

India Ratings Assigns Air India Assets Holding's Guaranteed NCDs 'Provisional IND AAA(CE)'/Stable; Affirms Existing Ratings

Jan 24, 2020 | AI ASSETS HOLDING LIMITED (Formerly AIR INDIA ASSETS HOLDING LIMITED) | Holding Company

India Ratings and Research (Ind-Ra) has rated Air India Assets Holding Limited's (AIAHL) debt instruments as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Proposed non-convertible debentures (NCDs)*#	-	-	-	-	INR74	Provisional IND AAA(CE)/Stable	Assigned
Government of India (GoI) fully serviced bonds	INE0AED08011	18 September 2019	6.99	16 December 2022	INR70	IND AAA/Stable	Affirmed
Non-convertible debentures*	-	-	-	-	INR149.85	IND AAA(CE)/Stable	Affirmed
Proposed non-convertible debentures (NCDs)*#	-	-	-	-	INR0.79	Provisional IND AAA(CE)/Stable	Affirmed
Unsupported rating\$	-	-	-	-	-	IND AA/Stable	Affirmed

*Details in Annexure IV

#The final rating will be assigned after the execution of the documents whereby the Air India Limited (AIL; 'IND AAA(CE)'/Stable) has novated to AIAHL all of rights, benefits and obligations pertaining to the existing NCDs of INR74 billion and the receipt of final documents by the agency.

\$Ind-Ra had assigned unsupported rating on 25 September 2019 in compliance with the Securities Exchange Board of India's circular dated 13 June 2019, which requires credit rating agencies to disclose unsupported ratings without factoring in the explicit credit enhancement (CE) and supported rating after factoring in the explicit CE.

Analytical Approach: To arrive at the CE rating, Ind-Ra factored in the strong legal and financial linkages between AIAHL and the government of India (GoI). The rating is based on the absolute, unconditional and irrevocable pre-default guarantee extended by the GoI for the timely debt payment. It is a continuing guarantee and shall remain in force and effect until the NCDs are fully redeemed. The deed of novation of guarantee will be executed between GoI, SBICAP Trustee, AIAHL and AIL.

To arrive at the rating of Gol fully serviced bonds, Ind-Ra has factored in budgetary support from the Gol towards meeting the debt servicing obligations of AIAHL. The rating also factors the deed of authorisation executed between the Ministry of Civil Aviation (MoCA), debenture trustee and AIAHL wherein the Gol, through the MoCA, undertakes to unconditionally, absolutely and irrevocably fully service the bonds as a continuing obligation, and as a principal debtor, until debt obligations are fully discharged.

Key Rating Drivers

Guaranteed Bonds: The tripartite guarantee agreement, dated 30 August 2019, between the Gol, debenture trustee and AIAHL mandates AIAHL to ensure adequate funds are available in the designated escrow account on or before 30 calendar days of the payment due date. If there is a shortfall in the designated account on or before 30 calendar days prior to the due date, this will trigger the payment mechanism (Annexure II).

The pre-default payment mechanism for the INR74 billion NCDs, which are to be novated to AIAHL, is the same as for the existing guaranteed NCDs. The pre-default payment mechanism will be monitored and controlled by the debenture trustee. The guarantee document provides for the invocation of the guarantee if the shortfall in the designated account is not met up to eight working days prior to the due date of payment. Upon the receipt of notice from the trustee, Gol will have to deposit the amount specified in the invocation notice no later than one working day before the due date. Key covenants and other events of default are detailed in Annexure IV.

Gol Fully Serviced Bonds: The Gol, through the ministry of finance (MoF), has approved the raising of INR70 billion by AIAHL as extra budgetary resources. The debt servicing of these bonds is a charged expenditure on the central budget. Given that these bonds will be a part of the central government's budget, debt servicing will form a part of the government's deficit, and thus, debt. Ind-Ra considers this to be a strong attribute to link the rating of these bonds to that of the sovereign.

