

India Ratings Affirms AI Assets Holding's Guaranteed NCDs at 'IND AAA(CE)/Stable; Withdraws GOI Fully-Serviced Bonds Rating

Jan 19, 2023 | AI ASSETS HOLDING LIMITED (Formerly AIR INDIA ASSETS HOLDING LIMITED) | Holding Company

India Ratings and Research (Ind-Ra) has taken the following rating actions on AI Assets Holding Limited's (AIAHL) debt instruments:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Government of India (GoI) fully-serviced bonds	INE0AED08011	18 September 2019	6.99	16 December 2022	INR70	WD	Withdrawn (paid in full)
NCDs*	-	-	-	-	INR149.85	IND AAA(CE)/Stable	Affirmed
Unsupported rating\$	-	-	-	-	-	IND AA/Stable	Affirmed

*Details in Annexure III

\$ Ind-Ra had assigned an 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 has continued to factor in the strong legal and financial linkages between AIAHL and the GoI. The rating is based on the absolute, unconditional and irrevocable pre-default guarantee extended by the GoI for the timely debt payment including interest obligations. It is a continuing guarantee and shall remain in force and effect until the NCDs are fully redeemed.

The rating also factors in the deed of authorisation executed between the Ministry of Civil Aviation (MoCA), the debenture trustee (DT; IDBI Trusteeship Services Limited) and AIAHL, wherein the GoI, through the MoCA, undertakes to unconditionally, absolutely and irrevocably fully service the bonds as a continuing obligation, and as a principal debtor, until the debt obligations are fully discharged.

Key Rating Drivers

Guaranteed Bonds: The tripartite guarantee agreement, dated 30 August 2019, among the GoI, the DT and AIAHL mandates AIAHL to ensure adequate funds are available in the designated 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 I).

The pre-default payment mechanism will be monitored and controlled by the DT. 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 DT, the GoI will have to deposit the amount specified in the invocation notice no later than one working day before the due date. The key covenants and other events of default are detailed in Annexure II.

Liquidity Indicator – Adequate; Supported by GoI's Budgetary Provision: Ind-Ra believes AIAHL's liquidity is supported by the budgetary provision and trustee-controlled pre-default payment mechanism. AIAHL does not have any unutilised bank lines that can be drawn to service the debt. AIAHL received an equity infusion of about INR623.65 billion in FY22, of which INR611.30 billion (net) was transferred to Air India Limited as part of the divestment process, and the remainder along with the budgetary support of INR12.35 billion was utilised for interest servicing in FY22. The cash and bank balances stood at INR6,505.37 million as on 31 December 2022 (FY22: INR17,260.22 million).

According to the letter of assurance issued by the Ministry of Finance on 18 June 2019, the GoI will fund the designated account of AIAHL through the provision of funds in the MoCA's budget to the extent of a shortfall, if any, for timely interest servicing and principal repayment of the guaranteed NCDs. The GoI has committed to provide the shortfall amount after considering the monetisation proceeds from identified non-core assets and the sale of the subsidiaries of AIL into AIAHL's designated escrow account. The company received budgetary grants of INR70 billion in FY23 till December 2022 for meeting the principal repayment of the GoI fully-serviced NCDs. It was informed by management that the proceeds from monetisation of assets for 9MFY23 was INR504.62 million (FY22: INR 904.85 million). Ind-Ra believes the budgetary allocation of INR92.60 billion in the FY23 Union Budget will adequately meet the debt servicing requirements in FY23. Furthermore, as monetisation proceeds continue to be modest, the agency believes AIAHL's medium-to-long-term liquidity would mainly remain supported by way of the budgetary grants from the GoI.

Unsupported Rating Based on Government Ownership, Control and Financial Support: 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 the GoI over the policy objective and the functioning of the board and borrowing programme of AIAHL, in combination with the GoI's ability and

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Complexity Level of the Instruments

Instrument Type	Complexity Indicator
NCDs (credit enhanced)	Moderate

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

Annexure

Annexure I: Gol's Fully-serviced Bonds Payment Mechanism

Trigger Date	Action Points
T-45	The DT shall, within 45 days before each due date (DD), inform the company in writing regarding the DD 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 DD.
T-30	If the designated account does not have adequate funds on or before 30 days prior to the DD, it shall constitute an event of default (EoD).
T-29	The DT shall intimate the Gol about the EoD. However, any failure on the part of the DT to send an intimation to the Gol shall not prejudice the right of the DT to invoke the authorisation.
T-8 working days	If the default continues up to eight working days before the DD, the DT shall invoke the authorisation by sending a notice to the Gol. Upon the receipt of notice from the DT, the Gol shall transfer into the designated account by the payment date (meaning a date not later than seven working days from the date of notice or at least one working day prior to the DD, whichever is earlier), adequate funds as notified by the DT in the notice.
T-1 working day	The Gol has to fund the designated account for the payment of interest and/or principal.
T	DD for the payment of interest/principal

Annexure II

Covenants

The amounts due in relation to the 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 EoD

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

- a) if a petition for the 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 the 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 an 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 the debenture holders, ceases to carry on its business or gives notice of its intention to do so; and
- 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 EoD

- 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 EoD, invoke the guarantee; and
- c) The guarantee agreement provides that the GoI shall pay the entire principal and interest on a date not later than seven working days from the date of such a notice.

Annexure III

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
Total	-	-	-	-	INR149.85	-

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Revenue-Supported Rating Criteria

The Rating Process

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