Jet Airways (India) Limited

December 07, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	698.9	698.9	[ICRA]C; downgraded from [ICRA]B (Negative)
Long-term Loans	4970.0	4970.0	[ICRA]C; downgraded from [ICRA]B (Negative)
Long-term, Fund-based Facilities	645.0	645.0	[ICRA]C; downgraded from [ICRA]B (Negative)
Long-term, Non-fund Based Facilities	700.0	700.0	[ICRA]C; downgraded from [ICRA]B (Negative)
Short-term, Non-fund Based Facilities	3,950.0	3,950.0	[ICRA]A4; reaffirmed
Total	**10,963.9**	**10,963.9**	

* Instrument Details are provided in Annexure-1

Rationale

The rating downgrade considers delays in the implementation of the proposed liquidity initiatives by the management, further aggravating its liquidity, as reflected in the delays in employee salary payments and lease rental payments to the aircraft lessors. Moreover, the company has large debt repayments due over the next four months (December-March) of FY2019 (Rs. 1,700 crore), FY2020 (Rs. 2,444.5 crore) and FY2021 (Rs. 2,167.9 crore). The company is undertaking various liquidity initiatives, which includes, among others, equity infusion and a stake sale in Jet Privilege Private Limited (JPPL), and the timely implementation of these initiatives is a key rating sensitivity.

The company continues to witness a stress in its operating and financial performance. During April-October 2018, the performance has been impacted by the steep increase in jet fuel prices and rupee depreciation and the airlines' inability to pass on the same to the customers. However, while the decline in the fuel price and rupee appreciation during November 2018 has provided some respite, the domestic airline industry continues to face headwinds of rising fuel costs and weak pricing power due to excess competition. This is expected to continue to pressurise the company's performance in the near term.

The yields in the domestic aviation industry have moderated because of increased competition due to the addition of new players and capacity enhancements by the existing players. Jet Airways witnessed a YoY decline of 2.1% in its revenue per available seat kilometer (RASK) during H1 FY2019 despite a 0.6% increase in its passenger load factor (PLF) to 82.2%. Furthermore, its cost per available seat kilometre (CASK) increased YoY by 10.6%, primarily due to the increase in jet fuel prices. This resulted in the company reporting an operating loss of Rs. 1,879.0 crore in H1 FY2019, as against an operating profit of Rs. 536.2 crore in H1 FY2018.

ICRA notes the YoY improvement of 0.4% (excluding the unrealised foreign exchange loss) in Jet Airways' CASK excluding fuel during H1 FY2019 due to continued focus by the management to cut costs in reshaping its business. Furthermore, Jet Airways' strategic alliance with Etihad Airways PJSC has benefitted it across several areas, including network growth, code sharing, operational synergies and cost improvement through maintenance contract renegotiations, co-ordination of flights, leasing of spare aircraft, procurement of fuel and other services, resulting in cost savings. The company has already renegotiated its maintenance contracts with effect from January 01, 2019, with estimated savings of US$ 100 million annually. During Q1 FY2019, the company received liquidity in excess of US$ 300 million through lease incentive and bank borrowings. The company also received Rs. 250 crore advance from JPPL towards future ticket purchases during October 2018. The company has also planned several initiatives aimed at significant reduction in costs. However, the overall credit profile of the company has deteriorated over the last several quarters, characterised by high debt levels and weakened liquidity. The networth also continues to remain negative. ICRA notes the various cost reduction activities being undertaken by the company and the ongoing initiatives with banks to raise funds. These are critical to improve the credit profile of the company.

The increased competition has eradicated the pricing power available with the airlines despite increased jet fuel prices. Furthermore, with a considerable portion of the company's expenses, including financial / operating lease payments, fuel expenses and a significant portion of aircraft and engine maintenance expenses, being denominated in US Dollar, the company is exposed to foreign exchange risk. Continued support from Etihad Airways is one of the key factors towards turning Jet Airways around and improving its liquidity profile.

Key rating drivers

Credit strengths

Strategic initiatives planned by Jet Airways together with Etihad Airways has helped contain costs – With the strategic investment by Etihad Airways, there is a YoY improvement (excluding unrealised foreign exchange losses) of 1.8% in Jet Airways' CASK excluding fuel during FY2018 and 0.4% during H1 FY2019. Furthermore, the company has already renegotiated its maintenance contracts with effect from January 01, 2019, with estimated savings of US$ 100 million annually. The company has also planned several initiatives aimed at significant reduction in costs. However, the cash flows would largely depend on the jet fuel prices and the ability of the company and the industry to pass on the increase through increase in fares.

Of the 124 aircraft operated as on September 30, 2018, 16 are owned, providing opportunities for monetisation – The company has 16 owned aircraft as on date. A sale and lease back transaction for the same would help reduce the debt burden.