On 18 June 2019, the Department of Economic Affairs, MoF, issued a letter of authorisation specifying that the repayment of principal and interest shall be met by Gol by making suitable provisions in the Union Budget until the maturity of the bonds for the INR70 billion tranche. The Gol has already made a provision of INR26 billion in MoCA's budget in the FY20 Union Budget towards the servicing of the bonds. Any form of credit enhancement, such as a guarantee, has not been provided for INR70 billion bonds, as the Gol would be fully servicing the debt.

As per the deed of authorisation (executed on 30 August 2019) of the INR70 billion bonds, Gol would fund the designated escrow account before the payment due-date through a trustee-administered, pre-default payment mechanism (Annexure I).

Liquidity Indicator – Adequate: Ind-Ra believes the liquidity is supported by the budgetary provision and trustee-controlled pre-default payment mechanism. As per the deed of authorisation, the Gol has undertaken to fully service 100% of AIAHL's INR70 billion NCDs through the budgetary provision; the trustee would control the payment mechanism such that adequate funds are made available by Gol to service debt serving obligations in a timely manner. AIAHL does not have any meaningful cash levels or unutilised bank lines that can be drawn to service the debt. AIAHL's medium-to-long term liquidity may be supported by asset monetisation proceeds from Air India Limited (AIL).

According to the letter of assurance issued by the MoF on 18 June 2019, the Gol will fund the designated escrow account of AIAHL through the provision of funds in MoCA's budget to the extent of a shortfall, if any, for timely interest servicing and principal repayment of the NCDs. Gol has committed to provide the shortfall amount after considering the monetisation proceeds from identified non-core assets and sale of the subsidiaries of AIL into AIAHL's designated escrow account. The monetisation proceeds will be credited to AIL's monetisation escrow account maintained with State Bank of India (SBI; 'IND AAA'/Stable) and transferred to AIAHL's designated escrow account in accordance with the terms of the escrow agreement signed between AIL, AIAHL and the escrow bank SBI.

Unsupported Rating Based on Government Ownership and Control: Ind-Ra has classified AIAHL as a dependent public sector entity under its Rating of Public Sector Entities criteria. The standalone rating considers the significant control exercised by Gol over the policy objective, the functioning of the board and borrowing programme of AIAHL in combination with Gol's ability and the willingness to provide financial support to the entity to fulfill its debt obligations on time. AIAHL is a special purpose vehicle (SPV) wherein the Gol holds 100% shareholding with an aim to provide unified asset holding

services. Ind-Ra believes AIAHL will play an active role in the process of the strategic disinvestment of AIL envisioned in the Union Budget FY20. AIAHL would house a total of INR294.64 billion of NCDs in three tranches, namely, INR70 billion of GoI fully serviced bonds, INR150.64 billion of GoI guaranteed debentures and INR74 billion of existing NCDs of AIL that are planned to be novated to AIAHL. GoI has given an unconditional and irrevocable undertaking to hold the entire 100% shareholding in AIAHL for the complete duration and repayment of the guaranteed NCDs.

AIAHL has strong linkages with the GoI as four of its six board members are GoI representatives (one each from MoCA, Department of Investment and Public Asset Management, Department of Economic Affairs and Department of Expenditure), and the remaining two board members are from AIL.

Rating Sensitivities

GoI Fully Serviced Bonds and Guaranteed NCDs

Negative: Future developments that could, individually or collectively, lead to a negative rating action include:

- GoI's failure to meet its obligations in a timely manner on the invocation of the letter of authorisation and/or guarantee
- Ind-Ra's expectation of reduced GoI support, which could result from a substantial dilution in the government's shareholding.
- Lack of clarity and/or inadequate budgetary provisions for servicing the debt throughout the tenure of the bonds

Unsupported Rating

Positive: Not applicable, as Ind-Ra believes that a positive rating action is unlikely as the entity is an SPV of the GoI established to house partial debt of AIL and not for undertaking business operations.

