

Press Release

Go Airlines (India) Limited

January 06, 2021

Rating Assigned



Total Facilities Rated*	Rs.2435.00 Cr.
Long Term Rating	ACUITE A-/Outlook: Stable (Assigned)
Short Term Rating	ACUITE A1 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.2435.00 crore bank facilities of Go Airlines (India) Limited (Go Air). The outlook is '**Stable**'.

The rating takes into account the fairly long track record of Go Air in the domestic aviation industry and the availability of financial support from the Wadia Group. While the COVID pandemic had a severe impact on the global aviation industry in the current year and has sharply reduced the domestic passenger traffic volumes in H1FY21, a gradual recovery is visible in H2FY21 with a declining intensity of the pandemic and the expected availability of the vaccine. The rating also factors the proactive steps taken by Go Air to reduce the operating costs to ensure further reduction to already low Cost per Available Seat Kilometer (CASK), gradual and firm ramp up of capacity in line with the market to tap the profitable growth post COVID including tapping opportunities to tap International Bubble and charter flights, timely negotiations of aircraft lease rentals and the likely mobilisation of additional working capital borrowings from banks which will improve the profitability and the liquidity position of Go Air in the near to medium term.

About the company

Go Airlines (India) Limited (Go Air) is the aviation foray of the well-known 'Wadia' Group. The company was initially incorporated in April, 2004 as a private limited company and was later converted into a Public Limited Company in March, 2011 which operates in the Indian aviation industry under the brand name 'Go Air'. Go Air is a low-fare carrier airline launched in Nov, 2005 with the objective of commoditizing air travel by offering low fares across the country. As of Oct, FY2020, Go Air has a total fleet size of 53 aircraft serving 33 domestic destinations and 9 international destinations.

About the Group

Go Air is part of the Wadia Group founded in 1736, promoted by the Wadia Family. The Group is a diversified conglomerate with businesses ranging from FMCG, Aviation, Chemicals, and Healthcare to Real Estate. Four of the Group's companies are listed on Indian Stock Exchanges with two of these companies are listed for over 100 years.

Analytical Approach

Acuité has considered the consolidated approach of Go Airlines (India) Limited and its two subsidiaries, i.e. Go Ground Aviation Services Private Limited and Go Airlines (Singapore) Pte. Limited to evaluate credit quality of Go Air to arrive at the final rating. Acuité has also factored in the strong financial support from The Wadia Group. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations with experienced management and strong group support**

Go Airlines (India) Limited (Go Air) is the aviation foray of the well-known Wadia Group promoted by Mr. Nusli N. Wadia, Mr. Jehangir N. Wadia and Mr. Ness N. Wadia. The group has presence across well diversified businesses across various industries like Fast Moving Consumer Goods (FMCG), Textiles, Real Estate and Chemicals. The group entered into the Indian aviation industry by incorporating Go Airlines (India) Limited in 2004 and launched low fare carrier airline by the brand name of Go Air in 2005. The promoters of the

company play an important role in providing strategy and direction to the professionals managing day-to-day operations of Go Air and are well supported by top management professionals with vast experience in the aviation industry. Further, the Wadia group has provided strong financial support to Go Air whenever required since its inception in the form of Inter Corporate Deposits (ICDs) and rights issue. As on 31 March, 2020 the company has an outstanding ICDs of Rs.250 Cr from various group companies and in FY21YTD (till October, 2020) the company received additional Rs.40 Cr of ICDs for smooth functioning of Go Air operations during the unprecedented covid-19 situation. Furthermore, the company also raised funds of Rs.97.50 Cr through rights issue to the promoters in FY19-20.

Acuite believes that Go Air will continue to benefit from its established position in the aviation industry and strong financial support from the Wadia group over the medium term.

