

Ratings



Rating Rationale

March 24, 2020 | Mumbai

Air India Limited

Rating on Rs.700 crore NCD downgraded to 'CRISIL BB+(CE)'; continues on 'Watch Negative'

Rating Action

Rs.5500 Crore Non Convertible Debentures	CRISIL AAA(CE)/Stable (Reaffirmed)
Rs. 7400 Crore Non Convertible Debentures	CRISIL AAA(CE)/Stable (Reaffirmed)
Rs. 700 Crore Non Convertible Debentures	CRISIL BB+(CE) (Downgraded from 'CRISIL AAA(CE)'; Continues on 'Rating Watch with Negative Implications')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has downgraded its rating on the non-convertible debenture (NCD) facility of Air India Limited (AIL; formerly, National Aviation Company of India Ltd [NACIL]) amounting to Rs 700 crore to 'CRISIL BB+(CE)' from 'CRISIL AAA(CE)'; while the rating on the facility remain on 'Rating Watch with Negative Implications'. The ratings on the remaining NCDs of AIL have been reaffirmed at 'CRISIL AAA(CE)/Stable'.

The NCD worth Rs 700 crore is due to be repaid on March 26, 2020. IDBI Trusteeship Services Ltd (IDBI Trusteeship, the trustee for the said instrument) confirmed that it had invoked the Government of India (GoI) guarantee on February 06, 2020 (the invocation date), in line with the trustee-monitored payment mechanism and the interest as well as the principal were not funded in the designated account as on March 23, 2020.

AIL's management has informed CRISIL that they have secured GoI guarantee to facilitate the refinancing of the entire principal amount of Rs.700 crore to be repaid against the outstanding NCD, and lender for the same has also been arranged. Besides, the management is also making

arrangements for AIL to pay the interest related to the NCD. However, given the prevailing market environment due to the outbreak of Coronavirus, there could be potential procedural challenges in timely arrangement of funds given less than 3 days left to fund the large principal repayment along with interest obligation. CRISIL will continue to liaise with AIL's management and IDBI Trusteeship to monitor the situation, and could take further rating action in the event of further delays in receipt of funds in the designated account.

CRISIL will remove the rating on the Rs.700 crore NCD from 'watch' once the designated account is funded for the upcoming interest and principal repayments.

The ratings continue to reflect the strength of the credit enhancement provided by comprehensive, unconditional, and irrevocable guarantees from the GoI through the Ministry of Civil Aviation, and the trustee-administered payment mechanisms, for AIL's CRISIL rated NCDs.

CRISIL expects that GoI's guarantees for all the aforementioned NCD programmes of AIL, together with the structured payment mechanism, will ensure that all repayment obligations of the company are met in a timely manner. GoI's guarantees for all the CRISIL-rated NCD programmes are expected to remain unaffected by any infirmity or irregularity on the part of AIL to meet any of its obligations under the NCD programme. The guarantees will remain unaffected even if AIL is referred to the Board for Industrial and Financial Reconstruction, or comes under the purview of the Sick Industrial Companies Act, or any other authority notified under any law with powers in respect of revival or rehabilitation of sick companies or any dissolution, insolvency, liquidation, or winding up proceedings initiated by or against the issuer.

For the rated NCD worth Rs 7,400 crore, GoI's guarantee does not cover the default or additional interest of 2% per annum over the coupon rate payable to the debenture holders, in case of delays in debt servicing, if any, beyond the specified due dates.

Analytical Approach

For arriving at the ratings, CRISIL has applied its criteria for notching up standalone ratings of entities based on government support.

Key Rating Drivers & Detailed Description

* Unconditional and irrevocable guarantees from GoI covering the entire rated amount: The rating is based on the strength of the credit enhancement facility provided by comprehensive, unconditional, and irrevocable guarantees for the entire rated amount from GoI through the Ministry of Civil Aviation. Furthermore, the rating is supported by GoI's undertaking that its guarantees will remain unaffected by any infirmity or irregularity on the part of AIL to undertake any of its obligations under the NCD programme.

