

January 31, 2022

AI Assets Holding Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	14,985.0	14,985.0	[ICRA]AAA(CE) (Stable); Reaffirmed
Government of India (GoI) Fully Serviced Bonds	7,000.0	7,000.0	[ICRA]AAA (Stable); Reaffirmed
Total	21,985.0	21,985.0	

*Instrument details are provided in Annexure-1;

Rating Without Explicit Credit Enhancement

[ICRA]BB

Note 1: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating reaffirmation for the non-convertible debenture (NCD) programmes of AI Assets Holding Limited (AIAHL; erstwhile Air India Assets Holding Limited) continues to factor in the irrevocable and unconditional guarantee from the Government of India (GoI) through the Ministry of Civil Aviation that would cover all obligations that may arise on the rated NCDs and the Letter of Authorisation issued by GoI for the 'GoI Fully Serviced Bonds'. The rating also factors in the payment mechanism designed to ensure payment on the rated NCDs as per the terms of the transaction.

ICRA also notes that the GoI had approved the sale of Air India Limited (AIL) on October 08, 2021, along with the equity shareholding in its wholly-owned subsidiaries, Air India Express Limited (AIXL; rated [ICRA] A4 on Watch with Developing Implications) and Air India SATS (AISATS), to M/s Talace Pvt. Ltd. (Talace), a wholly-owned subsidiary of Tata Sons Pvt. Ltd. (rated [ICRA] AAA (Stable)/A1+), for an enterprise value consideration of Rs. 18,000 crore. Considering the same, the Government has infused equity to the tune of Rs. 62365.4 crore into AIAHL in the current fiscal for retiring debt and other outside liabilities on the books of AIL.

For the [ICRA]AAA(CE) (Stable) rating on Rs. 14,985-crore NCD Programme

The above rating is based on the strength of the unconditional and irrevocable guarantee provided by the GoI for the rated NCD programme. Furthermore, the repayment of principal and interest payment for these borrowings shall be made by the GoI, by making suitable provisions in the budget of the Ministry of Civil Aviation. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GoI.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable and unconditional, and covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by GoI is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AAA(CE) against the Unsupported Rating of [ICRA]BB.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » The guarantee is unconditional, absolute, irrevocable, continuing one and shall remain in full force and effect until the full and final discharge of the obligations of the company
- » GoI, as a principal debtor undertakes to pay principal and interest accrued and payable on the NCDs on respective due dates

- » *Defined payment mechanism (including guarantee invocation mechanism) is part of the terms, to ensure that dues of the NCDs are payable in a timely manner*
- » *Gol undertakes to continue to hold 100% shareholding of Air India Assets Holding Limited (AIAHL), during the tenor of the NCDs.*

For the [ICRA]AAA (Stable) rating on the Rs. 7,000-crore Gol fully serviced bonds

The above rating factors in the obligation of the Gol towards the Rs. 7,000-crore NCD programme of AIAHL as per the letter of authorisation (LoA) dated June 18, 2019, issued by the Budget Division, Department of Economic Affairs, Ministry of Finance, Government of India. As per the LoA, the repayment of principal and the interest payment for the captioned NCD programme/ Gol fully serviced bonds shall be met by Gol, by making suitable provisions in the budget of the Ministry of Civil Aviation. An explicit Government guarantee is not required due to fully servicing of bonds by the Gol.

Key rating drivers and their description

Credit strengths

Guarantee from the Gol / fully serviced Gol bonds - The rating for the Rs. 14,985-crore NCDs is based on the strength of the unconditional and irrevocable guarantee from Gol and that the repayment of principal and interest payment for these borrowings shall be made by the Gol, by making suitable provisions in the budget of the Ministry of Civil Aviation.

The rating for the Gol fully serviced bonds of Rs. 7,000-crore is based on the LoA by the Gol that the repayment of principal and interest payment for these borrowings shall be made by the Gol, by making suitable provisions in the budget of the Ministry of Civil Aviation. The Gol has made provisions for Rs. 2,268.99 crore in the FY2022 budget (Budget Estimates) for AIAHL.

Payment mechanism is in/to be in place to ensure timely payments - A trustee-monitored payment mechanism is in place to ensure the timely payment of the interest and principal obligations on the Rs. 14,985-crore and the Rs. 7,000-crore NCD programmes. The company has opened a no lien designated account, to be exclusively used for servicing the liability towards the rated NCDs.

