

India Ratings Affirms AI Assets Holding's Guaranteed NCDs at 'IND AAA(CE)'/Stable

Jan 17, 2024 | AI ASSETS HOLDING LIMITED (Formerly AIR INDIA ASSETS HOLDING LIMITED) | Holding Company

India Rating and Research (Ind-Ra) has affirmed AI Assets Holding Limited's (AIAHL) non-convertible debentures (NCDs) as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
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 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 including interest obligations. It is a continuing guarantee and shall remain in force and effect until the NCDs are fully redeemed.

Key Rating Drivers

Adequacy of Credit Enhancement:

- Guaranteed Bonds:** The tripartite guarantee agreement, dated 30 August 2019, among the GoI, the debenture trustee (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).

Sufficiency of CE Under Stress Scenario: The GoI has extended the pre-default guarantee for timely repayment of debt including interest obligations. The total obligation including interest on guaranteed NCDs in case of accelerated repayment is likely to be INR160.92 billion. This is 0.61% of GoI revenue receipt of INR26,322.81 billion in FY24 budgeted estimate. Ind-Ra expects that in the event of accelerated repayment, the GoI will be in a position to service the debt without any significant stress on its fiscal position.

- 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 has no commercial operations or bank lines for debt servicing. Cash and bank balances stood at INR9.83 billion at FYE23 (FYE22:

INR17.26 billion). In FY23, AIAHL received INR74.26 billion as budgetary grants. Of this, INR70 billion was received for principal repayment of Gol-fully serviced bonds and the balance for servicing interest. Furthermore, as monetisation proceeds continue to remain modest, the agency believes AIAHL's medium-to-long-term liquidity would mainly remain supported by way of the budgetary grants from the Gol. As against the interest liability on the NCDs of INR11.07 billion, Ministry of Civil Aviation (MoCA) has allocated budget of INR11.44 billion for FY24.

AIAHL has interest obligation for NCDs of INR11.07 billion in FY25. It had cash and cash equivalents of INR4.51 billion at 9MFYE24. Ind-Ra believes that the Gol will provide for entire interest obligation that will be due for FY25 in its budget.

According to the letter of assurance issued by the Ministry of Finance on 18 June 2019, the Gol 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 Gol has committed to provide the shortfall amount after considering the monetisation proceeds from identified non-core assets and the sale of the subsidiaries of Air India Limited (AIL) into AIAHL's designated escrow account. Ind-Ra believes the budgetary allocation of INR11.44 billion in the FY24 Union Budget will adequately meet the debt servicing requirements in FY24.

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 Gol over the policy objective and the functioning of the board and borrowing programme of AIAHL, in combination with the Gol's ability and willingness to provide financial support to the entity to timely fulfil its debt obligations. AIAHL has strong linkages with the Gol as all the board members are Gol's representatives. The Gol has given an unconditional and irrevocable undertaking for the repayment of the guaranteed NCDs, including interest obligation thereon. It is unlikely that additional debt will be raised at AIAHL, following the completion of disinvestment of AIL. Ind-Ra, however, expects any future borrowings, if at all, will require budgetary support from the Gol since the company does not have adequate resources or commercial operations of its own to service the debt.

Corporate Governance: AIAHL's audit committee does not have an independent director. AIAHL is entirely owned by the Gol and all the directors are nominated and appointed by the Gol. AIAHL has requested MoCA, Gol to consider appointing independent directors in the company. Further, there has been delay in filing of financial statements with the BSE Limited.

Rating Sensitivities

Guaranteed NCDs:

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

- the Gol's failure to meet its obligations in a timely manner on the invocation of the guarantee;
- reduced support from the Gol, which could result from a substantial dilution in the government's shareholding; and
- the 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 a special purpose vehicle of the Gol, established to house a partial debt of AIL and not for undertaking business operations.

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

- reduced support from the Gol, which could result from a substantial dilution in the government's shareholding; and
- the lack of clarity and/or inadequate budgetary provisions for servicing the debt throughout the tenure of the bonds.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on AIAHL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

AIAHL is a special purpose vehicle set up with effect from 22 January 2018 by the GoI to implement the strategic disinvestment of AIL. The company's objective, inter-alia, is to acquire the non-core assets of AIL, its subsidiaries and certain immovable properties of AIL. AIAHL raised INR219.85 billion of NCDs in the form of INR70 billion of GoI-fully-serviced bonds (redeemed in full) and INR149.85 billion of GoI-guaranteed debentures in FY20. These funds were transferred to AIL for the repayment of identified debts in AIL's books, in accordance with the refinance strategy approved by the Ministry of Finance in June 2019.

FINANCIAL SUMMARY

Particulars (INR million)	FY22	FY23 (Provisional)
Total revenue	19,941.37	12,262.46
Net profit	-10,574.67	-5,512.16
Total assets	1,64,447.04	1,56,077.08
Net worth	-62,661.25	-696.49
Source: AIAHL, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	19 January 2023	21 January 2022	22 January 2021
GoI fully-serviced bonds	Long-term	INR70.00	-	WD	IND AAA/Stable	IND AAA/Stable
NCDs	Long-term	INR149.85	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable
Unsupported rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
NCDs backed by guarantee	Moderate

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

Annexure

Annexure I: Non-Convertible Debenture's 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 GoI about the EoD. However, any failure on the part of the DT to send an intimation to the GoI shall not prejudice the right of the DT to invoke the guarantee.
T-8 working days	If the default continues up to eight working days before the DD, the DT shall invoke the guarantee by sending a notice to the GoI. Upon the receipt of notice from the DT, the GoI shall transfer into the designated account by the guarantor's 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 GoI has to fund the designated account for the payment of interest and/or principal.
T	DD for the payment of interest/principal

Annexure II

Instrument 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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Rating of Public Sector Entities

Evaluating Corporate Governance

Policy for Credit Enhanced (CE) Ratings

The Rating Process

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