August 14, 2024

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)	2,515.60	2,672.15	[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)	(10.74)	(11.74)	[ICRA]A1; Continues on Rating Watch with Positive Implications
Short-term Fund-based Limits (Overdraft)	22.10	21.10	[ICRA]A1; Continues on Rating Watch with Positive Implications
Unallocated – Long-term/ Short-term	400.40	-	-
Unallocated – Short-term	329.90	-	-
Total	**3,268.00**	**2,693.25**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings for Tata SIA Airlines Limited (Tata SIA/ Vistara) continue to be on watch, considering the proposed merger of Air India and Vistara (targeted to be completed by the end of FY2025), subject to regulatory approvals. The development is likely to influence the company's credit profile, although the extent of the impact is unclear at present. As per the Singapore Airlines Limited (SIA) press release of November 2022, SIA would hold a 25.1% stake in an enlarged Air India Group, which would have a significant presence in all key market segments. SIA also plans to invest ~Rs. 2,058.5 crore (~$250 million) in Air India as part of the transaction. In June 2024, the National Company Law Tribunal (NCLT) approved the merger and provided a 9-month period from the date of order (i.e. by March 2025) to obtain the remaining approvals including foreign direct investment (FDI) and aviation security clearances. The merger was earlier approved by the Competition Commission of India (CCI) and the Competition and Consumer Commission of Singapore (CCCS) in September 2023 and March 2024, respectively. Further, the Vistara brand would be dissolved upon completion of its merger with Air India, as per the order.

The ratings continue to favourably factor in the company's strong parentage. The airline is 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 over the years. The promoters infused the entire committed support of Rs. 10,020 crore so far, with the last tranche of Rs. 650 crore received in FY2023. ICRA continues to take comfort from the promoters' demonstrated commitment to the business and their strong credit profile. In FY2025, in the absence of any fleet addition plans and healthy existing liquidity levels of the airline, dependence on parent companies is expected to remain limited.

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 wide network and scale, are likely to result in improved cash flows for the entity in FY2025. Vistara, being one of only two domestic full-service carriers (FSCs), remains well-placed to benefit from a healthy air travel trend. This has been reflected in the company's market share, which slightly improved on a YoY basis to ~9.4% in FY2024. Moreover, healthy load factors (averaged at 85% in FY2024) and strong yields (~Rs. 6.4 in FY2024) cumulatively led to a 25% YoY increase in the entity's revenues in FY2024. The airline's operating margin improved to 14.6% in FY2024 from 4% in FY2023 because of an increase in revenues, operational efficiencies and nil forex losses, although it continued to report net losses (Rs. 581 crore in FY2024).

The competitive intensity in the domestic airline industry is expected to intensify in the near-to-medium term with the entry of new players and sizeable fleet additions by other airlines. Further, even as the industry witnessed a sequential decline in aviation turbine fuel (ATF) pricing over the last few quarters, ICRA expects the company's financial leverage and coverage indicators to improve as operations scale up further. However, the impact of unfavourable movements in foreign exchange (forex) rates and fuel prices over the company's credit metrics will remain 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 SIA being an established and well-regarded international FSC, and Tata Sons being a well-entrenched Indian conglomerate. SIA shares best practices in 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 in FY2015), enabling it to scale up successfully at a rapid pace over the years.

Superior service offering vis-à-vis competitors supports positioning in business, traveller and international passenger segments – Following the cessation of Jet Airways' services in April 2019, Tata SIA emerged as one of the only two FSCs from India, the other being Air India. Tata SIA's premium offerings (offers three classes- economy, premium economy, and business) and additional passenger services (lounge access, in-flight entertainment systems, frequent flyer program, free check-in baggage, complimentary in-flight food etc.) compared to 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 to 9.4% in FY2024. It also captured 47% of the FSC market in FY2024, benefitting from its established brand reputation and an array of premium services.

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 forex fluctuations. Fuel costs pertain to 30-40% of its expenses, which are denominated in USD. The airline also incurs other operating expenses, such as lease liabilities, aircraft and engine maintenance expenses, in USD, along with foreign debt for aircraft purchases. Given the limited ability of airlines to pass on the increase in fuel costs, the profitability of the airline industry remained under pressure during FY2022-FY2023. However, an easing of domestic ATF prices has been observed over the last few quarters, with prices declining to ~Rs. 97.0/L in July 2024 from an average of Rs. 103.5/L in FY2024 (Rs. 121/L in FY2023), which provide comfort. The healthy demand in domestic and international traffic and higher proportion of the fuel-efficient A320 NEO aircraft in the fleet are expected to continue mitigating the impact of these cost pressures to an extent. Moreover, the expansion of overseas operations is likely to increasingly provide a natural hedge against forex risk. While Vistara continued to report net losses in FY2024, sustainable growth in demand coupled with stable fuel and forex rates remains critical for reducing its losses and achieving profitability.