Negative:

- Ind-Ra's expectation of reduced GoI support, which could result from a substantial dilution in the government's shareholding
- Lack of clarity and/or inadequate budgetary provisions for servicing the debt throughout the tenure of the bonds

About the Company

AIAHL is a special purpose vehicle set up with effect from 22 January 2018 by the GoI to implement the strategic revival plan of AIL. AIAHL's objective is to acquire the non-core assets of AIL, its subsidiaries, certain immovable properties and to deal with the working capital loans of AIL.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (billion)	Rating	22 November 2019
GoI fully serviced bonds	Long-term	INR70.00	IND AAA/Stable	IND AAA/Stable
NCDs	Long-term	INR224.64	IND AAA(CE)/Stable	IND AAA(CE)/Stable
Unsupported rating	Long-term	-	IND AA/Stable	IND AA/Stable

Complexity Level of the Instruments

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Annexure I: Gol fully Serviced Bonds Payment Mechanism

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. The company shall ensure that the 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	The trustee shall intimate the Gol about the event of default. However, any failure on the part of the trustee to send intimation to the Gol shall not prejudice the right of the trustee to invoke the authorisation
T-8 working days	If default continues up to eight working days before the due date, the trustee shall invoke the authorisation by sending a notice to the Gol. Upon the receipt of notice from the trustee, the Gol shall transfer into the designated account by the payment date (mean 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	The Gol has to fund the designated account for payment of interest and/or principal.
T	Due date for payment of interest/principal

Annexure II: Guaranteed NCDs Payment Mechanism

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. The company shall ensure that the 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	The trustee shall intimate the Gol about the event of default. However, any failure on the part of the trustee to send intimation to the 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 the Gol. Upon the receipt of notice from the trustee, the Gol shall transfer into the designated account by the guarantor's payment date (mean 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	The Gol has to fund the designated account for payment of interest and/or principal.
T	Due date for payment of interest/principal

Annexure III

Covenants

The amounts due in relation to debentures shall, inter se between debenture holders, rank *pari passu* without any preference or priority on account of date of issue or allotment.

Details of Other Events of Default

The repayment of the whole of the principal together with the payment of the accrued interest shall stand accelerated and shall be deemed forthwith to have become due and payable on the happening of any of the following events:

- a) If a petition for winding up of the company shall have been admitted or if an order of a court of a competent jurisdiction is made or a resolution for the winding up of the company has been passed and the order of admission for winding up has not been stayed or vacated by the court within a period of 180 days from the passing of such order or if the company has not filed an appeal against such order;
- b) If an encumbrancer takes possession, or a receiver is appointed, of the material properties and material assets of the company and such possession or appointment has not been stayed or vacated by the court within a period of 180 days from the date of possession or if the company has not filed an appeal against such order;
- c) If a distress, execution or other process shall be levied or enforced upon or taken out against the material properties and material assets of the company and shall not be withdrawn or discharged, satisfied or paid out within 180 days or such extended period as may be agreed to in writing by the trustee from the date of levy or enforcement of such distress, execution or other process or if the company has not filed an appeal against such distress, execution or other process or taking of the material properties and material assets of the company;
- d) If the company at any time fails to observe or perform any material covenants, conditions or provisions contained in the debenture trust deed and on its part to be observed and performed and the company continues to fail to perform such material covenant, condition or provisions within a period of 180 days of being notified of such failure by the trustee;
- e) When the company, without the consent of debenture holders, ceases to carry on its business or gives notice of its intention to do so;
- f) When any breach of the terms of the information memorandum inviting the subscriptions of debentures or of the covenants is committed.

Procedure in case of Other Events of Default

- a) The trustee shall forthwith notify the company to transfer the entire principal and accrued interest to the designated account

- b) If the company does not fund the designated account to the required extent, the trustee shall, within two working days from the knowledge of occurrence of other events of default invoke the guarantee.
- c) The guarantee agreement provides that the Gol shall pay the entire principal and interest on a date not later than seven working days from the date of such notice.

Annexure IV

Instrument Type	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook
Series 2 NCDs	INE0AED08029	14 October 2019	7.39% semi-annual payment	12 October 2029	INR70.00	IND AAA(CE)/Stable
Series 3 NCDs	INE0AED08037	22 October 2019	7.39% semi-annual payment	22 October 2029	INR79.85	IND AAA(CE)/Stable
Unutilised limits	-	-	-	-	INR74.79	Provisional IND AAA(CE)/Stable
Total	-	-	-	-	INR224.64	-

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