

## CAE Simulation Training Private Limited

October 25, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	USD 16.32 million (Rs. 104.31 crore)	USD 16.32 million (Rs. 104.31 crore)	[ICRA]A (Stable); Reaffirmed
<b>Total</b>	<b>USD 16.32 million (Rs. 104.31 crore)</b>	<b>USD 16.32 million (Rs. 104.31 crore)</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the USD 16.32 million or Rs. 104.31-crore<sup>1</sup> term loan facilities of CAE Simulation Training Private Limited (CSTPL or the company)<sup>2</sup>. The outlook on the long-term rating is Stable.

### Rationale

The rating takes into account strong and resourceful promoters of CSTPL - CAE Inc. (CAE) and InterGlobe Enterprises Limited (IGE)- who have long and successful track record in flight simulation and aviation businesses, respectively. CAE is a leader in global flight simulation market with 70 years of experience in the industry and IGE is the promoter and one of the largest shareholders in InterGlobe Aviation Limited, the owner of IndiGo Airlines, which has 42% market share in domestic civil aviation business in India. Both promoters have significant financial flexibility and have demonstrated support to CSTPL by way of regular equity infusions. The rating reaffirmation also takes into account the healthy debt protection indicators of the company- interest coverage ratio stood at 12.15 times, Net cash accruals/Net debt stood at 156% and Net debt/OPBITDA at 0.51 times in FY2018.

The rating continues to factor in the strong market position of CSTPL in the Indian flight simulation market for Airbus A320 family of planes- there are ten third-party simulators (including those for captive use by some airlines) in India for Airbus A320 family of planes, out of which five are with CSTPL (Source: Directorate General of Civil Aviation or DGCA). Limited availability of simulators in the country coupled with regulatory requirement for all pilots to undergo simulation training significantly improves the company's ability to secure business. ICRA expects the simulator utilization to remain healthy in line with past trends (~100% in FY2018), which is likely to result in comfortable debt-protection indicators going forward as well.

However, the rating, is constrained by the company's modest scale of operations (turnover of Rs. 91 crore in FY2018), its high dependence on InterGlobe Aviation Limited (IndiGo) {rated [ICRA]A+ Negative/A1+}, which accounts for ~90% of CSTPL's revenues and susceptibility of revenues to changes in regulatory requirement for pilots to undergo mandatory training on simulators. The rating is also constrained by the significant fixed costs in the operating structure (including lease payments for the first two simulators) and the capital-intensive nature of the business due to high cost of simulators. The large lease/debt payments for the simulators may severely impact the cash flows if asset utilization falls.

<sup>1</sup> 100 lakh = 1 crore = 10 million

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

The rating is also constrained by the inherently high operating leverage of the aviation industry and the cyclical nature of revenue generation owing to economic or seasonal factors. The industry is currently facing pressure on cash flows on account of intense competition and high crude oil prices. Thus, any adverse fleet rationalization by airlines may impact the revenues of the company.

## Outlook: Stable

CSTPL's credit risk profile continues to be supported by the support from its strong and resourceful promoters and from its established market position in flight simulation business in India. ICRA believes that the company will continue to derive benefit from substantial fleet expansion plans of airlines and the capacity constraints in flight simulator training in India. The outlook may be revised to Positive or rating may be upgraded in case of substantial improvement in scale and while maintaining the current profitability, working capital intensity and leverage. The outlook may be revised to 'Negative' or rating may be downgraded if simulator utilization and cash accrual is lower than expected, larger than expected capital expenditure, or elongation of working capital cycle, which weakens the credit risk profile. Further, the impact of the current downcycle in aviation industry on the financial profile of Indigo (CSTPL's key customer) and CSTPL's promoters will remain a key rating monitorable.