Credit challenges

Credit profile of the company continues to remain stretched, characterised by negative networth and high leverage – Jet Airways continues to have negative networth due to accumulated losses and diminution in the value of its investments in its subsidiary Jet Lite (India) Limited. Furthermore, the liquidity strain has aggravated due to delays by the company in implementation of its liquidity initiatives. As on September 30, 2018, the company had gross debt of Rs. 8,411 crore, as against Rs. 8,403 crore as on March 31, 2018. This is despite the receipt of lease incentives during June 2018 and advances from JPPL in October 2018. The debt levels are, however, expected to increase in the near term because of the ongoing stress on profitability, unless the company is successful in its liquidity initiatives. Overall, till the company starts reporting profits on a sustained basis, the debt levels are expected to continue to remain high.

Large repayments due over FY2019 to FY2021 – The company has repayments of Rs. 1,700 crore due in the next four months (December-March) of FY2019, Rs. 2,444.5 crore in FY2020 and Rs. 2,167.9 crore in FY2021. In the absence of adequate cash accruals, the company requires refinancing its repayments falling due. While the company has been undertaking several liquidity initiatives, timely funds tie-up is a key rating sensitivity.

Weak market conditions in the Middle East, resulting in pressure on yields and thus profitability – The weakness in the international markets is primarily attributed to the Gulf as the economic slowdown has resulted in significant weakening of demand and thus excess capacity, both in passenger and cargo. This has resulted in a decline in fares in the Gulf. The depressed demand in the Gulf has impacted its profitability, although other markets such as Europe continue to be strong.

The Indian airline industry continues to be faced with competitive pressures on industry-wide pricing power despite increased jet fuel prices – The entry of new airlines in the past two-three years and expansion of capacity by the existing ones have resulted in intensely competitive market and the same has prompted all the airlines to resort to variety of fare promotions to improve their PLFs.

Liquidity Position:

The company's liquidity position is stressed, with operating losses, high debt levels and negative networth. Furthermore, the company has large repayments of Rs. 1,700 crore due in the next four months (December-March) of FY2019, Rs. 2,444.5 crore in FY2020 and Rs. 2,167.9 crore in FY2021. The company has already been delaying payments of employee salaries and lease rental payments to the aircraft lessors on account of the liquidity stress. In the absence of adequate cash accruals, the company will be required to refinance its repayments falling due. While it has been undertaking several liquidity initiatives, timely funds tie-up is a key rating sensitivity. Timely implementation of proposed liquidity initiatives by the management to alleviate its liquidity strain would remain critical to its credit profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Jet Airways (India) Limited. As on March 31, 2018, the company had one subsidiary, that is enlisted in Annexure-2.

About the company:

Incorporated in 1992 as a private limited company, Jet Airways commenced operations as an Air Taxi Operator in May 1993, with a fleet of four leased Boeing 737 aircraft. The company was granted scheduled airline status in January 1995. Jet Airways was founded by Mr. Naresh Goyal and is presently 51% owned by him, with a 24% stake held by Etihad Airways post infusion of Rs. 2,057.6 crore in November 2013. As on September 30, 2018, Jet Airways (consolidated) had a fleet of 124 aircraft.

For the six-month period that ended on September 30, 2018, Jet Airways (consolidated) reported a net loss of Rs. 2,587 crore on an operating income (OI) of Rs. 12,748 crore. For the 12-month period that ended on March 31, 2018, Jet Airways (consolidated) reported a net loss of Rs. 724.9 crore on an OI of Rs. 24,455.2 crore, as against a profit after tax (PAT) of Rs. 1,445.3 crore on an OI of Rs. 22,366.6 crore for the 12-month period that ended on March 31, 2017.

Key financial indicators (audited, consolidated)

	FY2017	FY2018
Operating Income (Rs. crore)	22,366.6	24,455.2
PAT (Rs. crore)	1,445.3	-724.9
OPBDIT/ OI (%)	6.9%	0.8%
RoCE (%)	74.7%	12.1%
Total Debt/ TNW (times)	-1.4	-1.2
Total Debt/ OPBDIT (times)	5.9	41.5
Interest Coverage (times)	1.8	0.2

