRA]A1	-	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term non-fund Based (SBLC/BG)	Simple
Short-term Fund-based interchangeable limits (Overdraft/WCDL)	Simple
Short term Fund-based limits (Overdraft)	Simple
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	Long-term/Short-term non-fund Based (SBLC/BG)	NA	NA	NA	2,515.60	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications
NA	Short-term Fund-based interchangeable limits (Overdraft/WCDL)	NA	NA	NA	(10.74)	[ICRA]A1; Rating watch with Positive implications
NA	Short term Fund-based limits (Overdraft)	NA	NA	NA	22.10	[ICRA]A1; Rating watch with Positive implications
NA	Unallocated – long term/short-term	NA	NA	NA	400.40	[ICRA]A; Rating watch with Positive implications/ [ICRA]A1; Rating watch with Positive implications
NA	Unallocated – short term	NA	NA	NA	329.90	[ICRA]A1; Rating watch with Positive implications

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

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