## Key rating drivers

### Credit strengths

**Strong promoter group** - CSTPL is a joint venture (JV) between InterGlobe Enterprises and CAE, engaged in modelling, simulation and training for civil aviation. CAE delivers training for civil aviation in over 35 countries, while IndiGo is a leading player in the Indian aviation sector with 42% of the market share as of August 2018 (Source: [DGCA](#)). Both promoters have significant financial flexibility and have demonstrated support to CSTPL by way of regular equity infusions

**High degree of recurring business and limited number of flight simulation training providers in India** - Pilots have to undergo 200 hours of simulator training in order to obtain a commercial pilot license. Further, pilots with active licenses have to undergo 20 hours of simulator training per year to maintain the validity of the license according to the regulatory norms issued by the Directorate General of Civil Aviation, Government of India. This ensures a high degree of recurring business- aggregate simulator utilisation has been more than 100% in FY2018 and H1FY2019. Additionally, CSTPL operates five Airbus A320 simulators out of the ten simulators that are approved in India, giving it half of the market share. Limited number of flight simulators in India enables healthy business flow to all the domestic players

**Healthy debt protection indicators** - Debt coverage indicators of the company have remained healthy- interest coverage ratio stood at 12.15 times, Net cash accruals/Net debt stood at 156% and Net debt/OPBITDA at 0.51 times in FY2018; ICRA expects the utilization to remain healthy going forward, which is likely to result in comfortable debt-protection indicators going forward as well

**MoU with IndiGo Airlines, which commands 42% market share in civil aviation in India**- CSTPL has a 15-year MoU with India's largest Airline- IndiGo (having 42% market share), which also has the largest fleet of Airbus A320 aircraft in India.

### Credit challenges

**High dependence on IndiGo**- IndiGo accounts for ~90% of the revenues, reflecting high client concentration. Though the MoU with IndiGo {rated [ICRA]A+ (negative)/A1+} is for 15 years, the payment from the airlines is on actual usage basis. Nevertheless, the simulator usage by Indigo has consistently being strong, leading to healthy utilisation

**Exposure to cyclical aviation business-** Aviation business is characterized by high operating leverage and cyclical nature of revenue generation owing to economic or seasonal factors. The industry is currently facing pressure on cash flows on account of intense competition and high crude oil prices. Any adverse fleet rationalization by airlines may impact CSTPL's revenues

**Exposure to regulatory changes** - Revenues are mainly driven by the regulatory requirement to provide simulation training to all pilots. As such, any adverse change in regulation may impact cash flows

**Capital intensive business** - Simulation training is a capital-intensive business due to high prices of simulators. Each simulator costs USD 10-12 million (Rs. 64-77 crore)

**Scale of Operations** – The scale of operations of the company is currently modest- it reported turnover of Rs. 91 crore in FY2018

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

## About the company

CAE Simulation Training Private Limited (CSTPL) is a joint venture between InterGlobe Enterprises and CAE, engaged in modelling, simulation and training for civil aviation and defence. CSTPL provides facilities in the form of pilot training, pilot selection tools and renewal of license for existing pilot. CSTPL has five Level "D" Full Flight Simulators approved by DGCA for pilot training, with the latest one becoming operational in April 2017. Its main customers are Indigo, Go Air, Air Asia, Airbus and Vistara. The facility is located in Greater Noida has been operational since July 2013.

Currently, five A320 full flight simulators are operational at the company's facility in Greater Noida. Initially the company started its operations by setting up two leased simulators in July 2013. After the first two simulators, all are being purchased by the company. Company added its third simulator in May 2015, fourth simulator in September 2016, and fifth simulator in April 2017.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	71.40	91.41
PAT (Rs. crore)	20.35	18.58
OPBDIT/OI (%)	57.9%	61.8%
RoCE (%)	28.1%	17.1%
Total Debt/TNW (times)	0.55	0.63
Total Debt/OPBDIT (times)	1.35	1.53
Interest coverage (times)	13.64	12.15

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017
				Oct 2018	Sep 2017	Dec 2016	
1 Term Loan	Long Term	USD 16.32 million (Rs. 104.31 crore)	USD 16.32 million (Rs. 104.31 crore)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

**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](http://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	Term Loan	May - 2015	5.5%	May - 2022	USD 16.32 million (Rs. 104.31 crore)	[ICRA]A (Stable)

Source: CAE Simulation Training Private Limited

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