Source: Jet Airways (India) Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Chronology of Rating History for the past 3 years: Rating (FY2019) Date & Rating: December 2018	October 2018	September 2018	June 2018	May 2018	Date & Rating in FY2018: September 2017	Date & Rating in FY2017: March 2017	Date & Rating in FY2016: February 2016	May 2015
1	Non-Convertible Debenture Programme	Long-term	698.9	698.9	[ICRA]C	[ICRA]B (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
2	Term Loans	Long-term	4970.0	3336.9	[ICRA]C	[ICRA]B (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
3	Fund-based Facilities	Long-term	645.0	-	[ICRA]C	[ICRA]B (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
4	Non-fund Based Facilities	Long-term	700.0	-	[ICRA]C	[ICRA]B (Negative)	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
5	Non-fund Based Facilities	Short-term	3,950.0	-	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	[ICRA]A3	[ICRA]A3	[ICRA]A3	[ICRA]A4
8	Non-Convertible Debenture Programme	Long-term	-	-		-	-	-	-	-	Withdrawn	[ICRA]BBB- (Stable)	[ICRA]BB (Stable)
9	Fund-based Facilities	Short-term	-	-		-	-	-	-	-	Withdrawn	[ICRA]A3	[ICRA]A4
10	Fund-based / Non-fund Based Facilities	Long-term /Short term	-	-		-	-	-	-	-	-	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BB (Stable) / [ICRA]A4

*As on June 30, 2018

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE802G08013	Non-convertible Debenture Programme	30-Sep-2015	20.64%	28-Sep-2020	698.9	[ICRA]C
-	Term Loan 1	13-Apr-2014	7.26%	13-Feb-2019	200.0	[ICRA]C
-	Term Loan 2	31-Dec-2015	6.19%	31-Dec-2018	100.0	[ICRA]C
-	Term Loan 3	14-Sep-2016	12.30%	30-Nov-2021	1,090.0	[ICRA]C
-	Term Loan 4	31-Dec-2016	11.75%	28-Feb-2022	300.0	[ICRA]C
-	Term Loan 5	31-Dec-2016	12.50%	28-Feb-2022	100.0	[ICRA]C
-	Term Loan 6	30-Sep-2016	6.56%	30-Sep-2021	750.0	[ICRA]C
-	Term Loan 7	31-Dec-2016	2.50%	28-Feb-2022	280.0	[ICRA]C
-	Term Loan 8	21-Dec-2017	6M Libor + 3.55%	31-Dec-2022	350.0	[ICRA]C
-	Term Loan 9	11-Aug-2017	HDFC CPLR – 6%	31-Aug-2022	400.0	[ICRA]C
-	Term Loan 10	16-Feb-2018	1 year MCLR + 3.50%	30-Sep-2023	200.0	[ICRA]C
-	Term Loan 11	15-Dec-2017	1 year MCLR + 2.40%	30-Sep-2023	200.0	[ICRA]C
-	Term Loan 12	06-Dec-2017	1 year MCLR + 2.90%	30-Sep-2023	100.0	[ICRA]C
-	Term Loan 13	18-Jan-2018	I year MCLR + 1.20%	30-Sep-2023	300.0	[ICRA]C
-	Term Loan 14	Not yet tied-up			600.0	[ICRA]C
-	Cash Credit 1	-	-	-	289.0	[ICRA]C
-	Cash Credit 2	-	-	-	100.0	[ICRA]C
-	Cash Credit 3	-	-	-	111.0	[ICRA]C
-	Cash Credit 4	-	-	-	126.0	[ICRA]C
-	Cash Credit 5	-	-	-	19.0	[ICRA]C
-	Non-fund Based Facility 1	-	-	-	300.0	[ICRA]C
-	Non-fund Based Facility 2	-	-	-	300.0	[ICRA]C
-	Non-fund Based Facility 3	-	-	-	100.0	[ICRA]C
-	Non-fund Based Facility 1	-	-	-	665.0	[ICRA]A4
-	Non-fund Based Facility 2	-	-	-	660.0	[ICRA]A4
-	Non-fund Based Facility 3	-	-	-	150.0	[ICRA]A4
-	Non-fund Based Facility 4	-	-	-	100.0	[ICRA]A4
-	Non-fund Based Facility 5	-	-	-	35.0	[ICRA]A4
-	Non-fund Based Facility 6	-	-	-	20.0	[ICRA]A4
-	Non-fund Based Facility 7	-	-	-	350.0	[ICRA]A4
-	Non-fund Based Facility 8	-	-	-	200.0	[ICRA]A4

-	Non-fund Based Facility 9	-	-	-	20.0	[ICRA]A4
-	Non-fund Based Facility 10	-			100.0	[ICRA]A4
-	Non-fund Based Facility 11	-			400.0	[ICRA]A4
-	Non-fund Based Facility 12	-			300.0	[ICRA]A4
-	Non-fund Based Facility 13	-			250.0	[ICRA]A4
-	Non-fund Based Facility 14	-			200.0	[ICRA]A4
-	Non-fund Based Facility 15	-			300.0	[ICRA]A4
-	Non-fund Based Facility 16	-			200.0	[ICRA]A4

Source: Jet Airways (India) Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JetLite (India) Limited	100.00%	Full Consolidation

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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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