Payment mechanism for the Rs. 14,985-crore NCD programme

Trigger Date	Action Points
T-45	The Trustee shall within 45 days before each Due Date inform the Company in writing regarding the Due Date and adequate funds which shall mean such amounts in the Designated Account as may be required for the full repayment of principal and interest due on the relevant due date in terms of the repayment schedule in the Information Memorandum (IM) and such adequate funds shall include any amounts derived from the Air India Monetisation Escrow account and/ or the Gol through the Ministry of Finance (MoF) in terms of the letter of assurance dated June 18, 2019. The Company shall ensure that Adequate Funds are available in the Designated Account latest by 30 calendar days before the Due Date
T-30	If the Designated Account does not have Adequate Funds on or before 30 days prior to the Due Date, it shall constitute an Event of Default
T-29	Trustee shall intimate the Gol about the Event of Default. However, any failure on the part of the Trustee to send intimation to Gol shall not prejudice the right of the Trustee to invoke the Guarantee
T-8 working days	If default continues up to eight working days before the Due Date, the Trustee shall invoke the Guarantee by sending a Notice to Gol. Upon receipt of Notice from the Trustee, Gol shall transfer into the Designated Account by the Guarantor's Payment Date (that is a date not later than seven working days from the Date of Notice or at least one working day prior to Due Date, whichever is earlier), Adequate Funds as notified by the Trustee in the Notice
T-1 working day	Gol has to fund the Designated Account for payment of interest and/or Principal
T	Due Date for Payment of Interest/Principal

Payment mechanism for the Rs. 7,000-crore Gol fully serviced bonds

Trigger Dates	Action Points
T-45	The Trustee shall within 45 days before each Due Date inform the Company in writing regarding the Due Date and the Adequate Funds. The Company shall ensure that the Adequate Funds are available in the Designated Account latest by 30 (thirty) calendar days before the Due Date.
T-30	If the Designated Account does not have adequate funds on or before thirty (30) days prior to the Due Date, it shall constitute an Event of Default.
T-29	Trustee shall intimate the Gol about the Event of Default. However, any failure on the part of the Trustee to send intimation to Gol shall not prejudice the right of the Trustee to invoke the Authorisation
T-8 working days	If default continues up to eight (8) working days before the Due Date, the Trustee shall invoke the Authorisation by sending a Notice to Gol. Upon receipt of Notice from the Trustee, Gol shall transfer into the Designated Account by the Payment Date (mean a date not later than seven (7) working days from the date of Notice or at least one working day prior to Due Date whichever is earlier), adequate funds as notified by the Trustee in the Notice.
T-1 working day	The Gol has to fund the Designated Account for payment of interest and/or Principal.
T	Due Date for Payment of Interest/Principal

Credit challenges

Not Applicable

Liquidity position:

Gol (the Guarantor): Superior

The ratings for the Rs. 14,985-crore NCDs are based on the unconditional, irrevocable and continuing guarantee from the Gol that would cover all the repayment obligations to the NCD holders. ICRA expects servicing of debt through budgetary provision and the trustee-controlled payment mechanism such that adequate funds are made available by the Gol to service debt obligations in a timely manner. Further, the Rs. 7,000-crore NCDs are fully serviced bonds by Gol, thus ensuring timely payment of debt obligations.

AI Assets Holding Limited: Adequate

The company receives/ is expected to receive timely grants/infusion for servicing of interest and principal obligations from the Gol, apart from its rental income from properties identified to be transferred to AIAHL. Since the grants/infusion are matched with the debt obligations falling due, the liquidity profile remains adequate for the entity.

Rating sensitivities

Positive factors – Not applicable

Negative factors are as below:

For the [ICRA]AAA(CE) (Stable) rating on the Rs. 14,985-crore NCD Programme: Negative pressure on AIAHL's rating could arise in case of failure of relevant stakeholders to adhere to the NCD structure.

