

Saroja Aviation Limited

March 19, 2019

Summary of rating action

Instrument*	Current Rated Amount (US \$ million)	Rating Action
Long-term loan	29.0	[ICRA]B- (Stable); assigned
Total	29.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into account the high counter party credit risk for Saroja Aviation Limited (SAL), which has leased its aircraft, Boeing 737-800, MSN 37960, to Jet Airways (India) Limited (Jet Airways, rated [ICRA]D / [ICRA]D). Owing to the weak credit profile of the lessee, Jet Airways, which is facing severe liquidity issues, SAL has not received the lease rentals since November 2018. Furthermore, SAL does not have any other source of revenue, resulting in significant dependence on Jet Airways for its business operations. Timely inflow of lease rentals thus remains critical given the short time gap (six-seven days) between the receipt of lease rentals and scheduled repayment obligations.

The assigned rating also factors in the diversified business profile of SAL's promoter Group (Tulshyan Group) which has infused unsecured loans of ~US \$ 1.3 million since November 2018 in SAL, thereby enabling the latter to meet its scheduled debt repayment obligations (term loan installment and interest payments) on time. ICRA expects the promoter Group to continue to provide financial support to SAL until it starts receiving the lease rentals from Jet Airways on time or leases the aircraft to another airline. This is a key rating sensitivity. Improvement in the credit profile of the lessee (Jet Airways), thereby facilitating timely inflow of lease rentals is critical for improvement in the credit profile of the company.

Outlook: Stable

ICRA expects SAL to benefit from the diversified business profile of its promoters with experience in leasing business. The outlook may be revised to Positive in case of an improvement in the credit profile of the lessee, leading to timely receipt of lease rentals for SAL. The rating may be downgraded in case of any delay in funds infusion by the promoter Group in SAL, resulting in delays in servicing scheduled repayment obligations.

Key rating drivers

Credit strengths

Diversified business profile of the promoter Group - Mr. Rakesh Shankarlal Tulshyan is the ultimate beneficiary of the company. He is the promoter of the Tulshyan Group having presence in diversified businesses such as ship breaking, ship owning / leasing and real estate.

Financial support from the promoters, enabling timely servicing of debt obligations – Mr. Rakesh Shankarlal Tulshyan is the ultimate beneficiary of the company. He is the promoter of the Tulshyan Group, having presence in diversified businesses such as ship breaking, ship owning / leasing and real estate. Due to delays in receipt of lease rentals from the lessee, the promoter Group has infused unsecured loans of ~US \$ 1.3 million since November 2018 in SAL, thereby enabling the latter to meet its scheduled debt repayment obligations (term loan installment and interest payments) on time.

Credit challenges

Weak credit profile of the lessee – SAL has leased its aircraft, Boeing 737-800, MSN 37960, to Jet Airways (rated [ICRA]D / [ICRA]D). Owing to the weak credit profile of Jet Airways, which has been facing severe liquidity issues, SAL has not received the lease rentals from Jet Airways since November 2018.

Short time gap between receipt of lease rentals and scheduled repayment obligations – Apart from lease rental income, SAL does not have any other business, resulting in its significant dependence on Jet Airways for its operations. Thus, timely inflow of lease rental remains critical given the short time gap (six-seven days) between the receipt of lease rentals and scheduled repayment obligations.

Expiry of aircraft lease agreement in October 2021, exposing SAL to redeployment / renewal risk – The lease agreement with Jet Airways will expire in October 2021. Any delays in renewal of the lease agreement with Jet Airways or redeployment of its aircraft with some other airline will impact the financial profile of SAL.

Liquidity position

The company has a term loan of US \$ 29.0 million outstanding as on January 31, 2019. The non-receipt of lease rentals from Jet Airways since November 2018 has resulted in stretched liquidity for SAL. However, the promoters have infused US \$ 1.3 million in the last few months to enable the company to service its scheduled debt obligations on time. In the current scenario of weak credit profile of the lessee, SAL's servicing of debt obligations is critically dependent on the timely funds infusion by the promoter Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent / Group Support	Financial support from the promoters (Tulshyan Group)
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in March 2017, SAL is engaged in the business of aircraft leasing. As on date, the company owns one aircraft, Boeing 737-800, MSN 37960, which has been leased to Jet Airways till October 2021. The company is managed by a Board of Directors and does not have any employees. Administrative activities such as maintenance of books and records are primarily outsourced to Canyon Corporate and Trust Solutions Limited. BOC Aviation (Ireland) Limited act as the servicer and provides operational and technical support services to the Company. Ratna Saroj Inc. holds 100% stake in the company, with Mr. Rakesh Shankarlal Tulshyan as the ultimate beneficiary.

Key financial indicators (audited)

US \$ million	March 27, 2017 to August 31, 2018
Operating Income (US \$ million)	2.3
PAT (US \$ million)	2.0
OPBDIT/ OI	94.7%
RoCE	-
Total Debt/ TNW(times)	2.9
Total Debt/ OPBDIT (times)	18.7
Interest Coverage (times)	1.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress - Capital Advances)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
		Amount Rated (US \$ Million)	Amount Outstanding (US \$ Million)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Term loan	Long-term	29.0	29.0	March 2019 [ICRA]B- (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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (US \$ million)	Current Rating and Outlook
NA	Term Loan	November 2017	3 month LIBOR+375 bps	October 2027	29.0	[ICRA]B- (Stable)

Source: Saroja Aviation Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah

+91 22 6114 3442
kinjal.shah@icraindia.com

Rachit Mehta

+91 22 6114 3423
rachit.mehta@icraindia.com

Nandan Shah

+91 22 6169 3353
nandan.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 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