Intense competition and price-sensitive nature of domestic aviation market restricts pricing power – Although Tata SIA operates as an FSC, its ability to command premium pricing in the domestic market is currently restricted due to the cost-sensitive nature of the market and the intensely competitive pricing of low-cost carriers. However, this is expected to improve as the airline continues to expand its international operations, where it commands higher yields, as international routes are dominated by FSCs.

Liquidity position: Adequate

The airline has adequate liquidity as on date, which is expected to remain sufficient for the next few quarters. It has repayment obligations of ~Rs. 702 crore in FY2025 pertaining to ECB borrowings. The liquidity levels are likely to remain sufficient for sustaining operations and fulfilling debt obligations over the near term. The liquidity profile is supported by the likelihood of timely funding support from the promoters as 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 stabilised ATF prices, translating into a positive RASK-CASK spread for the airline on a sustained basis. An improvement in the 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 – Pressure on the rating could stem from a material decline in its liquidity buffer due to subdued passenger traffic or sharp and sustained increases in ATF prices and/or adverse forex rate movements, resulting in sustained losses from operations. The ratings 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 entities 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 supporting Tata SIA financially and operationally, given its strategic importance. It also shares a common name with both the parent entities, 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 a 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 50 destinations with over 300 daily flights with a combined fleet of 70 Airbus A320s, Airbus A321s and Boeing 787-9 Dreamliner. The airline commenced its international operations in FY2020, serving more than 15 destinations at present. The airline has a major share in international flights originating from or terminating in India.

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 provide SIA with 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 March 2025, subject to regulatory approvals. 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)

	FY2023	FY2024
Operating income (Rs. crore)	12,261.4	15,310.3
PAT (Rs. crore)	(1,393.3)	(581.1)
OPBDIT/OI (%)	4.0%	14.6%
PAT/OI (%)	-11.4%	-3.8%
Total outside liabilities/Tangible net worth (times)	43.6	(323.8)
Total debt/OPBDIT (times)	35.2	9.8
Interest coverage (times)	0.6	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore, OI: Operating income; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; figure in red represents negative amount

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date & rating in FY2025 Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
Short term-overdraft-interchangeable	Short Term	(11.74)	[ICRA]A1 Rating Watch with Positive Implications	17-JUL-2023	[ICRA]A1 Rating Watch with Positive Implications	07-APR-2022	[ICRA]A1	-	-
			-	-	-	07-DEC-2022	[ICRA]A1 Rating Watch with Positive Implications	-	-
Short term-overdraft-fund based	Short Term	21.10	[ICRA]A1 Rating Watch with Positive Implications	17-JUL-2023	[ICRA]A1 Rating Watch with Positive Implications	07-APR-2022	[ICRA]A1	-	-
			-	-	-	07-DEC-2022	[ICRA]A1 Rating Watch with Positive Implications	-	-
Long term / short term-unallocated	Long Term/Short Term	0.00	-	17-JUL-2023	[ICRA]A/ [ICRA]A1 Rating Watch with Positive Implications	07-APR-2022	[ICRA]A (Negative)/ [ICRA]A1	-	-

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date & rating in FY2025 Aug 14, 2024	Date	Rating	Date	Rating	Date	Rating
			-	-	-	07-DEC-2022	[ICRA]A/ [ICRA]A1 Rating Watch with Positive Implications	-	-
Short term-unallocated	Short Term	0.00	-	17-JUL-2023	[ICRA]A1 Rating Watch with Positive Implications	07-APR-2022	[ICRA]A1	-	-
			-	-	-	07-DEC-2022	[ICRA]A1 Rating Watch with Positive Implications	-	-
Long term / short term-others-non fund based	Long Term/Short Term	2,672.15	[ICRA]A/ [ICRA]A1 Rating Watch with Positive Implications	17-JUL-2023	[ICRA]A/ [ICRA]A1 Rating Watch with Positive Implications	07-APR-2022	[ICRA]A (Negative)/ [ICRA]A1	-	-
			-	-	-	07-DEC-2022	[ICRA]A/ [ICRA]A1 Rating Watch with Positive Implications	-	-

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

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	2,672.15	[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	(11.74)	[ICRA]A1; Rating watch with Positive implications
NA	**Short term Fund-based limits (Overdraft)**	NA	NA	NA	21.10	[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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