

April 07, 2022

Tata SIA Airlines Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/short-term Non-Fund based Limits	2,107.45	1789.35	[ICRA]A (Negative)/ [ICRA]A1; Reaffirmed
Short-term Fund-based interchangeable limits	-	(11.74)	[ICRA]A1; Reaffirmed
Short term Fund-based limits	-	2.10	[ICRA]A1; Reaffirmed
Long-term/short-term Unallocated	560.55	878.65	[ICRA]A (Negative)/ [ICRA]A1; Reaffirmed
Short-term Unallocated	600.00	597.90	[ICRA]A1; Reaffirmed
Total	3,268.00	3,268.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to take into consideration Tata SIA Airline Limited's (Tata SIA, operator of Vistara airline) strong parentage, being a 51:49 joint venture (JV) between Tata Sons Private Limited (rated [ICRA]AAA(Stable)/A1+) and Singapore Airlines Limited (SIA), with both partners supporting the company operationally as well as financially since its inception in 2015. Further, the reaffirmation favourably factors in the expectation of improvement in passenger volumes (both domestic and international), which together with Tata SIA's expanding network and scale, is likely to translate into improved cash flows, starting FY2023.

The passenger traffic volumes improved in a swift manner post the abatement of infections during the second pandemic wave and led to an improved performance of the aviation sector in Q3 FY2022. Even as the industry was impacted by the Omicron wave during December 2021–January 2022, the recovery in demand following the decline in infections has been swift and raises confidence about the efficacy of vaccination and reduced travel averseness among the populace. Vistara, being the one of only two domestic full-service-carriers (FSCs) remains well placed to benefit from a recovery in air travel. This has already stated reflecting in the company's market share, which improved to ~7.8% in 11M FY2022 (up from 5.8% in FY2020, i.e., pre-pandemic levels), healthy load factors (averaged at 77% in Q3 FY2022) and strong yields, which cumulatively led to a 150% YoY increase in its revenues in 9M FY2022. Going forward, aided by factors such as international operations opening up (from March 27, 2022), healthy pent-up demand from leisure and business segments, improving global vaccination coverage and easing international travel restrictions, the company is likely to record higher capacity utilisations.

The long-term commitment of the promoters, as evidenced by the regular equity infusion from both the JV partners, continues to support the company in meeting its cash requirements to a large extent. In FY2022, Tata SIA received equity infusion from the JV partners of approximately Rs. 1,715 crore (PY: Rs. 2,335 crore). This has supported the entity in maintaining sufficient liquidity, helping it absorb the losses in this period. ICRA takes comfort from the exhibited commitment of the promoters to the business, and their strong credit profile, which supports our expectation that the parent companies would continue to support the entity, both operationally and financially, till operations scale up to sustainable levels.

The competitive intensity in the domestic airline industry is expected to increase in the near-term, with entry of new players and sizable fleet addition by incumbent players. While the recovery in passenger traffic to pre-pandemic levels could be faster in FY2023 with opening-up of commercial international operations (and pent-up leisure and corporate demand), industry cash

flows are likely to remain impacted due to the record high ATF prices and limited ability to pass on the cost pressures to passengers as increased fares. Even as the positive trend in yields, as seen in Q3 FY2022, gives hope of the industry maintaining some pricing sanity, sustainability of the same, going forward, remains to be seen. Meanwhile, the slower than anticipated scale-up in operations (due to delay in receipt of aircraft and suspension of international operations for two years) and heightened cost pressures, will likely stretch Tata SIA's journey to profitable operations by a few years. While ICRA expects a modest improvement in the company's financial leverage and coverage indicators as the operations ramp-up, high fuel prices and possible INR depreciation will likely keep the company's credit metrics stretched over FY2023 and will remain a monitorable.

The Negative outlook on the long-term rating reflects ICRA's view that while passenger traffic recovery is expected to pick-up in FY2023, the elevated domestic ATF prices, uncertainty regarding crude prices and increased competition (both domestically and on international routes) will keep the credit metrics of airline players, including Tata SIA, under pressure. However, timely support from the promoter companies is expected to continue to support it in tiding over this phase.