* Trustee-administered payment structure, designed to ensure full and timely payment to investors: A trustee-monitored payment mechanism is in place to ensure the timely payment of the interest and principal obligations on the NCD programmes. The trustee is to ensure timely servicing of AIL's obligations by GoI even if AIL does not have sufficient funds to do so. IDBI Trusteeship is the trustee to the Rs 5,500 crore and the Rs 700 crore NCD programmes. For the Rs 7,400 crore NCD programme, the trustee is SBICAP Trustee Company Ltd.

Liquidity: Adequate (for GoI supported NCDs)

AIL's standalone liquidity position is sub-par, due to continuing losses from its airline business. Albeit, the GoI has been providing constant support through equity infusions and by providing guarantees for borrowings.

The rated NCDs derive comfort from the liquidity based on the guarantee structure (unconditional and irrevocable guarantee from the GoI through the Ministry of Civil Aviation) which ensures timely repayment of debt.

Outlook: Stable

The rating outlook on AIL's NCDs of Rs 7,400 crore and Rs 5,500 crore reflects CRISIL's outlook on the credit quality of GoI, the guarantor to the rated debt.

Rating Sensitivity factors

Upward factors

* Timely repayment of principal and interest for the Rs. 700 crore NCD.

Downward factors

* Non adherence to the terms of transaction structure/payment mechanism

* Further possible delays in receipt of funds in the designated account, to meet upcoming principal and interest payments

* Any change in support philosophy of GoI

Adequacy of credit enhancement structure

GoI has provided unconditional and irrevocable guarantees covering the entire rated amount through the Ministry of Civil Aviation. Furthermore, the rating is supported by GoI's undertaking that its guarantees will remain unaffected by any infirmity or irregularity on the part of AIL to undertake any of its obligations under the NCD programme. This along with the trustee-monitored payment mechanism ensures timely payment of the interest and principal obligations on the NCD programmes.

Unsupported ratings: CRISIL D

CRISIL has introduced 'CE' suffix for instruments having explicit Credit Enhancement feature in compliance with SEBI's circular dated June 13, 2019.

Key drivers for unsupported ratings

The unsupported rating reflects instances of delays by AIL in meeting its debt obligations, as highlighted in its annual report for fiscal 2019. These delays are attributed to stretched liquidity position of AIL. The financial risk profile of the company continues to remain weak due to accumulated losses, high debt levels, and negative net worth and cash accruals.

About the Company

AIL is wholly owned by GoI, and is India's national carrier, providing domestic and international air transport services. The company has an operating fleet of 121 aircraft, and an extensive network covering 56 Indian cities and 42 international destinations. AIL also has five wholly owned subsidiaries which provide passenger transport, cargo transport, ground-handling services, aircraft maintenance repair and overhaul services, and hospitality and catering services.

AIL was incorporated as NACIL on March 30, 2007, to merge the operations of the erstwhile Air India and Indian Airlines. NACIL was renamed as AIL on October 26, 2010.

GoI is looking at divestment of AIL; continued support to ensure timely debt obligations is nevertheless expected.

Key Financial Indicators

As on / for the period ended March 31		2019	2018
Operating income	Rs crore	25,509	22,529
Profit After Tax (PAT)	Rs crore	-8,520	-5,384

PAT Margins	%	-33.4	-23.9
Adjusted Debt/Adjusted Net worth	Times	-2.0	-2.2
Interest coverage	Times	-0.4	-0.02

CRISIL Adjusted

List of covenants

The material covenants of the instruments are as follows:

- The Gol has provided unconditional, absolute, irrevocable and continuing guarantee as a principal debtor (and not merely a surety) covering all amounts due to the bond holders.
- The liability under the above said guarantee shall not be affected by any infirmity or irregularity on the part of AIL to undertake any of its obligations under the NCD programme.
- The Gol unconditionally and irrevocably agrees that it shall on the occurrence of a default by the company under the transaction documents, forthwith on receipt of the notice without demur, reservations, recourse, contest or protest and without any reference to the Company, pay to the Trustee such amounts as may be claimed by the trustee under the deed.
- The trustee-monitored payment mechanism for each of the NCD is listed below:

Payment structure for NCD amounting to Rs 7,400 crore

Trigger date	Action point
T-30 calendar days	If the designated account of the trustee is not funded to the requisite extent by T-30 calendar days, it shall constitute an event of default.
T-29	If the designated account of the trustee is not funded to the requisite extent by T-30 calendar days, the trustee shall intimate the Gol about the event of default on the next working day.
T-8 working days	If default continues up to T-8 working days, the trustee shall forthwith invoke the Gol's guarantee by sending notice of invocation to the Gol.
T-1	Gol shall, upon such invocation, forthwith (and in any event not later than 7 working days from the date of notice of invocation or at least one working day prior to T whichever is earlier) pay to the designated account of the trustee as per the notice of invocation

Note: 'T' refers to the due date for payment of interest and/or principal

Payment structure for NCD amounting to Rs 5,500 crore

Trigger date	Action point
T-3 rd Day	If the account of the trustee is not funded to the requisite extent by T-3 calendar days, it shall constitute an event of default.
T	In case the account of the trustee is not funded to the requisite extent by T, the trustee shall send a notice to Gol to notify the event of default.
T+45 th Day	If default continues for 45 calendar days, the trustee shall invoke the Gol guarantee by sending notice of invocation to Gol. The guarantor shall upon demand, forthwith (and in any event not later than seven working days from the date of such demand) pay to the account of the trustee as per notice of invocation.
T+52 nd Day	Last date for Gol to fund the account; failure will trigger default

Note: 'T' refers to the due date for the payment of interest and/or principal

Payment structure for NCD amounting to Rs 700 crore

Trigger date	Action point
T-60 th Day	If the account of the trustee is not funded to the requisite extent by T-60 calendar days, it shall constitute an event of default.
T-53 th Day	The latest day by which the trustee shall invoke Gol's guarantee by sending a notice of invocation to Gol.
T-3 rd Day	The latest date by which Gol is to deposit the requisite funds in the account of the trustee as per the notice of invocation.

Note: 'T' refers to the due date for the payment of interest and/or principal

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs Cr)	Rating assigned with outlook
INE954K08014	Non Convertible Debentures	26-Mar-10	9.13	26-Mar-20	700.00	CRISIL BB+(CE)/Watch Negative
INE954K08022	Non Convertible Debentures	27-Sep-11	9.84	27-Sep-26	4000.00	CRISIL AAA(CE)/Stable
INE954K08030	Non Convertible Debentures	27-Sep-11	10.05	27/09/2031	1500.00	CRISIL AAA(CE)/Stable
INE954K08048	Non Convertible Debentures	19-Nov-12	9.08	19-Nov-31	3807.60	CRISIL AAA(CE)/Stable
INE954K08055	Non Convertible Debentures	30-Nov-12	9.08	30-Nov-31	1235.40	CRISIL AAA(CE)/Stable
INE954K08063	Non Convertible Debentures	18-Dec-12	9.08	18-Dec-31	2357.00	CRISIL AAA(CE)/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	13600.00 24-03-20	CRISIL AAA(CE)/Stable CRISIL BB+(CE)/(Watch) Negative	21-03-20	CRISIL AAA(CE)/Stable CRISIL AAA(CE)/Watch Negative	07-09-19	CRISIL AAA(CE)/Stable	20-07-18	CRISIL AAA(SO)/Stable	24-11-17	CRISIL AAA(SO)/Stable	CRISIL AAA(SO)/Stable

			17-02-20	CRISIL AAA(CE)/Stable	12-07-19	CRISIL AAA(SO)/Stable		10-02-17	CRISIL AAA(SO)/Stable	
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All amounts are in Rs.Cr.

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
Criteria for Notching up Stand Alone Ratings of Entities Based on Government Support

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