

January 23, 2024

AIX Connect Private Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund-based limits	5,110.00	[ICRA]A1+; assigned
Short-term non-fund based limits	140.00	[ICRA]A1+; assigned
Total	5,250.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to AIX Connect Private Limited (AIXC) considers the strong parentage of AIXC as a wholly-owned subsidiary of Air India Limited (AIL), which in turn is a step-down wholly-owned subsidiary of Tata Sons Private Limited (Tata Sons; rated [ICRA]AAA (Stable)/[ICRA]A1+). ICRA also notes the strategic importance of the aviation business for the Tata Group. Tata Sons has a demonstrated track record of infusing funds into AIXC (through AIL, after the change in shareholding in FY2023) and ICRA expects both financial and operational support from the Tata Sons and AIL to continue, going forward.

ICRA notes that AIXC is proposed to be merged with Air India Express Limited (AIX), subject to regulatory approvals, in the near term, and would emerge as the low-cost carrier (LCC) for the Group's non-metro and regional routes, other than short-haul international routes. The consolidation of the LCC operations under one entity underpins the growing importance of AIXC, given that currently it is the Group's sole entity focusing on domestic LCC operations. It will also benefit from cost efficiencies in terms of centralised fleet procurement, sourcing fuel requirements as well as repair and overhaul activities, leading to operating efficiencies. The merged entity will also provide synergistic benefits such as acting as a feeder to the larger AIL group (including Vistara, post-merger). The ratings also consider the continued improvement in passenger traffic and improved yields for AIXC, whose sustenance is likely to result in better cash flows for the entity, going forward.

AIXC, being a mid-sized domestic LCC, remains well placed to benefit from growing air travel demand, as reflected by healthy passenger load factor (or PLF; at 85% in FY2023) and yields, which cumulatively led to a 128% YoY increase in its revenues in FY2023. Going forward, the company is likely to continue to record strong PLFs, aided by healthy demand and an increasing penetration of domestic air travel in India.

AIXC is exposed to the stiff competitive intensity in the domestic aviation industry, which is expected to intensify in the near to medium-term, with the entry of new players and sizable fleet addition by incumbent players. Further, the rating also considers the exposure of industry players to fluctuations in aviation turbine fuel (ATF) prices as well as foreign exchange (forex) fluctuations, given aircraft lease payments, fuel expenses, and a significant share of aircraft and engine maintenance expenses being denominated in dollar terms. 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 on the company's credit metrics, will remain a monitorable.

Key rating drivers and their description

Credit strengths

Strong parentage ensures financial and business support – AIXC is a wholly-owned subsidiary of AIL, which in turn is ultimately owned by Tata Sons. The rating, thus factors in AIXC's strong parentage and its commitment towards the business as reflected

by its demonstrated track record of equity infusions in the past. Going forward, ICRA expects the support philosophy to continue, both financially and operationally, and remain the key barometer for rating sensitivity, going forward.

Strategic importance of AIXC to the Tata Group – The aviation business remains a strategic business for the Tata Group, underpinned by the demonstrated support extended to the business over the years, along with the ongoing large expansion plans, accentuated by the large order of 470 aircraft to grow the business in the long term. The Tata Group's comprehensive aviation blueprint aims to create two distinct segments within the industry. One segment encompassing the Full-Service Carrier (FSC) category, represented by Air India and Vistara (post-merger with AIL), while the other would focus on the LCC market via AIX and AIXC (post-merger with AIX). Given this approach, the LCC market will be a key driver for the Group's domestic aviation business, of which AIXC will be central to the initiative. Further, the integration of AIX and AIXC into the broader Air India Group is also expected to benefit AIXC's operations, facilitating seamless connections for passengers between long-haul and short-haul flights.