Key rating drivers and their description

Credit strengths

Strong parentage as a JV between Tata Sons and Singapore Airlines Limited ensures financial and business support – Tata SIA benefits from its strong parentage, with one of its parent companies being an established and well-regarded international FSC, and the other a well-entrenched Indian conglomerate. Both the parents have extended strong operational and financial support to the airline (nearly Rs. 9,400 crore since inception), which has enabled it to scale up successfully at a rapid pace during the past seven years. Moreover, the promoter companies remain committed to the airline's ongoing expansion plans, with regular equity infusion approved and planned over the medium-term.

Superior service offering vis-à-vis competitors supports positioning in business traveller and international passenger segment – Following the cessation of Jet Airways' services from April 2019, Tata SIA emerged as one of the only two FSCs from India, the other being Air India (owned now by the Tata Group). Tata SIA's premium offerings and additional passenger services vis-à-vis 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—from 5.8% in FY2020 (pre-pandemic) to 7.8% in 11M FY2022.

Credit challenges

Profitability susceptible to volatilities 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 foreign exchange (forex) as 30-35% of its expenses pertain to fuel costs and other operating expenses (e.g., lease liabilities and maintenance expenses) are denominated in Dollar terms. With the increasing trend in ATF prices (sharp 90% hike in domestic ATF over past 12 months) and depreciating Rupee (over the past few months) the profitability of the pandemic weakened airlines industry has again come under pressure. This may deteriorate further over the near-term, given the heightened uncertainty of crude supply due to the ongoing geopolitical crisis. However, healthy domestic demand, opening-up of international commercial operations and higher proportion of the fuel-efficient A320 NEO aircraft in the fleet are expected to mitigate the impact of these higher costs to some extent for Tata SIA. Given the limited ability of airlines to pass on the same as price increases, the earnings may remain under pressure in the near-to-medium term. However, expansion of overseas operations is expected to increasingly provide natural hedge against the forex risk.

Credit metrics weakened by impact of pandemic; dependence on parent companies for funding support to continue in the medium term – At present, Tata SIA is in an expansionary phase, focussing on expanding its domestic and establishing its international presence, while adding new aircraft to its fleet. To this effect, the airline has an order pipeline of 50 narrow body and six wide body aircraft, pre-delivery payments (PDP) for which would require funding support from the JV partners.

Additionally, since the airline is currently generating losses and will only turn profitable over the medium term, the JV partners would need to extend funding support for meeting working capital requirements and maintaining a liquidity buffer till operations stabilise. Given the pandemic associated stress on the company, its dependence on its parents has increased over recent quarters.

Intense competition and price-sensitive nature of domestic aviation market restricts pricing power; high operating leverage constrain profitability – Although Tata SIA operates as an FSC, at present its ability to command a premium pricing in the domestic market remains restricted, given the cost sensitive nature of the market and the intensely competitive pricing of low-cost carriers. However, this is expected to improve over the medium to long-term as the airline establishes its international operations, where it would command higher yields, as international routes are dominated by FSCs. On the cost front, while Vistara had already been incurring losses from the pre-pandemic period, given its nascent stage of operations, the challenges brought about by the pandemic exacerbated the same, elongating the timeline by when its operations would turn profitable and self-sustaining. Sustainable recovery in demand and scale-up in operations remain critical for pruning losses and turning profitable.

Liquidity position: Adequate

Despite incurring cash losses at present, Tata SIA maintains a comfortable liquidity profile marked by adequate free cash balances (~Rs. 900-950 crore in March 2022), which are likely to remain sufficient for sustaining operations over the near term. The liquidity profile also takes comfort from the likelihood of timely funding support from the promoters, as has been demonstrated in the past.

