November 06, 2024

Taj SATS Air Catering Limited: Long-term rating upgraded to [ICRA]AA from [ICRA]AA-; short-term rating reaffirmed; outlook on the long-term rating revised to Stable from 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 (Stable); Rating upgraded from [ICRA]AA-(Positive) and outlook revised to Stable from Positive
Short-term – Non-fund based	5.00	5.00	[ICRA]A1+; Rating reaffirmed
Long-term/ Short-term – Interchangeable (sub limit)	(5.00)	(5.00)	[ICRA]AA (Stable)/[ICRA]A1+; Long term rating upgraded from [ICRA]AA-(Positive) and outlook on the long-term rating revised to Stable from Positive; short term rating reaffirmed
Long-term Unallocated	4.00	4.00	[ICRA]AA (Stable); Rating upgraded from [ICRA]AA-(Positive) and outlook revised to Stable from Positive
Total	**19.00**	**19.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating of Taj SATS Air Catering Limited's (TSACL) considers its strong performance in FY2024 and Q1 FY2025, and expectation that the same will be sustained, going forward. TSACL reported an operating income of Rs. 887.5 crore in FY2024 and Rs. 237.2 crore in Q1 FY2025, a YoY growth of 39% and 16.4%, respectively, aided by improvement in airline passenger traffic and customer additions for TSACL. The company's revenues rose at a compounded annual growth rate of 23% during FY2020 to FY2024, and its FY2024 revenues were more than double of pre-Covid level. TSACL's operating margins also improved to 24.5% in FY2024 and 23.5% in Q1 FY2025 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+), with sustained market leadership in the air catering industry in India, and a consolidated (domestic and international routes) market share of 59% (in terms of number of meals catered to) in June 2024. Moreover, TSACL receives considerable operational support from SATS Limited, the other shareholder, which has extensive experience in international air catering.

The company has high 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 exploring new avenues for undertaking catering supplies for 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 pressure. Nevertheless, 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.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its healthy market position, cash accruals and strong liquidity position, amid favourable outlook for the industry.

Key rating drivers and their description

Credit strengths

Benefits arising from strong parentage – IHCL owns a 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 enjoys strong financial flexibility and lender/investor comfort, with IHCL being a majority shareholder. Further, IHCL is expected to extend timely and adequate financial support to TSACL, if required. The company also receives considerable operational support from SATS Limited, the other shareholder, which is a leading provider of gateway services and food solutions as well as an established ground-handling and in-flight service provider at Singapore Changi Airport.

Sustained market leadership in air catering industry in India – 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 59% (in terms of number of meals catered to) in June 2024. Benefits from recent additions like Qantas Airways in FY2023 and Akasa Air, Saudia in FY2024 would also aid in sustaining market share going forward.

Strong financial profile – TSACL reported an operating income of Rs. 887.5 crore in FY2024 and Rs. 237.2 crore in Q1 FY2025, YoY growths of 39.4% and 16.4%, respectively, aided by improvement in airline passenger traffic and customer additions. The company's revenues rose at a compounded annual growth rate of 23% during FY2020 to FY2024, and its FY2024 revenues were more than double of pre-Covid level. TSACL's operating margins also improved to 24.5% in FY2024 and 23.5% in Q1 FY2025 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.

Credit challenges

Exposed to high customer concentration risk – The company is exposed to risks arising from high customer concentration, with its top five customers accounting for 69% of its operating income in FY2024. Nevertheless, established relationships with its customers mitigate the risk to an extent. Also, TSACL has been periodically adding new customers and is exploring new avenues for undertaking catering supplies including, among others, to QSRs, corporates, educational institutions and hospitals, which are 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 in FY2025, despite healthy operating income growth during FY2023 - Q1 FY2025. TSACL remains exposed to competition, resulting in pricing pressure. Nevertheless, consolidation in the industry, the company's healthy market share, benefits from operating leverage and cost-optimisation measures would continue to support its operating income and margins, mitigating the risk to an extent.

Liquidity position: Strong

TSACL's liquidity is strong, supported by its healthy anticipated cash flow from operations, unencumbered cash and liquid investments of Rs. 164.8 crore and undrawn lines of credit of Rs. 70.0 crore as on June 30, 2024. Its average working capital utilisation remained minimal during July 2023 to June 2024. Against these sources of cash, the company has no debt repayment obligation owing to the absence of long-term loans on its books. TSACL has planned growth capex of Rs. 45.0 crore in FY2025 apart from an annual maintenance capex of Rs. 20-25 crore for FY2025-FY2027. The capex is expected to be funded through internal accruals. Overall, ICRA expects TSACL to be able to meet its near-term commitments through internal sources of cash and yet be left with healthy cash/liquid investments surplus.

Rating sensitivities

Positive factors – Significant improvement in TSACL's scale and accruals, while maintaining its conservative debt metrics, and improvement in IHCL's credit profile could accelerate the transition to a higher rating.

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 or significant dividend payouts, 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
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 consolidated financial profile.

About the company

TSACL is engaged in the business of in-flight catering services, institutional catering of food and beverages and other allied services to airlines and other institutions, corporate houses, hospitals, cafeterias etc. IHCL owns a 51% stake in TSACL, while a SATS Limited, Singapore, holds the remaining. IHCL is one of India's leading hotel companies, which operates 224 hotels with 24,519 rooms (as on June 30, 2024) 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 ~88% of its operating income in FY2024 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 ~12% of its operating income in FY2024. TSACL's facilities are located in Mumbai, Delhi, Bangalore, Kolkata, Chennai, Goa and Amritsar.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	636.8	887.5
PAT	79.6	156.6
OPBDIT/OI	19.2%	24.5%
PAT/OI	12.5%	17.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	0.1	0.4
Interest coverage (times)	63.1	70.9

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers 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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				November 06, 2024	Sep 08, 2023	Nov 11, 2022	Oct 04, 2021
1	**Fund-based/ CC**	Long- term	10.00	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[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 (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Positive)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**
4	**Unallocated**	Long-term	4.00	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**	**[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 (Stable)
NA	Non-Fund-based Limits	NA	NA	NA	5.00	[ICRA]A1+
NA	Interchangeable (sub limit)	NA	NA	NA	(5.00)	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	4.00	[ICRA]AA (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:

Company Name	Ownership	Consolidation Approach
Nekta Food Solutions Limited	100.0%	Full consolidation

Source: Company

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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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