

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

Jan 16, 2025 | 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:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating Assigned along with Outlook/Watch	Rating Action
Non-convertible debentures*	-	-	-	INR149.85	IND AAA(CE)/Stable	Affirmed

*Details in Annexure I

\$Credit ratings with (CE) suffix indicates that the instruments are supported by an external explicit credit enhancement. Please refer to the section, DISCLOSURES FOR CE RATING, for additional details as per the Securities and Exchange Board of India's (SEBI) Master Circular dated 6 July 2023.

Analytical Approach

To arrive at the CE rating, Ind-Ra continues 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.

Detailed Rationale of the Rating Action

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. Ind-Ra draws comfort from the fact that the NCDs' pre-default payment mechanism will be monitored and controlled by the debenture trustee. Ind-Ra believes this would reinforce the GoI's accountability to support AIAHL in meeting its debt servicing obligations on time.

List of Key Rating Drivers

Strengths

- Supportive transaction structure
- Public sector entity status
- Strong control and oversight
- Demonstrated financial support

Weaknesses

- Moderate corporate governance

Detailed Description of Key Rating Drivers

Supportive Transaction Structure: 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 days of the payment due date. If there is a shortfall in the designated account on or before 30 days prior to the due date, this will trigger the payment mechanism (Annexure III).

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 the payment. Upon the receipt of notice from the DT, the GoI will have to deposit the specified amount 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 instrument covenants (Annexure II).

Public Sector Entity Status: The rating is principally driven by AIAHL's strong legal and financial linkages with the GoI through the ministry of civil aviation (MoCA). AIAHL is a special purpose vehicle (SPV) formed by the GoI wherein the GoI holds 100% shareholding with an aim to provide unified asset holding services. AIAHL's objective is to acquire the non-core assets of Air India Limited (AIL), its subsidiaries, certain immovable properties and to deal with the working capital loans of AIL.

Strong Control and Oversight: The GoI has a strong oversight and control on the management and functioning of AIAHL. AIAHL's board of directors has representation from the MoCA and the ministry of finance (MoF). The GoI provides financial assistance to AIAHL through the budget of the MoCA for debt servicing and other operational expenses and monitors the utilisation of the funds.

Demonstrated Financial Support: The company has no business operations. Ind-Ra considers the ability and willingness of the GoI to extend extraordinary support to be high. AIAHL receives budgetary support to service debt which is allocated by the Union government in its annual budget. The budgetary support will be provided during the entire tenure of the NCDs. The required funds towards liabilities for FY25 were met from the budgetary allocation.

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

Liquidity

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. Its cash and bank balances stood at INR11.58 billion at FYE24 (FYE23: INR12.12 billion). In FY24, AIAHL received INR13.01 billion as budgetary grants. Of this, INR6 billion was received for the financial support to Alliance Air Aviation Limited (a subsidiary of AIAHL) and INR6.50 billion for servicing of interest on bond. 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 GoI. As against the interest liability on the NCDs of INR11.07 billion, the MoCA has allocated budget of INR11.59 billion for FY25.

AIAHL has interest obligation for NCDs of INR11.07 billion in FY25. It was serviced through the GoI budgetary support of INR2.66 billion and the balance from rental and other income generated by AIAHL. AIAHL has unrestricted cash and cash equivalents of INR965.2 million at 9MFYE25. Ind-Ra believes that the GoI will provide for entire interest obligation that will be due for FY26 in its budget.

According to the letter of assurance issued by the MoF 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 the timely interest servicing and principal repayment of the guaranteed NCDs. The GoI has committed to provide the shortfall after considering the monetisation proceeds from the identified non-core assets and the sale of the subsidiaries of AIAHL into its designated escrow account.

Rating Sensitivities

Positive: Not applicable

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;
- the lack of clarity and/or inadequate budgetary provisions for servicing the debt throughout the tenure of the bonds.

Disclosures for CE Rating

1. UNSUPPORTED RATING

Ind-Ra has affirmed the unsupported rating at 'IND AA'/Stable.

The unsupported rating is arrived at without factoring in the explicit CE. It helps in understanding the extent of the CE factored into the instrument rating.

Analytical Approach

Ind-Ra continues to factor in the strong legal and financial linkages between AIAHL and the Gol.

Detailed Rationale of the Rating Action

Ind-Ra has classified AIAHL as a dependent public sector entity under its Rating of Public Sector Entities criteria. The unsupported rating considers the legal status of the entity, 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.

List of Key Rating Drivers

Strengths

- Public sector entity status
- Strong control and oversight
- Demonstrated financial support

Weaknesses

- Moderate corporate governance

Detailed Description of Key Rating Drivers

Public Sector Entity Status: The rating is principally driven by AIAHL's strong legal and financial linkages with the Gol through the MoCA. AIAHL is an SPV formed by the Gol wherein the Gol holds 100% shareholding with an aim to provide unified asset holding services. 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.

