December 29, 2021

Air India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme-1	4000.0	4000.0	[ICRA]AAA(CE) (Stable); Reaffirmed
Non-convertible Debenture Programme-2	1500.0	1500.0	[ICRA]AAA(CE) (Stable); Reaffirmed
Total	**5500.00**	**5500.00**	

Rating Without Explicit Credit Enhancement	[ICRA] D

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The rating reaffirmation for the non-convertible debenture (NCD) programmes of Air India Limited (AIL) continues to factor in the irrevocable and unconditional guarantee from the Government of India (GoI) through the Ministry of Civil Aviation that would cover all obligations that may arise on the rated NCDs. The rating factors the payment mechanism designed to ensure payment on the rated NCDs as per the terms of the transaction.

ICRA notes that the GoI had approved the sale of AIL on October 08, 2021, along with the equity shareholding in its wholly-owned subsidiaries, Air India Express Limited (AIXL- rated [ICRA] A4 on Watch with Developing Implications) and Air India SATS (AISATS), to M/s Talace Pvt. Ltd. (Talace), a wholly-owned subsidiary of Tata Sons Pvt. Ltd. (rated [ICRA] AAA (Stable)/A1+), for an enterprise value consideration of Rs. 18,000 crore.

ICRA notes that AIL vide its communication to the BSE dated November 24, 2021 intimated that the NCDs amounting to Rs. 12,900 crore, including the ones being rated by ICRA (ISIN- INE954K08022 and INE954K08030) would be prepaid by the company and the Debenture Trust Deed (DTD) would be amended for the same, subject to a meeting of board of directors, which was held on November 29, 2021. No further disclosure on this regard has been filed with exchange. AIL is in process of seeking consent from the debenture holders in regard to prepayment of debentures and amendment to the DTD.

The outlook is Stable, given that the guarantor is the GoI.

For the [ICRA]AAA(CE)(Stable) rating

The above rating is based on the strength of the corporate guarantee provided by the GoI for AIL's rated non-convertible debentures (NCD) programme.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument. It has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by the GoI is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AAA(CE)** against the Unsupported Rating of **[ICRA]D.**

Salient covenants of the rated facility

- *The guarantee is unconditional, absolute, irrevocable, continuing one and shall remain in full force and effect until the full and final discharge of the obligations of the company*
- *GoI, as a principal debtor, undertakes to pay principal and interest accrued and payable, on the NCDs as per the transaction documents*
- *Defined payment mechanism (including guarantee invocation mechanism) is part of the terms of the guarantee document.*

Key rating drivers and their description

Credit strengths

Guarantee from GoI – The rating for the NCDs is based on the strength of unconditional, continuing and irrevocable guarantee from the GoI through the Ministry of Civil Aviation. The Trustee may make more than one demand under this Guarantee. The GoI has committed to provide an undertaking that the guarantor's liability shall not be affected by any infirmity or irregularity on the part of AIL to undertake any of its obligations under the NCD programme. Further, the guarantee will remain effective even if AIL is referred to the Board for Industrial and Financial Reconstruction (BIFR), or falls under the purview of Sick Industrial Companies Act, or that of any authority notified under any law with powers in respect of revival or rehabilitation of sick companies.

Presence of payment mechanism – NCD 1 has a scheduled tenure of 15 years, while that of NCD 2 is 20 years. The principal amount is promised to the NCD holders on maturity, while the interest amount is promised annually. If any interest / principal payment on the NCDs is not made by AIL on or before three days prior to the due date, the debenture trustee would notify the GoI that an event of default (EOD) has occurred. If the default continues for 45 calendar days after the due date, the debenture trustee shall invoke the Guarantee by sending a demand notice to the GoI. On receiving the demand notice, the GoI is required to make the payment within seven working days from the day the demand notice is sent by the debenture trustee (defined as Guarantor's Final Payment Date in the transaction documents). The rating assigned by ICRA addresses the timely payment of the dues to the investors by the Guarantor's Final Payment Date (i.e., a default to the Investor shall be defined as non-receipt of payment from the Guarantor by Guarantor's Final Payment Date upon invocation of the Guarantee, as per the terms of the transaction). IDBI Trusteeship Services Limited is the debenture trustee for the Rs. 5,500-crore NCD programme of AIL.

Credit Challenges: Not Applicable

Liquidity position:

GoI (the Guarantor): Superior

The liquidity position of the guarantor, GoI, is superior. The rating for the NCDs is based on the unconditional, irrevocable and continuing guarantee from GoI that would cover the repayment obligations to the NCD holders. ICRA expects debt servicing through the trustee-controlled payment mechanism, such that adequate funds are made available by the GoI to service debt obligations in a timely manner.

Air India Limited: Poor

The company's liquidity position is poor due to significant cash losses incurred on the back of weak operational performance and high borrowing costs. The financial profile is stressed as characterised by high debt levels, along with a negative net worth base.

Rating sensitivities

Positive Factors – Not Applicable

Negative Factors – Negative pressure on the rating could arise in case of failure of relevant stakeholders to adhere to the NCD structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third party explicit support
Parent/Group Support	The rating for the NCDs is based on the unconditional, irrevocable and continuing guarantee from the GoI that would cover all the repayment obligations to the NCD holders.
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

About the company

Air India Limited represents the merged company, which came into existence after the amalgamation of the erstwhile Indian Airlines Limited with the erstwhile Air India Limited on April 01, 2007. The amalgamated company was known as National Aviation Company of India Limited (NACIL). The company was renamed as Air India Limited with effect from November 24, 2010. It is a Government-owned entity with 100% shares held by the President of India and his nominees, through administrative control of the Ministry of Civil Aviation. As on March 31, 2021, AIL had a total fleet of 124 aircraft, of which 69 were owned/on finance lease and 55 were on operating lease.

Key financial indicators (audited)

AIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	27,710.6	10,343.3
PAT (Rs. crore)	(7765.7)	(7017.4)
OPBDIT/OI (%)	11.3%	(3.7) %
PAT/OI (%)	(28.0) %	(67.8) %
Total Outside Liabilities/Tangible Net Worth (times)	(5.4)	(3.7)
Total Debt^/OPBDIT (times)	19.3	(163.9)
Interest Coverage (times)	0.4	(0.1)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financials are as per Ind As; ^Includes Lease Liability; Figures in the above table are adjusted as per ICRA calculation wherever necessary.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 29, 2021	Oct 20, 2021	Dec 31, 2020	Nov 29, 2019	Oct 26, 2018
1	NCD-1	Long-term	4,000.0	4,000.0	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (SO)(Stable)**
2	NCD-2	Long-term	1,500.0	1,500.0	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (CE)(Stable)**	**[ICRA]AAA (SO)(Stable)**

** As on March 31, 2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Very Simple
NCD	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, is available on ICRA’s 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
INE954K08022	NCD1	Sep-2011	9.84%	Sep-2026	4,000.0	[ICRA]AAA(CE) (Stable)
INE954K08030	NCD2	Sep-2011	10.05%	Sep-2031	1,500.0	[ICRA]AAA(CE) (Stable)

Source: *Company*

Annexure-2: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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