- **Strong presence in the domestic aviation industry**

Go Air has been operating in the Low Cost Carrier segment of the Indian aviation industry. The LCC segment has been the most successful model with a total market share of 82 percent in the overall industry with faster turnarounds and lower unit costs. The presence of Go Air has been gradually increased in the domestic market reflected by increase in its domestic market share from 8.7 percent in FY18 to 10.8 percent in FY20. Further, Go Air expanded its business by commencing international operations in October, 2018 and has been gradually scaling up its operations. The company has been increasing its fleet size over the years which has supported them to expand its operations in both domestic and international markets. As on October, 2020 Go Air has a total fleet size of 53 aircraft with a combination of 46 A320 neo aircraft and 7 A320 ceo aircraft. Further, the company has made a net addition of 25 A320 neo aircraft from FY2018 to FY21YTD (till October, 2020). The total passenger carried by Go Air has increased from 10.8 million passengers in FY2018 to 16.3 million passengers in FY2020 on account of strong growth in the domestic operations and commencement of international operations. As on October, 2020 the company is serving across 27 domestic destinations and 4 international destinations mostly in the Middle Eastern and South Asian countries.

The company's operations was severely impacted during covid-19 pandemic on account of restriction in air travel by the government. During April – October, 2020 the total passenger traffic carried by Go Air stood at 1.1 million passengers and as on November, 2020 the domestic market share of Go Air stood at 9.1 percent. Due to various restrictions across the nation, the company is currently operating with 36 aircraft and is serving to 27 domestic destinations and 4 International destinations under international charters and air bubble pact.

Acuite believes that Go Air will continue its strong presence in the aviation industry despite covid-19 disruptions with strong network presence across the country and increasing fleet size.

- **Timely renegotiations of lease rental, additional tie up of loan funds and group support to lead adequate liquidity**

Go Air has timely negotiated with its lessors for the deferment of most of its lease rentals which remains to be one of the major cost driver of the company on account of decline in airline operations due to unprecedented covid-19 pandemic. The company has renegotiated deferment of Rs.1253.00 Cr of lease rental payments for FY21 which will likely to be repaid over next 12-24-36 months. The actual lease obligations for FY21 was expected to be around Rs.2000.00 Cr which has been reduced to around Rs.700 Cr for the same period led by deferment in lease payments. The timely renegotiations by Go Air with its lessors is expected to provide adequate liquidity during the COVID-19 period.

Further, the company has also initiated the process of additional tie-ups with its existing consortium lenders for additional funds and is also in talks with other new lenders to join in the consortium for additional funding which is likely to provide additional liquidity to the company. Apart from these, the company has been constantly supported by the Wadia group since its inception and is expected to continue provide support to Go Air for sustaining its operations going forward.

- **Turnaround witnessed in business operations**

Post covid-19, Go Air resumed its operations in June, 2020 after complete shutdown in April and May, 2020 after the government order of resuming the airline operations across the country. Post resumption, Go Air has witnessed turnaround in its operations reflected by strong increase in its market share, departures counts and passenger air traffic over the months in FY21 (till Nov, 2020). The total passenger carried was increased from 0.10 million passengers in June, 2020 to 0.61 million passengers in Nov, 2020. The total departure counts was also increased significantly from 1,010 departures in June, 2020 to 4,790 departures in Nov, 2020. The total departure count has also reached 55 percent to pre covid-19 levels in Nov, 2020. The increase was mostly on account of ease in lockdown restrictions, allowing more seat capacity utilization of aircraft by the government and increase in number of operating fleets by the company. Further, the market share of Go Air has also witnessed significant improvement over the months since its resumption of operations which

increase from 5.2 percent in June, 2020 to 9.1 percent in Nov, 2020 owing to higher utilization of fleets, serving more destinations and growing air traffic demand.

Acuite believes that the turnaround of Go Air business operations will sustain going forward on account of ease in air travel restrictions and increase in capacity utilization of its fleet.

