October 29, 2024

CAE Simulation Training Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loans	619.12	619.12	[ICRA]A (Stable); reaffirmed
Total	**619.12**	**619.12**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation derives support from the strong operational risk profile of CAE Simulation Training Private Limited (CSTPL) as reflected by its continued leading position in the Indian flight simulation market and high capacity utilisation over the recent years. The company's business draws significant comfort from the regulatory requirement for all pilots to mandatorily undergo periodic simulation training and presence of limited number of simulators against the demand. The long-term Memorandum of Understanding (MoU) with InterGlobe Aviation Limited (IAL; operator of IndiGo Airline) for dedicated usage of five of its simulators provides high revenue visibility. ICRA notes that similar MoUs are signed with other airlines as well, which supports the company's business in the long-term. Further, the improved demand outlook for the domestic aviation sector and fleet expansion plans of key airlines is expected to support generation of strong cash flows from operations over the medium term with additional requirement of simulators. With favourable demand prospects, the capacity utilisation remains at ~104% in FY2024 and 115% in 5M FY2025. It is likely to remain healthy with CSTPL onboarding new customers over the last 12-15 months, which has led to an increase in its scale of operations by 33.6%, on a YoY basis, in FY2024 and supported continuation of healthy OPBIDTA margin of ~75%. The rating derives comfort from CSTPL's resourceful promoters who have a long and successful track record in the flight simulation and aviation businesses, which provides operational and financial flexibility (availability of latest simulators, training courses, softwares and key customer of the company).

The rating is, however, constrained by the moderation in the debt coverage metrics owing to significant ongoing debt-funded capex. The company has significant capacity expansion plans over the next 2-3 years, which will be majorly funded by fresh debt. Though the same is likely to help in growth of topline, the coverage metrics is expected to be under check, especially DSCR in the near term, and will improve only over the medium term with returns flowing from the capex and capex phasing out. The rating considers the high customer concentration risk (though improving on a yearly basis) 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 fifteen 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. However, the long-term MoU with Indigo and Akasa airlines, increasing demand for pilot training and the growing aviation industry in India, the capacity utilisation is expected to remain high.

The Stable outlook on the long-term rating reflects ICRA's opinion that the capacity utilisation of the simulators would remain healthy in the near to medium term, driven by the regulatory requirements and favourable demand outlook for the domestic aviation sector, in conjunction with fleet expansion plans of most airlines. Further, the outlook underlines ICRA's expectations that CSTPL's debt requirements would be funded in a manner that it is able to durably sustain its debt protection metrics commensurate with the existing rating, while maintaining an adequate liquidity profile.

Key rating drivers and their description

Credit strengths

High revenue visibility with favourable demand prospects – As per the 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 annually to maintain the validity of the license. This ensures a high degree of recurring business for players including CSTPL. Also, the improved demand outlook for the domestic aviation sector and aggressive fleet expansion plans of most airlines is expected to support high revenue visibility and strong cash flows from operations for CSTPL over the medium term with an incremental requirement of simulators. The company operates overall 15 simulators, that are approved by DGCA in India, giving it a strong market position.

Healthy profitability due to high capacity utilisation levels – CSTPL's leadership position in the Indian flight simulation market, limited number of players in the flight simulation business and high capacity utilisation of the simulators at ~104% in FY2024 and 115% in 5M FY2025 supports sustenance of healthy OPBIDTA margin at ~75%. Availability of limited number of flight simulators against the demand in India would support high capacity utilisation, i.e., over 100% for CSTPL in the medium term. Further, due to the latest technology of the leading global player, i.e., CAE Inc., superior quality training, the company enjoys competitive advantage in pricing. Many companies have announced installation plans of flight simulators in India. However, a majority of them face hurdles in entering the market due to strict regulatory approval process, sophisticated technology and high quality training standards.

Strong promoter group providing operational and financial flexibility – 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 simulators, softwares and training for civil aviation in over 40 countries (including CSTPL), while IndiGo Airlines (operated by IAL) is a leading player in the Indian aviation sector with nearly ~62% share in the domestic passenger traffic in FY2024. A majority of CSTPL's business is derived from the long-term MoU signed with IndiGo for training its pilots. Additionally, all the simulators and associated technology is procured from CAE Inc, which is a global leader in simulator manufacturing as well as training. Backed by the strong promoter profile and close operational linkages, the company enjoys strong financial flexibility, which is also reflected by its ability to tie-up for fresh loans at favourable terms.

Credit challenges

Significant debt-funded capacity expansion plans to result in moderation of debt coverage metrics in the near to medium term – Simulation training is a capital-intensive business, with each simulator costing around USD 10-12 million. Given the sizeable orders by domestic airlines for their fleet addition, the company has already added five simulators since FY2024. It plans to add another 2-3 simulators by FY2027. Given that the proposed capex is largely debt funded (in the debt-to-equity ratio of 80:20), CSTPL's debt coverage metrics moderated in FY2024, as reflected in Net Debt (Total debt less free cash balances)/OPBDIT of 2.1 times (PY: 1.9 times) and Total Outside Liabilities (TOL)/Tangible Net Worth (TNW) of 1.7 times (PY: 1.4 times). Despite a material improvement in the company's scale and healthy profitability, its debt protection metrics are anticipated to remain under check in the near to medium term. The DSCR was at 1.8 times in FY2024 and it is likely to moderate in the near term and is only expected to improve post returns from the capex and phasing out of the capex.

