

## India Flysafe Aviation Limited

September 22, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	50.29 (reduced from 74.76)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook; Stable)
Total Facilities	50.29 (Rs. Fifty-Two crore and Twenty-Nine lakhs only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings of India Flysafe Aviation Limited (IFSAL) factors in the improvement in its financial risk profile during FY20 (refers to the period April 01 to March 31) characterized by growth in revenue, profitability and debt coverage indicators. The ratings continue to derive strength from the presence of charter agreements with Jindal Steel and Power Limited (JSPL) and other Jindal group companies including JSW Steel Limited (JSW) and JSW Energy Limited (JEL) guaranteeing minimum flying hours and revenue per hour thus providing revenue visibility over the medium-term. The ratings also continue to factor in the strong industrial experience of the promoter group. The ratings, however, continue to remain constrained by the high debt levels leading to leveraged capital structure and exposure towards group companies. The ratings also continue to remain constrained by the revenue concentration risk with majority of the revenue being derived from group companies and exposure to volatility in Aviation Turbine Fuel (ATF) prices.

### Rating Sensitivities

#### Positive Factors

- Significant reduction in debt levels resulting in improvement in capital structure with overall gearing below 1.50x on a sustained basis

#### Negative Factors

- Any higher than envisaged exposure towards group companies.
- Any delay in realization of dues from the off-takers taking average debtors above 75 days.
- Delay in renewal or non-renewal of charter agreements with group companies.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Leveraged capital structure**

The capital structure of the company continues to be leveraged on account of high debt levels and low net worth over the past years. IFSAL reported improvement in networth with a positive net worth during the fiscal FY20 (Prov) of Rs. 2.05 crore as on March 31, 2020 (Prov), however the same remained low. The debt levels of the company remained high with majority of the debt being extended as ICDs from group companies. Although, the debt levels reduced to Rs. 247.77 crore as on March 31, 2020 (Prov) from Rs. 289.08 crore as on March 31, 2019, the same continued to remain on higher side.

##### **Exposure towards group companies**

IFSAL has exposure towards group companies in the form of loans and advances which increased to Rs. 24.19 as on March 31, 2020 (Prov) from Rs. 12.15 crore as on March 31, 2019. Given the exposure towards group companies is high as compared to networth of the company, timely realization of the same would remain important from the risk profile of IFSAL going forward. Also, any further increase in exposure towards group companies shall also remain a key monitorable.

##### **Exposure to fluctuation in ATF prices**

A substantial part of an aircraft operator's operating cost comprises of ATF cost. The prices of same are fluctuating in nature as the same are dependent on the crude oil prices and exchange rate movement. However, for flying with other than group companies the charter agreements incorporates the pass on of prices of ATF fuel thereby mitigating the risk to some extent.

##### **Revenue concentration risk with majority of revenue being derived from group companies**

IFSAL has a high customer concentration risk with major sales derived from group companies contributing around 83% of the total sales in fiscal FY20 (Prov). Higher reliance on few off-takers which includes the group companies exposes the company

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

to counterparty credit risk. The debtor levels of the company have increased from Rs. 7.92 crore as on March 31, 2019 to Rs. 42.37 crore as on March 31, 2020 with majority of the receivables from JSPL. Further accumulation of receivables from group companies may put pressure on the cash flow of IFSAL and shall remain a key monitorable.

### **Key Rating Strengths**

#### ***Improvement in financial risk profile during FY20 (Prov)***

IFSAL has reported improvement in the financial risk profile characterized by growth in income, profitability and debt coverage metrics during FY20 (Prov). The PBILDT margins have improved from 51.78% in FY19 to 62.79% in FY20 (Prov). This was largely on account of improved total operating income coupled with reduced expenses during the year. The company reported growth of ~18% during FY20 (Prov) owing to increase in revenue from group companies due to fixed hourly contracts. Healthy profitability and cash accruals had resulted in improved coverage indicators with interest coverage and total debt to gross cash accruals of 3.99x and 2.86x respectively as on March 31, 2020 (Prov) from 2.42x and 6.70x respectively as on March 31, 2019. Further, during 5MFY21 (refer to the period April 01 to August 31) the company has reported total operating income of ~Rs.45 crore.

#### ***Charter agreements with group companies guaranteeing minimum revenue***

IFSAL has entered into Charter Flight Service Agreements (CFSAs) with JSPL, JEL and JSW, wherein, IFSAL would be entitled to receive a pre-decided amount per flying hour for predetermined number of hours of service during a month irrespective of whether the aircraft has been used or not. The agreements are also regularly revised to incorporate increased operational costs.

#### ***Strong industrial experience of the promoter group***

IFSAL is a part of Naveen Jindal Group having significant industrial experience and considerable track record in various businesses including steel and power business for more than three decades. IFSAL is promoted by Gagan Infra Energy Limited and Opelina Finance & Investments Ltd which are investment companies of Naveen Jindal group. JSPL is the flagship company of the group and is engaged in manufacturing of sponge iron, steel products, pig iron, ferro chrome and power and is one of the leading Integrated Steel Producers (ISP) in the industry.

### **Liquidity: Adequate**

The liquidity profile of the company is adequate with sufficient generations of gross cash accruals and timely payments from the off-takers. The company is expected to generate cash accruals of ~Rs. 60 crore as against repayments obligations is ~Rs. 35 crore for FY21. The company has free cash and bank balance of Rs. 10.33 crore as on June 30, 2020. To tide over the uncertainty attached to the COVID-19 outbreak, the company has approached lenders for approval of moratorium for part of its debt obligations, which is in line with the COVID-19 Regulatory Package announced by the Reserve Bank of India on March 27, 2020 and May 23, 2020 and the same had been approved by the lenders.

### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology- Factoring Linkages in Ratings](#)

[Rating Methodology-Liquidity in Non-financial companies](#)

### **About the Company**

IFSAL was originally incorporated as Shree Venkatesh Packaging Ltd on December 4, 1997. The name of the company was first changed to Shree Venkatesh Aviation Services Ltd on March 5, 2004 and later to India Flysafe Aviation Ltd on August 13, 2004. The major shareholders of the company include Opelina Finance and Investments Ltd and Gagan Infra Energy Ltd with 49.99% stakes each in IFSAL. Both the companies are part of Naveen Jindal group. IFSAL is engaged in air charter services for long and short distance as per the requirement. The company operates as a non-scheduled air transport operator and owns 6 aircrafts as on June 30, 2019.

The clientele of the company primarily includes its promoter group company viz. JSPL and other O P Jindal group company like JSW and JEL, with whom it has entered into a chartering agreement. Furthermore, the company also provides charter services to other corporate houses and political parties based upon the requirements and availability.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	152.75	180.31
PBILDT	79.09	113.22
PAT	22.38	94.13
Overall gearing (times)	-3.15	99.01
Interest coverage (times)	2.42	3.99

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2022	50.29	CARE BB+; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	50.29	CARE BB+; Stable	-	1)CARE BB; Stable (02-Aug-19)	1)CARE BB; Stable (03-Jul-18)	1)CARE BB; Stable (20-Jul-17)

#### Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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