January 20, 2020

Air India Assets Holding Limited: Provisional [ICRA]AAA(CE) (Stable) assigned to Rs. 7,400.0-crore proposed Non-Convertible Debenture (NCD) programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	-	7,400.0	Provisional [ICRA]AAA(CE) (Stable); Assigned
Non-Convertible Debenture (NCD) Programme	15,064.0	15,064.0	[ICRA]AAA(CE) (Stable); Outstanding
Government of India (GoI) Fully Serviced Bonds	7,000.0	7,000.0	[ICRA]AAA (Stable); Outstanding
Total	**22,064.0**	**29,464.0**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	**[ICRA]BB**

Note: 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

For the Provisional [ICRA]AAA(CE) (Stable) rating on the Rs. 7,400.0 crore NCD Programme

The above rating is based on the strength of the unconditional and irrevocable guarantee provided by Government of India (GoI) for the rated NCD programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GoI. The GoI backed NCDs are currently in the books of Air India Limited (AIL) and are to be transferred to the books of Air India Assets Holding Limited (AIAHL). The terms of the NCDs shall not be revised post transfer of these NCDs from AIL to AIAHL. The assigned rating is provisional as of now (as denoted by the prefix, "Provisional", before the rating symbol) and is subject to the fulfilment and review of all pending actions / documentation regarding the transfer of the aforesaid NCDs rated by ICRA including but not limited to the signing of novation agreements. The final rating may differ from the provisional rating in case the completed actions / documentation are not in line with ICRA's expectations.

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 transaction 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 AIAHL in relation to the rated NCDs*
- *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*
- *GoI undertakes to continue to hold 100% shareholding of AIAHL, during the tenor of the NCDs*

Key rating drivers and their description

Credit strengths

Guarantee from GoI for Rs. 7,400.0 crore NCD programme – The rating for the Rs. 7,400.0 crore NCDs is based on the strength of the unconditional and irrevocable guarantee from GoI.

Payment mechanism to be in place to ensure timely payments – A trustee-monitored payment mechanism will be in place to ensure the timely payment of the interest and principal obligations on the Rs. 7,400.0 crore NCD programme. The company shall open a no lien designated account, which will be exclusively used for servicing the liability towards rated NCDs.

The payment mechanism is shared below:

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 the 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. The company shall ensure that 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 (EoD)
T-29	Trustee shall intimate the GOI about the EoD. However, any failure on the part of the Trustee to send intimation to GOI shall not prejudice the right of the Trustee to invoke the guarantee
T-8 working days	If default continues up to 8 (eight) working days before the due date, the Trustee shall invoke the guarantee by sending a notice to GOI. Upon receipt of notice from the Trustee, GOI shall transfer into the designated account by the guarantor's payment date (means a date not later than 7 (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	GoI has to fund the designated account for payment of interest and/or principal
T	Due date for payment of interest / principal

Liquidity position

For the Provisional [ICRA]AAA(CE) (Stable) rating on the Rs. 7,400.0 crore NCD Programme: Superior

The liquidity position of the guarantor, GoI, is **Superior**. The rating for the Rs. 7,400.0 crore NCD is based on the unconditional, irrevocable and continuing guarantee from the GoI that would cover the repayment obligations to NCD holders. ICRA expects servicing of debt through budgetary provision and the trustee-controlled payment mechanism such that adequate funds are made available by GoI to service debt serving obligations in a timely manner.

Rating sensitivities

For the Provisional [ICRA]AAA(CE) (Stable) rating on the Rs. 7,400.0 crore NCD Programme

Negative triggers: Negative pressure on AIAHL's rating could arise in case of failure of relevant stakeholders to adhere to the NCD structure.

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. 7,400.0 crore NCD is based on the unconditional, irrevocable and continuing guarantee from GoI that would cover all the repayment obligations to the NCD holders
Consolidation / Standalone	Not applicable since the rating is based on unconditional, irrevocable and continuing guarantee from GoI

About the company

Incorporated in January 2018, AIAHL is a special purpose vehicle (SPV) formed by the GoI, wherein the latter enjoys 100% shareholding. It was created to provide unified asset holding services. The purpose of AIAHL is to acquire the following from AIL:

a. Its shares are held in:
   (i) Air India Air Transport Services Limited
   (ii) Air India Engineering Services Limited
   (iii) Airline Allied Services Limited and
   (iv) Hotel Corporation of India Limited
b. Paintings, artefacts and other non-operational assets, whether or not reflected in the balance sheet, all as may be decided by AIL/ GoI
c. Non-core assets, as may be decided by AIL/GoI
d. Immovable properties, whether leasehold or freehold, and moveable properties including intangible properties such as, but not limited to trademarks, brand names, goodwill, copyright and other intellectual property rights, slots at airports, landing rights, operating rights, goodwill, and other rights, in each case whether or not reflected in the balance sheet, as may be decided by AIL/ GoI
e. Accumulated working capital loans not backed by any asset, and
f. Other assets/ liabilities or of its subsidiaries, as may be decided by AIL/ GoI

Further, at the Air India Specific Alternative Mechanism (AISAM) meeting, it was decided that a total debt of Rs. 29,464 crore would be transferred from AIL to AIAHL. This entire debt shall be taken over by AIAHL in two phases:

a. Novation of the existing NCDs of Rs. 7,400 crore by AIL, backed by GoI guarantee cum indemnity dated November 02, 2012
b. Refinancing of debt of Rs. 22,064 crore by AIAHL, vide issuance of fresh NCDs of Rs. 15,064 by AIAHL, backed by GoI's guarantee and fresh NCDs of Rs. 7,000 crore by AIAHL through GoI's fully serviced bonds. The proceeds of such fresh NCDs shall be used by AIL to pay off the loans it has availed from various banks.

Key financial indicators (audited)

	FY2019
Operating Income (Rs. lakhs)	9.00
PAT (Rs. lakhs)	0.04
OPBDIT/OI (%)	2.03%
RoCE (%)	-
Total Outside Liabilities/Tangible Net Worth (times)	1.52
Total Debt/OPBDIT (times)	24.60
Interest Coverage (times)	24.72
DSCR	-

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)						Rating History for the Past 3 years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating		FY2019	FY2018	FY2017
					20-Jan-2020	04-Oct-2019	31-Jul-2019			
1	Proposed NCD Programme	Long-term	7,400.0	-	Provisional [ICRA]AAA (CE) (Stable)	-	-	-	-	-
2	NCD Programme	Long-term	15,064.0	14,985.0	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	-	-	-	-
3	GoI Fully Serviced Bonds	Long-term	7,000.0	7,000.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)			

Amount in Rs. crore

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	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)
NA	Proposed NCD	NA	NA	NA	79.0	[ICRA]AAA(CE) (Stable)
NA	Proposed NCD	NA	NA	NA	7,400.0	Provisional [ICRA]AAA(CE) (Stable)

Source: Air India Assets Holding Limited

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About ICRA Limited:

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