Weaknesses

• Unprecedented covid-19 disruptions to impact operating performance in near to medium term

The aviation industry has been one of the most impacted industry by the covid-19 pandemic on account of air travel restrictions which led to sharp decline in air traffic across the nation. The revenue from operations of the company is expected to decline in FY21 on account of severe decline in passenger air traffic due to nationwide lockdown and suspension of air travel by the government. The government banned domestic and international air travel in March 24 and March 25, 2020 in order to constrain the covid-19 virus which significantly impacted the operations of Go Air led by complete shutdown of operations during April and May, 2020. After resumption of air travel in May 25, 2020 by the government, the company resumed its operations from June 1, 2020 with limited fleets and capacity. From June – November, 2020 the total air traffic of Go Air stood at 1.77 million passengers with an average passenger load factor of 57.5 percent. As on November, 2020, the company is operating a total fleet of 36 aircraft serving 27 domestic and 4 international destinations. Despite ban on international operations, the company has been operating limited international flights under international charters and air bubble pacts.

Further, the covid-19 disruptions is expected to impact the revenues and profitability of the company in FY2021 majorly on account of decline in operations during H1FY21 and high fixed cost structure. However, various cost reduction measures adopted by the management of Go Air such as renegotiations of lease rentals with lessors, reduction in employee counts to reduce employee expenses supported by decline in aviation fuel prices and expected gradual recovery in H2FY21 is expected to reduce the impact on the operations of the company.

• Susceptible to volatility in aviation fuel prices and fluctuation in foreign exchange rates

The aviation turbine fuel (ATF) is one of the major cost component of Go Air which accounts around 35-40 percent of the revenue of the company. The ATF prices are directly linked to the crude oil prices which remain volatile and the company incurs a major part of its operating expenses like lease rentals, aircraft maintenance and repairs in foreign currency. The profitability of Go Air is highly susceptible to the volatility in ATF prices and fluctuations in foreign exchange rates. Further, the company faces intense competitions from other LCC operators in the industry which restricts Go Air to pass on any increase in prices to its customers. However, recent decline in ATF prices and higher proportion of fuel efficient A320 neo aircraft operated by the company partly offset the risk of volatility in ATF prices.

Rating Sensitivities

- Improvement in profitability by aggressive cost reduction measures by the management
- Prolonged impact of covid-19 disruptions leading to decline in air traffic after March, 2021

Material Covenants

None

Liquidity position: Adequate

The company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.174.02 Cr for FY20 while its maturing debt obligations were nil for the same period. The liquidity of the company is also supported by strong financial support from its group companies in the form of ICDs over the years whenever required and 100 percent interchangeability between the fund based and non-fund based limits. As on 31 March, 2020, the ICDs of the company from its group companies stood at Rs.250.00 Cr. Further, additional financial support of Rs.40.00 Cr has been provided by the group companies during April – October, 2020 which further eased the liquidity position of the company. The average utilization of working capital limits stood at around 85 percent in last six months ended November, 2020. The company maintains unencumbered cash and bank balances of Rs.118.07 Cr as on 31 March, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals to its maturing debt obligation and strong financial support from its group entities.

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and well support from group. The outlook

may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	6997.07	6262.48
PAT	Rs. Cr.	(1278.42)	123.57
PAT Margin	(%)	(18.27)	1.97
Total Debt/Tangible Net Worth	Times	(1.19)	(5.70)
PBDIT/Interest	Times	0.34	0.86

Note: The profitability of FY20 is adversely impacted due to recently introduced IndAS 116 on account for leases and hence the figures of FY20 are not strictly comparable to FY19.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	432.50#	ACUITE A-/Stable (Assigned)
FITL	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A-/Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A-/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A-/Stable (Assigned)
Bank Guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	567.50#	ACUITE A1 (Assigned)
Bank Guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1200.00	ACUITE A1 (Assigned)
Bank Guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A1 (Assigned)

#100 percent two-way interchangeability between fund based and non-fund based limits

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About Acuité Ratings & Research:

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