

May 09, 2017

Air India Charters Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Short-term loans	605.0	[ICRA]A3 / assigned
Short-term, fund-based facilities	395.0	[ICRA]A3 / assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned an [ICRA]A3 (pronounced ICRA A three)¹ rating to the Rs. 605.0 crore², short-term loans and the Rs. 395.0 crore, short-term, fund-based bank facilities of Air India Charters Limited (AICL).

Rationale

The assigned rating takes into account the healthy operating margins of the company, supported by the presence of an owned fleet, a young fleet, resulting in lower maintenance charges, and favourable revenue sharing memorandum of undertaking (MoU) with its parent, Air India Limited. The rating also factors in the reducing debt levels for AICL on the back of ongoing accruals. AICL witnessed an improvement in operating performance in FY2016, partly on account of reduced jet fuel prices as well as amendments in the MoU with Air India, capping its revenue share at Rs. 350 crore. Any further amendments to the MoU, resulting in higher outflow to Air India is a key rating monitorable. While 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, AICL has reported an operating margin of 33.8% in H1 FY2017 (34.3% in FY2016), on the back of its ability to maintain yields and continued operational synergies along with joint procurement of fuel and other services with Air India.

ICRA notes that the overall credit profile of AICL continues to remain stretched, characterised by negative net-worth and sizeable payables to Air India. However, ICRA takes comfort from the management indication of converting Rs. 200 crore of the payables to equity in FY2018. The company has also faced liquidity pressures in the past, resulting in delays in servicing of debt repayment; although the same has been timely since June 2016. Furthermore, with induction of six leased aircraft into the fleet during FY2017, the operating margins are expected to moderate. Continued reduction in the debt levels is a key rating sensitivity. ICRA notes that of the 23 aircrafts operated by AICL as on December 31, 2016, 17 are owned, providing opportunities for monetisation (sale and lease back) and thus debt reduction.

ICRA also notes that the upturn in 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 Dollar terms, the company is exposed to foreign exchange risks, mitigated to a large extent by the earnings in foreign currency.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- Healthy operating margins supported by presence of owned fleet, young fleet resulting in lower maintenance charges, and favourable revenue sharing MoU with Air India.
- Continued reduction in debt levels with ongoing accrual to reserves.
- Of the 23 aircrafts operated by AICL as on December 31, 2016, 17 are owned, providing opportunities for monetisation (sale and lease back) and thus debt reduction.
- Support from Government of India through guarantees on long-term debt.

Credit weaknesses

- Credit profile continues to remain stretched, characterised by negative net-worth.
- History of delays in servicing the loan installment, which was due on March 29, 2016, and subsequently repaid by June 30, 2016.
- Margins expected to moderate, going forward, with induction of leased aircraft into the fleet.
- The Indian airline industry continues to be faced with considerable pressures on yield, despite increasing fuel prices.

Description of key rating drivers:

AICL, a wholly-owned subsidiary of Air India, is a low cost carrier operating on international routes, primarily in India's neighbouring countries. Thus, it has a very marginal presence in the domestic aviation industry, with no exclusive flights for domestic routes. Since several costs like infrastructure, employee, stationery, among others, are shared with and borne by Air India, an MoU was taken up between Air India and AICL in FY2006 for revenue sharing. As per the MoU, AICL was supposed to share 25% of its total revenues with Air India. The MoU has been amended twice since then, with the revised revenue sharing between Air India and AICL fixed at Rs. 350 crore or 12.5% of operating revenue, whichever is lower, with effect from April 01, 2015. Any further amendments to the MoU, resulting in higher outflow to Air India, is a key rating monitorable.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating – A Note on Methodology](#)

About the company:

Air India Charters Limited is a wholly-owned subsidiary of Air India Limited, incorporated in 2005 as a low cost carrier. It operates under the brand, 'Air India Express'. As on December 31, 2016, AICL had a fleet of 23 B737-800 aircrafts, of which 17 were owned. Currently Air India Express operates 541 one-way flights per week with the aircraft utilisation of approximately 12.5 hours per day per aircraft.

For the six months ended September 30, 2016 (unaudited), AICL reported a profit after tax (PAT) of Rs. 415.0 crore on an operating income (OI) of Rs. 1,897.0 crore.

For the 12-month period ended March 31, 2016, AICL reported a PAT of Rs. 376.0 crore on an OI of Rs. 2,916.4 crore, as against a net loss of Rs. 64.6 crore on an OI of Rs. 2,621.9 crore for the 12-month period 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:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					May 2017	-	-	-
1	Term Loans	Short-term	605.0	605.0	[ICRA]A3	-	-	-
2	Overdraft Facility	Short-term	395.0	395.0	[ICRA]A3			

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

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating
Working capital demand loan 1	December 14, 2016	12.05%	12 months	405.0	[ICRA]A3
Working capital demand loan 2	June 03, 2016	12.55%	12 months	200.0	[ICRA]A3
Overdraft facility	March 09, 2017	12.00%	12 months	395.0	[ICRA]A3

Source: Air India Charters Limited

Contact Details

Analyst Contacts

Subrata Ray

+22 6114 3408

subrata@icraindia.com

Kinjal Shah

+22 6114 3442

kinjal.shah@icraindia.com

Relationship Contact

L. Shivakumar

+22 6114 3406

shivakumar@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

© Copyright, 2017, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500