March 30, 2017

Jet Airways (India) Limited

Instrument*	Amount Rated (Rs. Crore)	Rating Action
Long-term loans	3,574.7 (enhanced from 2,554.7)	[ICRA]BBB- (stable) / assigned/outstanding
Non-convertible debenture	698.9	[ICRA]BBB- (stable) / outstanding
Long-term, fund based facilities	645.0	[ICRA]BBB- (stable) / outstanding
Long-term, non-fund based	600.0	[ICRA]BBB- (stable) / outstanding
Short-term, non-fund based	3,950.0	[ICRA]A3 / outstanding

* Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned an [ICRA]BBB- (pronounced ICRA triple B minus) rating to the Rs. 1,020.0 crore[1] (enhanced to Rs. 3,574.7 crore from Rs. 2,554.7 crore), long-term loans of Jet Airways (India) Limited (Jet Airways)[2]. ICRA also has an [ICRA]BBB- (stable) rating outstanding on the Rs. 698.9 crore, non-convertible debenture programme; the Rs. 645.0 crore, long-term, fund based bank facilities; and the Rs. 600.0 crore, long-term, non-fund based bank facilities of the company. The outlook on the long-term rating is stable. ICRA also has an [ICRA]A3 (pronounced ICRA A three) rating outstanding on the Rs. 3,950.0 crore, short-term, non-fund based bank facilities of the company.

Rationale

The rating takes into account the improving liquidity and credit profile of the company, as characterised by reducing debt levels on the back of ongoing accruals. Jet Airways witnessed significant improvement in operating performance in FY2016, partly on account of reduced jet fuel prices as well as the support from its strategic partner–Etihad Airways PJSC. While the jet fuel prices started increasing from March 2016 onwards, impacting the cost per available seat kilometer (CASK) of airlines, they have not been able to adequately pass on the same due to continued competitive pressures on industry-wide pricing power. Nonetheless, Jet Airways has reported an operating margin of 7.7% in 9M FY2017 (11.7% in FY2016), on the back of the strategic initiatives being undertaken together with its strategic partner in reshaping its business so as to enable it to return to sustainable profitability and improve cash flows. This strategic alliance between the two airlines has benefitted Jet Airways across all 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. Furthermore, Jet Airways has been benefitting from the profit being booked towards the sale of Jet Privilege Frequent Flyer programme (JPFFP) to Jet Privilege Private Limited (JPPL) entered into in FY2015.

ICRA notes that addition of new players as well as capacity enhancements by the existing players coupled with Jet Airways' increasing focus on international routes has resulted in moderation in Jet Airways' domestic market share over the past four years. Furthermore, the overall credit profile of the Company continues to remain stretched, characterised by negative networth and high leverage, partly mitigated by the several liquidity initiatives undertaken by the Company, and other ongoing initiatives with banks to raise funds. Timely funds tie-up is a key rating sensitivity.

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[1] 100 Lakh = 1 Crore = 10 Million

[2] For complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA Rating Publications

ICRA notes that the upturn in the jet fuel prices has eradicated the pricing cushion available with the airlines and therefore sustainable improvement in the Company's performance hinges on recovery in the underlying demand. 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$, the Company is exposed to foreign exchange risk. Debt funded office space purchase (~Rs. 400 crore) at Bandra-Kurla Complex (BKC) under its project with Godrej Buildcon Private Limited is also expected to result in an increase in borrowings.

Continued support from Etihad Airways is fundamental towards turning Jet Airways around and further improving its liquidity profile.

Key Rating Drivers

Credit Strengths

- Strategic initiatives planned by Jet Airways together with Etihad in reshaping its business has helped improvement in profitability and cash flows
- Continued reduction in debt levels with ongoing accrual to reserves
- Gains from the sale of JPFFP to JPPL support cash flows and liquidity
- Of the 114 aircraft operated by Jet Airways (consolidated), 15 are owned, providing opportunities for monetisation (sale and lease back) and thus debt reduction

Credit Weakness

- Credit profile of the company continues to remain stretched, characterised by negative networth and high leverage
- Moderation in domestic market share of Jet Airways over the last four years
- The Indian airline industry continues to be faced with competitive pressures on industry-wide pricing power despite increasing jet fuel prices
- Debt-funded space purchase (~Rs. 400 crore) at BKC under its project with Godrej Buildcon Private Limited to result in an increase in borrowings

Description of key rating drivers highlighted above:

Post its alliance with Etihad, Jet Airways has enhanced its international connectivity with addition of new destinations and additional flights to various countries, especially in the Gulf Region. During the current year, the Company has undertaken sale of three aircraft, and sale and lease back for another six aircraft, resulting in a net gain of ~Rs. 133 crore. With these, though Jet Airways' fleet size has declined in the current year, the company has received back six aircraft which were sub-leased to Etihad, and the same have been deployed towards its own fleet. Furthermore, there has been an improvement in the utilisation of the aircraft (to 13.14 hours a day as compared to ~12 hours earlier). The above combined have resulted in a YoY increase of 6.3% in the available seat kilometers (ASKMs) for Jet Airways during 9M FY2017.