Credit challenges

Profitability susceptible to volatilities in crude oil prices and fluctuations in exchange rate – In line with the industry, AIXC's profitability is highly vulnerable to volatility in fuel prices and forex rates. Fuel costs pertain to 40-45% 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 dollar terms. 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. Given the limited ability of airlines to pass on the same as price increases, the entity has been posting losses and is expected to turnaround only in the medium term. Going forward, the ability of the company to take proportionate rise in fare without impacting demand, while reporting profitability on a sustained basis will remain a key rating monitorable.

Intense competition in industry; price-sensitive nature of domestic aviation market may restrict pricing power – Being a mid-sized player in the LCC segment, AIXC's ability to command a pricing premium remains limited. This is due to the cost sensitive nature of the market and the intensely competitive pricing among LCCs. ICRA notes that despite the same, the yields have posted improvement since last fiscal, reflecting some pricing power returning to players. Nonetheless, with new player entering the markets, and sizable fleet addition by incumbent players, the competition is expected to keep pressurising any further expansion in yields. Scale-up in operations, while maintaining healthy level of yields, with effective cost management will remain key to turning profitable on sustainable basis.

Liquidity position: Adequate

The liquidity profile of the company is adequate, supported by free cash and bank balances of ~Rs. 450 crore, as of September 2023. Additionally, the fund-based limits have a buffer to the extent of Rs. 615 crore (as of December 2023), while average utilisation for the last 12 months stood at 78%. Moreover, the company does not have any long-term debt obligations. The company also enjoys funding support from AIL, which in turn has committed support from Tata Sons, in the near to medium term.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on the rating could emanate from a material deterioration in its liquidity profile due to subdued passenger traffic or sharp and sustained increase in ATF prices and/or adverse movement in USD/INR, resulting in sustained pressure on cash flow from operations. The rating could be revised downwards if ICRA's assessment of the likelihood of support from its ultimate holding company (Tata Sons) weakens, or the credit profile of the holding company/ultimate holding company weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: Air India Limited (AIL); Ultimate parent company: Tata Sons Private Limited. ICRA expects Tata Sons to continue to financially support AIXC, as a 100% subsidiary of AIL, which in turn is a wholly-owned, step-down subsidiary of Tata Sons, given that aviation is a strategic sector for the Tata Group.
Consolidation/Standalone	Standalone

About the company

AIX Connect Private Limited (formerly known as Air Asia India Private Ltd.) is an unlisted private company incorporated on March 28, 2013. The company provides passenger air transportation services. AIXC is a low-cost airline, and a wholly-owned subsidiary of Air India Limited, which in turn is owned by Tata Sons. The airline was initially founded as a joint venture (JV) between Tata Sons and AirAsia Berhad and commenced operations from June 2014. Over time, Tata Sons gained control and by FY2020, its ownership rose to 84%. In November 2022, Tata Sons completed the acquisition of the remaining 16% from AirAsia Berhad and the ownership of AIXC was transferred to Air India Limited. AIL has filed for the merger of AIXC and Air India Express Ltd., which is expected to conclude in the near term. The merger will consolidate the Tata Group's low-cost airlines under one entity, covering domestic routes and short-haul international destinations.

Key financial indicators (audited)

AIXC Standalone (In Rs. Crore)	FY2022	FY2023
Operating income	1,887.7	4,310.4
PAT	-2,178.6	-2,750.5
OPBDIT/OI	-61.1%	-34.0%
PAT/OI	-115.4%	-63.8%
Total outside liabilities/Tangible net worth (times)	-2.1	-1.8
Total debt/OPBDIT (times)	-4.8	-3.9
Interest coverage (times)	-2.8	-2.8

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024 Jan 23, 2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
1 Fund-based bank facilities	Short term	5,110.00	-	[ICRA]A1+	-	-	-
2 Non - Fund-based bank facilities	Short term	140.00	--	[ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short -term – fund-based	Simple
Short -term – non-fund-based	Very 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	Fund-based	NA	NA	NA	5,110.00	[ICRA]A1+
NA	Non - Fund-based	NA	NA	NA	140.00	[ICRA]A1+

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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