November 28, 2023

CAE Simulation Training Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	185.78	619.12	[ICRA]A (Stable); Reaffirmed/ assigned for enhanced amount
Total	**185.78**	**619.12**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for CAE Simulation Training Private Limited's (CSTPL) factor in its strong operational risk profile as reflected in continued leadership position in the Indian flight simulation market for the Airbus A320 family of planes, limited number of players in the flight simulation business coupled with regulatory requirement for all pilots to mandatorily undergo periodic simulation training (which provides high recurring business) and a 15-year MoU (till FY2028) with InterGlobe Aviation Limited (IAL; operator of IndiGo Airline) for dedicated usage of four of its simulators. ICRA notes that the company operationalized a new facility in Gurgaon (Haryana) and onboarded several new customers over the last 12-15 months, which is expected to support customer and revenue diversification. The rating derives comfort from CSTPL's resourceful promoters who have a long and successful track record in the flight simulation and aviation businesses. Further, the company has committed tie-ups for five simulators, irrespective of the actual usage, providing healthy revenue visibility.

The company saw healthy capacity utilisation in FY2023 and H1 FY2024 despite increase in capacity (five simulators added in FY2023 and H1 FY2024 taking the overall number of simulators from 7 in FY2022 to 12). This led to increase in company's scale of operations, with a 56%YoY increase in revenues to Rs. 187.3 in FY2023 crore and also supported healthy margins. The improved demand outlook for the domestic aviation sector, fleet expansion plans of most airlines coupled with regulatory requirement for regular pilot training over simulators, is expected to support ramp-up in cash flows over the medium term.

The rating is, however, constrained by moderation in company's debt coverage metrics owing to significant on-going debt funded capex, 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 result in high entry barriers, the return indicators are closely linked to asset utilisation and the pricing arrangement with its customer. Notwithstanding the committed offtake agreements for five of the twelve operational simulators, any sustained moderation in capacity utilisation could impact the company's revenue and coverage metrics. Any adverse fleet rationalisation by airlines, shift to other models of aircrafts, expansion in capacity by any existing competitor, or entry of a new player in the Indian simulation market may affect its revenues. Further, the company purchased 5 simulators over the last 15 months and has significant capacity expansion plans over the next 1-1.5 years, which will be majorly funded by debt. The incurred/proposed capex would expose the company to funding and market risks. Any higher-than-expected outflow towards the same, thereby materially impacting the coverage indicators would be a credit negative for the company.

The Stable outlook on the 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 by the Directorate General of Civil Aviation (DGCA), Government of India, pilots must undergo 200 hours of simulator training to obtain a commercial pilot license and pilots with active licenses must 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. Further, limited number of flight simulators in India enables healthy business flow to all domestic players. The company also operates ten Airbus A320 simulators, out of the total of 20 Airbus A320 simulators that are approved by DGCA in India, giving it a strong market position.

Improvement in client and geographic diversification – With the operationalisation of the facility in Gurgaon from August 2022, the company has now facility available in 3 states including Bangalore and Greater Noida. Apart from this, the company has also added new clients like Vistara, SpiceJet, Akasa Airlines in addition to Indigo (largest customer with 82% capacity utlisation in FY2023) and Air Asia (second largest customer with 17% utilisation). Ramp-up in utilisation by other customers and their payment cycles would be a monitorable going forward.

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 ~61% share of the domestic passenger traffic in FY2023. Further, CSTPL has a 15-year MoU (till FY2028) with IndiGo, 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

Significant capacity expansion plans will result in moderation in coverage metrics – Simulation training is a capital-intensive business. Each simulator costs around USD 10-12 million. Given the actual capex undertaken and plans indicated, the company would have purchased seven new simulators by end of FY2024 (i.e., within a span of 2 years). It plans to add 1-2 more simulators in FY2025 as well. Given that the capex is largely debt funded (in the debt to equity ratio of 80:20), CSTPL's debt coverage metrics have moderated, as reflected in Net Debt(Total debt less free cash balances)/OPBDIT of 1.9x (PY: 1.5x) and Total Outside Liabilities(TOL)/Tangible Net Worth (TNW) of 1.4x as of March 31, 2023 (PY: 1.1x). Despite the expected improvement in scale/profitability, these metrices will moderate further over the next 15-18 months. The DSCR was 1.5x in FY2023 and is expected to remain around similar levels in FY2025 & FY2026.

High revenue dependence on key customers – CSTPL derives a major part of its revenues from IAL (operator of IndiGo Airlines), leading to high single client concentration risk. IAL accounted for ~80% of the capacity utilisation in FY2023 and FY2022 and 91% in FY2021. However, the revenues are part of a long-term (15 year) arrangement with IndiGo for dedicated usage of its simulators leading to committed payment from IndiGo for four simulators irrespective of its actual usage. Further, CSTPL has tied up for the captive use of another simulator for Air Asia. The new capex being undertaken also has 2 dedicated simulators. ICRA notes that the company onboarded several new customers over the last 12-15 months, which is expected to support customer and revenue diversification over the medium to long-term. Nevertheless, the concentration on IAL is expected to remain high over the medium term, which exposes its revenues to the performance of its client. Depending on the internal counterparty risk assessment, the management keeps a regular check on exposure to its key customers which has restricted losses due to bad-debt write-off in the recent past.

Exposure to regulatory changes in the civil aviation sector – 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.

Liquidity position: Adequate

CSTPL's liquidity position is expected to remain adequate, led by healthy cash flows from operations and supported by unencumbered cash and liquid balances of Rs 83 crore (~USD 10 million) as on September 30, 2023. Against the same, the company has estimated repayment obligations of ~Rs. 35 crore in H2 FY2024 and Rs. 90-100 crore in FY2025. The company intends to incur capex of xxx crore over FY2024-FY2025, likely to be 80% debt funded. Given the expectation of ramp-up in expanded capacity cash flows from operations and available cash balances are expected to be sufficient to meet all the operational funding requirements comfortably. The management's commitment to maintain liquidity of ~USD 10 million on a consistent basis, will continue aiding company's liquidity position.

Rating sensitivities

Positive factors - ICRA could upgrade CSTPL's rating in case of any significant increase in scale of operations, which supports improvement in the coverage metrics and credit profile. Specific metrics for rating upgrade includes DSCR over 2.25 times on a sustained basis.

Negative factors - 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 50:50 joint venture between InterGlobe Enterprises and CAE, engaged 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 existing pilot. CSTPL has twelve Level "D" Full Flight Simulators approved by DGCA for pilot training, with the latest one becoming operational in April 2023. Its main customers are Indigo (4 dedicated simulators), Go Air, Air Asia (1 dedicated simulator) and TATA SIA.

Initially the company started its operations by setting up two leased simulators in July 2013 at the Greater Noida facility. Currently, five A320 full flight simulators are operational at the company's facility in Greater Noida (all owned), five in Bangalore (3 owned and two leased) and two in recently set up Gurgaon facility (all owned). The company is planning to further expand in Bangalore and Gurgaon this year with addition of one simulator each by end of FY2024 or at start of FY2025.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	120.2	187.3
PAT	32.3	57.0
OPBDIT/OI	80.0%	77.3%
PAT/OI	26.9%	30.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.4
Total debt/OPBDIT (times)	2.9	2.3
Interest coverage (times)	6.5	8.9

Source: ICRA Research, Company data

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

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 May 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	Aug 10, 2022	Aug 05, 2022	Feb 28, 2022	Dec 31, 2020
1	**Term loans**	Long term	619.12	351.52	**[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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2018-FY2023	NA	FY2023-FY2026	619.12	[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 – Not Applicable

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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.

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