With the Company reporting net profits since FY2016 and expectations of continued net profits going forward, the funding requirement is expected to reduce, but for the ~Rs. 400 crore payment towards space purchase under its project at BKC. The Company also has 90 aircraft deliveries between FY2019 and FY2025. While the management has indicated entering into pre-delivery sale and lease back for these aircraft, the overall debt requirement will be highly contingent on the Company's ability to achieve the same. The Company also owns 15 of its 114 aircraft (as on December 31, 2016), providing opportunities for monetisation (sale and lease back) and thus debt reduction.

Analytical Approach: -

Links to applicable Criteria

Corporate Credit Ratings - A Note on Methodology

About the Company

Incorporated in 1992 as a private limited company, Jet Airways (India) Limited 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.

Jet Airways currently provides scheduled services to around 66 destinations, including India and overseas. As on December 31, 2016, Jet Airways has a fleet of 114 aircraft.

Recent Results

For the nine months ended December 31, 2016 (unaudited), Jet Airways reported a profit after tax (PAT) of Rs. 367.5 crore on an operating income (OI) of Rs. 16,652.9 crore.

For the 12-months ended March 31, 2016, Jet Airways reported a PAT of Rs. 1,201.9 crore on an OI of Rs. 22,274.3 crore as against a net loss of Rs. 2,101.4 crore on an OI of Rs. 21,055.6 crore for the 12-months ended March 31, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016		Month- year & Rating in FY2015			Month- year & Rating in FY2014
				March 2017	February 2016	November 2015	November 2014	September 2014	August 2014	August 2013
1	Non-Convertible Debenture programme	Long-term	698.9	[ICRA]BBB- (stable)	[ICRA]BBB- (stable)	[ICRA]BB (stable)	-	-	-	-
2	Term loans	Long-term	3,574.7	[ICRA]BBB- (stable)	[ICRA]BBB- (stable)	[ICRA]BB (stable)	[ICRA]BB (stable)	[ICRA]C	[ICRA]D	[ICRA]D and simultaneously reassigned to [ICRA]BB (stable)
3	Fund based facilities	Long-term	645.0	[ICRA]BBB- (stable)	[ICRA]BBB- (stable)	[ICRA]BB (stable)	[ICRA]BB (stable)	[ICRA]C	[ICRA]D	[ICRA]D and simultaneously reassigned to [ICRA]BB (stable)
4	Non-fund based facilities	Long-term	600.0	[ICRA]BBB- (stable)	-	-	-	-	-	-
5	Non-fund based facilities	Short-term	3,950.0	[ICRA]A3	[ICRA]A3	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]D	[ICRA]D and simultaneously reassigned to [ICRA]A4

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NCD	30-Sep-2015	20.64%	28-Sep-2020	698.9	[ICRA]BBB- (stable)
Term Loan 1	Jun-2007	3.24%	May-2017	214.4	[ICRA]BBB- (stable)
Term Loan 2	29-Sep-2014	6.06%	30-Sep-2017	540.3	[ICRA]BBB- (stable)
Term Loan 3	13-Apr-2014	7.26%	13-Feb-2019	200.0	[ICRA]BBB- (stable)
Term Loan 4	31-Dec-2015	6.19%	31-Dec-2018	100.0	[ICRA]BBB- (stable)
Term Loan 5	14-Sep-2016	12.30%	30-Nov-2021	1090.0	[ICRA]BBB- (stable)
Term Loan 6	31-Dec-2016	11.75%	28-Feb-2022	300.0	[ICRA]BBB- (stable)
Term Loan 7	31-Dec-2016	12.50%	28-Feb-2022	100.0	[ICRA]BBB- (stable)
Term Loan 8				750.0	[ICRA]BBB- (stable)
Term Loan 9				280.0	[ICRA]BBB- (stable)
Cash Credit 1	-	-	-	289.0	[ICRA]BBB- (stable)
Cash Credit 2	-	-	-	100.0	[ICRA]BBB- (stable)
Cash Credit 3	-	-	-	111.0	[ICRA]BBB- (stable)
Cash Credit 4	-	-	-	126.0	[ICRA]BBB- (stable)
Cash Credit 5	-	-	-	19.0	[ICRA]BBB- (stable)
Non-fund based 1	-	-	-	300.0	[ICRA]BBB- (stable)
Non-fund based 2	-	-	-	300.0	[ICRA]BBB- (stable)
Non-fund based 1	-	-	-	665.0	[ICRA]A3
Non-fund based 2	-	-	-	660.0	[ICRA]A3
Non-fund based 3	-	-	-	150.0	[ICRA]A3
Non-fund based 4	-	-	-	100.0	[ICRA]A3
Non-fund based 5	-	-	-	35.0	[ICRA]A3
Non-fund based 6	-	-	-	20.0	[ICRA]A3
Non-fund based 7	-	-	-	350.0	[ICRA]A3
Non-fund based 8	-	-	-	200.0	[ICRA]A3
Non-fund based 9	-	-	-	20.0	[ICRA]A3
Non-fund based 10	-	-	-	100.0	[ICRA]A3
Non-fund based 11	-	-	-	400.0	[ICRA]A3
Non-fund	-	-	-	300.0	[ICRA]A3

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
based 12					
Non-fund based 13	-	-	-	250.0	[ICRA]A3
Non-fund based 14	-	-	-	200.0	[ICRA]A3
Non-fund based 15	-	-	-	300.0	[ICRA]A3
Non-fund based 16	-	-	-	200.0	[ICRA]A3

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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.

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