High client concentration risk; however strong market position of key customer and improving customer diversification provides comfort – CSTPL derives a major part of its revenues from IAL (operator of IndiGo Airlines), leading to high client concentration risk. IAL accounted for ~67% of the capacity utilisation in FY2024 (91% in FY2021), which is continuously improving on a yearly basis. Revenues from Indigo are a part of a long-term (15 year) arrangement with IndiGo for dedicated usage of its simulators leading to committed payment from IndiGo for five simulators irrespective of its actual usage. Further, CSTPL has recently tied up with Akasa Airlines for training of its 90% pilots for 15 years. ICRA notes that the company onboarded a number of new customers over the last two years, which is expected to support customer and revenue diversification over the medium to long term. Nevertheless, the concentration on IAL is likely to remain high over the medium term, which exposes its revenues to the performance of its client.

Exposure to regulatory changes in the civil aviation sector – Any adverse fleet rationalisation by the 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 strong cash flows from operations (Rs. 174.9 crore in FY2024) and supported by unencumbered cash and liquid balances of Rs. 143.7 crore as on March 31, 2024. The company has estimated repayment obligations of ~Rs. 90 crore in FY2025 and ~Rs. 132 crore in FY2026. It is likely to incur an overall capex of ~Rs. 413 crore over FY2025-FY2026, likely to be 80% debt funded. Given the expectation of ramp-up in expanded capacity, the cash flows from operations and available cash balances are expected to be sufficient to meet all the operational funding requirements. The management's commitment to maintain liquidity of Rs. 50 crore, on a consistent basis, will continue to aid its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade CSTPL's rating if there is a steady increase in revenue, while maintaining healthy profitability and comfortable liquidity on a sustained basis. Further, an improvement in debt protection metrics, on a consistent basis, would be a credit positive.

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 debt protection metrics on a sustained basis. Additionally, deterioration in the credit metrics of its key customer (IAL) could adversely impact its rating. Specific credit metrics for a rating downgrade includes DSCR below 1.25 times on a sustained basis.

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, involved 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 the existing pilot. CSTPL has fifteen Level "D" Full Flight Simulators approved by DGCA for pilot training, with the latest one becoming operational in August 2024. Its main customers are Indigo (5 dedicated simulators), Akasa and TATA SIA.

Initially the company started its operations by setting up two leased simulators in July 2013 at the Greater Noida facility. Currently, six full flight simulators are operational at its facility in Greater Noida (all owned), six in Bangalore (four owned and two leased) and three in Gurugram facility (all owned). The company is planning to further expand in Bangalore and Mumbai.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	187.3	250.2
PAT	57.0	54.7
OPBDIT/OI	82.7%	75.4%
PAT/OI	30.4%	21.9%
Total outside liabilities/Tangible net worth (times)	1.4	1.7
Total debt/OPBDIT (times)	2.2	2.8
Interest coverage (times)	6.4	5.1

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

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)**	**Oct 29, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long-Term	619.12	[ICRA]A (Stable)	28-Nov-23	[ICRA]A (Stable)	10-Aug-22	[ICRA]A (Stable)	5-Aug-22	[ICRA]A (Stable)	28-Feb-22	[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-FY2025	NA	FY2025-FY2032	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.

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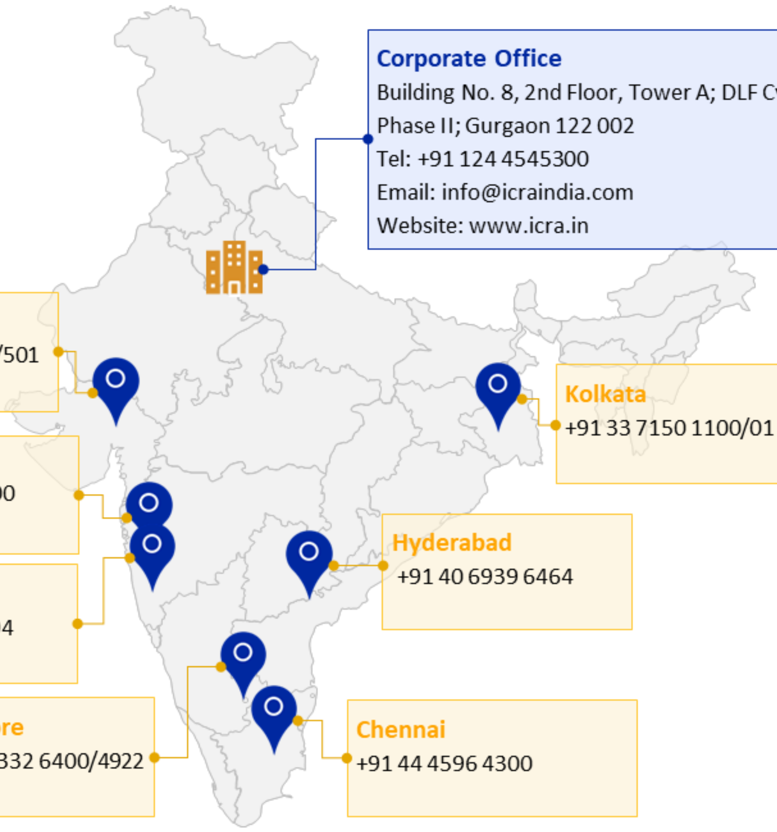

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