Rating sensitivities

Positive factors – ICRA could review the ratings if there is a sustained improvement in cost structure and pricing power of the airline, while maintaining healthy fleet utilisation such that it can turn profitable. ICRA would continue to monitor the RASK-CASK spread of the airline, and a demonstrated track record of an improving and positive spread remains critical for self-sustainable operations and reduced dependence on promoters for funding support and, hence, remains imperative for a positive rating action.

Negative factors – Negative pressure on the rating could arise if ICRA’s assessment of the likelihood of support from the parent companies weakens, or the credit profile of the parent companies deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Implicit parent or group support
Parent/Group Support	Parent Company: Tata Sons Private Limited and Singapore International Airlines ICRA expects both the JV partners to continue to financially and operationally support Tata SIA, given its strategic importance. It also shares a common name with both the parents, 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	The rating is based on the company’s standalone financial profile, and factors in support from the JV partners.

About the company

Tata SIA Airlines Limited is a joint venture of Tata Sons Private Limited and Singapore Airlines Limited (SIA), wherein Tata Sons holds 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. The airline, at full capacity, now serves 36 destinations with over 250 daily flights with a fleet of 51 aircraft (December 2021) which comprise a mix of Airbus A320s, Airbus A321, Boeing 787-9 Dreamliner and Boeing 737-800s. In 11M FY2022, Tata SIA had a market share of 7.8% of the total domestic passengers flown. The airline also started its international operations in FY2020. It is currently serving 12 destinations from its hub at New Delhi.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	4,755.0	2,249.3
PAT (Rs. crore)	-1,813.4	-1,611.6
OPBDIT/OI (%)	-4.7%	-27.9%
PAT/ OI (%)	-38.1%	-71.6%
Total Outside Liabilities/Tangible Net Worth (times)	10.8	7.3
Total Debt/OPBDIT (times)	-31.9	-15.1
Interest Coverage (times)	-0.7	-1.3

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

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020			
				Apr 7, 2022	-	Feb 3, 2021 Jul 17, 2020	Mar 16, 2020	Dec 5, 2019	Nov 5, 2019	
1 Fund based	Short-term	-	NA	-	-	-	-	-	-	[ICRA]A1
2 Non-Fund based limits (Standby letter of Credit/ Bank Guarantee)	Long-term/ Short-term	1789.35	NA	[ICRA]A (Negative) / [ICRA]A1	-	[ICRA]A (Negative) / [ICRA] A1	[ICRA]A&/ [ICRA]A1&	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
3 Unallocated Limits	Long-term/ Short-term	878.65	NA	[ICRA]A (Negative) / [ICRA]A1	-	[ICRA]A (Negative) / [ICRA]A1	[ICRA]A&/ [ICRA]A1&	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
4 Unallocated Limits	Short-term	597.90	NA	[ICRA]A1	-	-	-	-	-	-

5	Fund-based interchangeable limits (Overdraft/ Working Capital Demand Loans)	Short-term	(11.74)	NA	[ICRA]A1	-	-	-	-	-
6	Fund-based limits (Overdraft)	Short-term	2.10	NA	[ICRA]A1	-	-	-	-	-

&: On rating watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Fund based limits (Standby letter of Credit/ Bank Guarantee)	Simple
Fund-based interchangeable limits (Overdraft/ Working Capital Demand Loans)	Simple
Fund-based limits (Overdraft)	Simple
Unallocated Limits	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, 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
NA	Long-term/Short-term non-fund based	NA	NA	NA	1789.35	[ICRA]A(Negative)/[ICRA]A1
NA	Short-term Fund-based interchangeable limits (Overdraft/WCDL)	NA	NA	NA	(11.74)	[ICRA]A1
NA	Short term Fund-based limits (Overdraft)	NA	NA	NA	2.10	[ICRA]A1
NA	Long-term/Short-term Unallocated	NA	NA	NA	878.65	[ICRA]A(Negative)/[ICRA]A1
NA	Short-term Unallocated	NA	NA	NA	597.90	[ICRA]A1

Source: Company

Please click [here](#) to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
91 124 4545808
rohan.kanwar@icraindia.com

Ritu Goswami
91 124 4545826
ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.