September 08, 2023

Taj SATS Air Catering Limited: Ratings reaffirmed; outlook on the long-term rating revised to Positive

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-(Positive); reaffirmed and outlook revised to Positive from Stable
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-(Positive)/[ICRA]A1+; reaffirmed and outlook on the long-term rating revised to Positive from Stable.
Long-term Unallocated	4.00	4.00	[ICRA]AA-(Positive); reaffirmed and outlook revised to Positive from Stable
Total	**19.00**	**19.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook on the long-term rating to positive on the bank lines of Taj SATS Air Catering Limited's (TSACL/the company) considers its strong performance in FY2023 and Q1 FY2024, and expectation of sustained performance going forward as well. TSACL reported operating income of Rs. 636.8 crore in FY2023, more than double its FY2022 operating income and higher by 63% than pre-Covid levels. The company reported Rs. 204.0 crore operating income in Q1 FY2024, higher by 55% on YoY basis aided by a confluence of factors including improvement in market share, customer additions, growth in number of flights and improvement in airline passenger traffic. TSACL's operating margins also improved to 19.2% in FY2023 and 24.5% in Q1 FY2024 from 7-11% till FY2020, aided by operating leverage benefits and sustenance of TSACL's cost optimisation initiatives. The company has remained conservative on debt, with no long-term debt and minimal short-term borrowings, thus supporting a comfortable capital structure and coverage metrics. ICRA expects TSACL's financial profile to remain strong going forward as well.

The ratings also draw comfort from TSACL's strong parentage in The Indian Hotels Company Limited (IHCL; rated [ICRA]AA+ (Stable)/[ICRA]A1+), a Joint Venture (JV) partner with sustained market leadership in the air catering industry in India, and a consolidated (domestic and international routes) market share of 58% (in terms of number of meals catered to) as of July 2023. Moreover, TSACL receives considerable operational support from SATS Limited, the other JV partner, which has extensive experience in international air catering.

The company has moderate customer concentration risk, although its established relationship with its customers mitigates the risk to an extent. Also, the company has been periodically adding customers and explores new avenues for undertaking catering supplies including, among others, quick service restaurants (QSR), corporates, educational institutions and hospitals. This is expected to aid in customer diversification over the medium to long term. TSACL remains exposed to competition resulting in pricing pressures. Nevertheless, the consolidation in the industry, the company's healthy market share, benefits from operating leverage and its cost-optimisation measures will continue to support its operating income and margins, mitigating the risk to an extent.

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 financial linkages with IHCL, including access to IHCL's central treasury, which leads to temporary liquidity support, as and when required. TSACL is strategically important to IHCL and also enjoys strong financial flexibility and lender/investor comfort, with IHCL being a JV partner. Further, IHCL is expected to extend timely and adequate financial support to TSACL, if required. The company also derives considerable operational support from SATS Limited, the other JV partner, who is a leading provider of gateway services and food solutions as well as 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 58% (in terms of number of meals catered to) as of July 2023. Further, it is expected to sustain its market share with most existing customers, improve market share with certain customers contracts as part of its strategic initiatives and benefit from its recent additions like Akasa Air, Air India and Qantas Airways in FY2023, going forward.

Strong financial profile– TSACL reported operating income of Rs. 636.8 crore in FY2023, more than double its FY2022 operating income and higher by 63% than pre-Covid levels. Further, the company reported Rs. Rs. 204.0 crore operating income in Q1 FY2024, higher by 55% on a YoY basis. The growth was aided by a confluence of factors including improvement in market share, customer additions, growth in number of flights and improvement in airline passenger traffic. TSACL's operating margins also improved from 7-11% till FY2020 to 19.2% in FY2023 and 24.5% in Q1 FY2024, aided by operating leverage benefits and sustenance of its cost optimisation initiatives. The company has remained conservative on debt, with no long-term debt and minimal short-term borrowings in its books for the last several years. This has resulted in comfortable capital structure and coverage metrics. TSACL's gearing stood at 0.03x as of June 30, 2023, while its interest coverage was 98.0 times for Q1 FY2024. ICRA expects TSACL's financial profile to remain strong going forward as well.

Credit challenges

Moderate customer concentration risk – The company is exposed to risks arising from moderate customer concentration, with its top five customers accounting for 67% of its operating income in FY2023. Nevertheless, established relationships with its customers mitigates the risk to an extent. Also, TSACL has been periodically adding new customers and explores new avenues for undertaking catering supplies including, among others, to QSRs, corporates, educational institutions and hospitals, which 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. 1,000 crore in FY2024, despite healthy operating income growth in FY2023 and Q1 FY2024. TSACL remains exposed to competition resulting in pricing pressures. Nevertheless, the consolidation in the industry, the company's healthy market share, benefits from operating leverage and its cost-optimisation measures would continue to support its operating income and margins, mitigating the risk to an extent.

Liquidity position: Adequate

TSACL's liquidity is adequate supported by its healthy anticipated cash flow from operations unencumbered cash and liquid investments of Rs. 55.4 crore and undrawn lines of credit of Rs. 90.0 crore (including an undrawn general-purpose term loan of Rs. 20.0 crore) as on June 30, 2023. Its average working capital utilisation remained low at ~23% of the sanctioned limits for the period July 2022–June 2023. 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 planned growth capex of over Rs. 50.0 crore during FY2024 and FY2025 apart from an annual maintenance capex of Rs. 20-25 crore in the medium term. The capex is expected to be funded through internal accruals.

Rating sensitivities

Positive factors – TSACL's ratings may be upgraded in case of a sustained improvement in its scale of operations and accruals, while maintaining comfortable debt metrics.

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 Rating Approach–Implicit Support from Parent or Group
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, if 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 who operates 191 hotels with 22,036 rooms (as on June 30, 2023) at a consolidated level 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 ~87% of its operating income in FY2023 from the airline segment, wherein it provides in-flight catering services to domestic and international airlines, and charter flights, besides undertaking other maintenance services such as laundry and aircraft cleaning. The company also undertakes institutional and outdoor catering, which together accounted for ~13% of its operating income in FY2023. TSACL's manufacturing facilities are located at Mumbai, Delhi, Bangalore, Kolkata, Chennai, Goa and Amritsar.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	285.9	636.8
PAT	-40.0	79.6
OPBDIT/OI	-12.6%	19.2%
PAT/OI	-14.0%	12.5%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	-0.6	0.1
Interest coverage (times)	-23.9	63.1

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 08, 2023	Nov 11, 2022	Oct 04, 2021	Aug 31, 2020
1	Fund-based/ CC	Long- term	10.00	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-Fund-based Limits	Short- term	5.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Interchangeable (sub limit)	Long- term / Short-term	(5.00)	-	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+
4	Unallocated	Long-term	4.00	-	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund based/ CC	Simple
Short-term – Non fund based	Very 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/ CC	NA	NA	NA	10.00	[ICRA]AA- (Positive)
NA	Non-Fund-based Limits	NA	NA	NA	5.00	[ICRA]A1+
NA	Interchangeable (sub limit)	NA	NA	NA	(5.00)	[ICRA]AA- (Positive)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	4.00	[ICRA]AA- (Positive)

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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