For the [ICRA]AAA (Stable) rating on the Rs. 7,000-crore Gol Fully Serviced Bonds: Negative pressure on AIAHL's rating could arise in case of failure of relevant stakeholders to adhere to the terms of the LoA.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third party explicit support
Parent/Group Support	The rating for the Rs. 14,985-crore NCDs are based on the unconditional, irrevocable and continuing guarantee from the GoI that would cover all the repayment obligations to the NCD holders. Further, the Rs. 7,000-crore NCDs are GoI fully serviced bonds, ensuring timely payment of debt obligations.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Air India Special Alternate Mechanism (AISAM) was constituted in 2017 to guide the process of strategic disinvestment of AIL. As no response was received from prospective bidders in the exercise held in 2017, the Government decided to undertake near and medium-term efforts to capture operational efficiencies and to improve the performance of Air India, to monetise non-core land and building assets and to separately decide the contours of the mode of disposal of the subsidiaries.

In line with the decision of AISAM, a company by the name of Air India Assets Holding Limited (AIAHL) was incorporated with 100% shareholding held by the Government.

The entity is a special purpose vehicle (SPV) formed for acquiring the following from Air India Limited:

- Its shares held in AI Airport Services Limited (AIASL), Alliance Air Aviation Limited (AAAL), AI Engineering Services Limited (AIESL) and Hotel Corporation of India Limited (HCI). HCI, AIASL, AAAL and AIESL were transferred to AIAHL in the current fiscal and are now wholly-owned subsidiaries of the company.
- Paintings, artefacts and other non-operational assets as may be decided by AIL and the GoI
- Non-core assets as may be decided by AIL and the GoI
- Immoveable properties whether leasehold or freehold
- Accumulated working capital loans not backed by any asset, and
- Other assets/ liabilities or of its subsidiaries, as may be decided by AIL/ GoI

Pursuant to the decisions taken in the various AISAM meetings stated above, AIL began the transfer of identified debt amounting to Rs. 29,464.0 crore as on October 01, 2018. However, in view of lenders' approval for transfer not forthcoming, the debt transfer could not take place and the debt continued to be in the books of AIL. AIL continued to service the interest due on these loans identified for transfer to AIAHL. In view of the constraints faced in the transfer of loan from AIL to AIAHL, the Ministry of Finance approved a refinancing strategy for the identified debt.

Based on the meeting held on May 30, 2019 by the Ministry of Finance, it was decided that the SPV would raise finances in the following manner to refinance the identified debt of AIL amounting to Rs. 29,464.0 crore:

- NCD of Rs. 7,400.0 crore to be novated to AIAHL against GoI guarantee
- Issue of GoI fully serviced bonds for Rs. 7,000.0 crore against LoA
- Issue of bonds worth Rs. 15,064.0 crore with full Government Guarantee for the payment of interest and principal thereof

Accordingly, AIAHL has raised funds through bonds of Rs. 21,985.0 crore to repay the working capital and aircraft loans of AIL. The remaining Rs. 79 crore was adjusted from the monetisation proceeds payable to AIAHL by AIL and approval for the same was received from MoCA on June 18, 2021.

NCDs amounting to Rs. 7,400.0 crore could not be novated as consent from bond holders was pending. AIAHL continued to reimburse the interest expense on the same. As per the recent exchange filing by AIL dated January 21, 2022 the company has redeemed the above mentioned Rs. 7,400-crore of NCDs at a premium.

Key financial indicators

AIAHL Standalone	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	3767.8	2308.3	1145.2
PAT (Rs. crore)	134.2	43.7	7.3
OPBDIT/OI (%)	99.58	99.61	99.64
PAT/OI (%)	3.56	1.89	0.64
Total Outside Liabilities/Tangible Net Worth (times)	170.08	127.97	122.90
Total Debt/OPBDIT (times)	5.86	9.56	9.63
Interest Coverage (times)	1.04	1.02	1.01

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Figures in the above table are adjusted as per ICRA calculation wherever necessary.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 31, 2022	July 20, 2021			
1	NCD Programme	Long-term	14,985.0	14,985.0	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)	[ICRA]AAA(CE) (Stable)
4	GoI Fully Serviced Bonds	Long-term	7,000.0	7,000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

*As on September 30, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debenture	Very Simple
GoI Fully Serviced Bonds	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0AED08011	NCDs / GoI Fully Serviced Bonds	18-Sep-2019	6.99%	16-Dec-2022	7,000.0	[ICRA]AAA (Stable)
INE0AED08029	NCDs	14-Oct-2019	7.39%	12-Oct-2029	7,000.0	[ICRA]AAA(CE) (Stable)
INE0AED08037	NCDs	22-Oct-2019	7.39%	22-Oct-2029	7,985.0	[ICRA]AAA(CE) (Stable)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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