Strong Control and Oversight: The Gol has a strong oversight and control on the management and functioning of AIAHL. AIAHL's board of directors has representation from the MoCA and the MoF. The Gol provides financial assistance to AIAHL through the budget of the MoCA for debt servicing and other operational expenses and monitors the utilisation of the funds.

Demonstrated Financial Support: The company has no business operations. Ind-Ra considers the ability and willingness

of the GoI to extend extraordinary support to be high. The entity receives budgetary support to service debt which is allocated by the Union government in its annual budget. The budgetary support will be provided during the entire tenure of the NCDs. The required funds towards liabilities for FY25 were met from budgetary allocation.

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

Liquidity

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. Its cash and bank balances stood at INR11.58 billion at FYE24 (FYE23: INR12.12 billion). In FY24, AIAHL received INR13.01 billion as budgetary grants. Of this, INR6 billion was received for the financial support to Alliance Air Aviation Limited (a subsidiary of AIAHL) and INR6.50 billion for servicing of interest on bond. 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 GoI. As against the interest liability on the NCDs of INR11.07 billion, the MoCA has allocated budget of INR11.59 billion for FY25.

AIAHL has interest obligation for NCDs of INR11.07 billion in FY25. It was serviced through the GoI budgetary support of INR2.66 billion and the balance from rental and other income generated by AIAHL. AIAHL has unrestricted cash and cash equivalents of INR965.2 million at 9MFYE25. Ind-Ra believes that the GoI will provide for entire interest obligation that will be due for FY26 in its budget.

According to the letter of assurance issued by the MoF 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 the timely interest servicing and principal repayment of the guaranteed NCDs. The GoI has committed to provide the shortfall after considering the monetisation proceeds from the identified non-core assets and the sale of the subsidiaries of AIAHL into its designated escrow account.

Rating Sensitivities

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 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 GoI, 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.

2. INSTRUMENT COVENANTS (Annexure II)

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 Event of Default (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 Gol shall pay the entire principal and interest on a date not later than seven working days from the date of such a notice.

3. ADEQUACY of CE STRUCTURE

1. Guaranteed Bonds: The tripartite guarantee agreement, dated 30 August 2019, among the Gol, 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 III).

2. Sufficiency of CE Under Stress Scenario: The Gol 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 0.51% of Gol revenue receipt of INR31,292.00 billion in FY25 budgeted estimate. Ind-Ra expects that in the event of accelerated repayment, the Gol will be in a position to service the debt without any significant stress on its fiscal position.

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 an SPV set up on 22 January 2018 by the Gol 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 NCDs worth INR219.85 billion in the form of Gol-fully-serviced bonds worth INR70 billion (redeemed in full) and Gol-guaranteed debentures worth INR149.85 billion 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 MoF in June 2019.

Key Financial Indicators

Particulars (INR billion)	FY24	FY23
Total Income	14.32	12.26
EBIDTA	12.18	9.06
EBIDTA margin (%)	85.05	73.90
Net Debt/EBIDTA (x)	12.31	16.54
Interest coverage ratio (x)	1.10	0.62
Source: AIAHL, Ind-Ra		

Status of Non-Cooperation with Previous Rating Agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (billion)	Current Ratings/Outlook	Historical Rating/Outlook		
				17 January 2024	19 January 2023	21 January 2022
Non-convertible debenture	Long-term	INR149.85	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable	IND AAA(CE)/Stable
Gol fully serviced bonds	Long-term	INR70.00	-	-	WD	IND AAA/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
Non-convertible debentures (NCDs)	Moderate*

*The complexity indicator has been assigned as moderate for NCDs because of the pre-default guarantee agreement by Gol.

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

Annexure

Annexure I

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	

Source: NSDL, AIAHL.

Annexure III: NCDs' 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 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

Contact

Primary Analyst

Pranit Patil

Senior Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40356128

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Mukesh Saxena

Senior Analyst

01246687266

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

About India Ratings

India Ratings and Research (Ind-Ra) is India's SEBI registered credit rating agency committed to providing India's credit markets accurate, timely, and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining

significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance companies, urban local bodies, and structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Gurugram, Hyderabad, Kolkata, and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India and the Reserve Bank of India.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Rating of Public Sector Entities

The Rating Process

Policy for Credit Enhanced (CE) Ratings

DISCLAIMER

ALL CREDIT RATINGS ASSIGNED BY INDIA RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: <https://www.indiaratings.co.in/ratingdefinitions>. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE WWW.INDIARATINGS.CO.IN. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. INDIA RATINGS' CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.