

Press Release

Go Airlines (India) Limited

January 19, 2023

Rating Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	3463.02	ACUITE BBB+ Negative Downgraded	-
Bank Loan Ratings	2136.98	-	ACUITE A2+ Downgraded
Total Outstanding Quantum (Rs. Cr)	5600.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating from '**ACUITE A -**' (read as **ACUITE A minus**) to **ACUITE BBB+** (read as **ACUITE t riple B plus**) and the short-term rating from '**ACUITE A1**' (read as **ACUITE A one**) to '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.5600 Cr. bank facilities of Go Airlines (India) Limited (Go First). The outlook remains '**Negative**'.

Rationale for rating downgrade:

The rating downgrade factors the consistent losses incurred in the past three years which has also continued in H1FY23 leading to higher dependence on external borrowings and group support. While the domestic passenger traffic volumes have started to witness a gradual recovery in FY23 after the prolonged pandemic which had a severe impact on the global aviation industry, the Indian aviation players continue to face significant headwinds due to high ATF (aviation turbine fuel) prices and limited ability to pass on the increased operating costs to the customers.

Acuite has taken note of the recent news reports highlighting multiple incidents which has led to DGCA to issue show cause notice to the airline. Acuite believes that such incidents may impact the business risk profile of the airline culminating into loss of market share.

The rating continues to factor the track record of Go First in the domestic aviation industry and the strong financial support from the Wadia Group. Given the steps taken by Go First to reduce its Cost per Available Seat Kilometer (CASK) and to ramp up its capacity gradually in line with the market growth opportunities, the long term business outlook for the airline continues to be healthy.

About Company

Go Airlines (India) Limited (Go First) was the aviation foray of the Mumbai based '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. It launched low fare passenger airline services in Nov 2005 under the brand name 'Go Air'. In April 2021, the

company rebranded its services to 'Go First'. As of Aug, 2022, Go First has a total fleet size of 58 aircraft serving 34 domestic destinations and 9 international destinations with an operational track record of nearly 17 years.

About the Group

Wadia Group is one of the oldest business group in India which was founded in 1736. The Group is a diversified conglomerate with businesses ranging from FMCG, Aviation, Chemicals, and Healthcare to Real Estate. Bombay Dyeing & Manufacturing Company Limited is the flagship company of the Wadia Group, engaged primarily in the business of textiles. Britannia Industries is another large listed entity where the Wadia Group has a significant stake. While four companies are listed on the Indian Stock Exchanges, the above two companies have been listed for over hundred years.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has consolidated the business and financial risk profiles of Go Airlines (India) Limited and its two subsidiaries i.e. Go Ground Aviation Services Private Limited (engaged in providing ground support services and related allied services) and Go Airlines (Singapore) Private Limited (engaged in finance and regional coordination). The consolidation is in view of the common management and similar line of business. Acuité has also factored in the availability of strong financial support from the Wadia Group.

Key Rating Drivers

Strengths

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

Go Airlines (India) Limited (Go First) 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 the 2004 and launched low fare carrier airline by the brand name of Go Air in 2005. Later in April, 2021 the company rebranded itself from 'Go Air' to 'Go First' and also repositioned itself under Ultra Low Cost Carrier (ULCC) segment in the industry. The promoters of the company play an important role in providing strategy and direction to the professionals managing day-to-day operations of Go First 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 First whenever required since its inception in the form of Inter Corporate Deposits (ICDs) and rights issues. As on 31 Mar, 2022, the total ICDs from group was Rs.315 Cr and during the second wave of the Covid pandemic, the group infused equity through rights issue to the tune of Rs.550 Cr. Furthermore, after the onset of third wave, the group infused additional equity to the tune of Rs.300.00 Cr during Q4FY22. Acuité believes that Go First will continue to benefit from its established position in the aviation industry and strong financial support from the Wadia group over the medium term.

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

Go First 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 the unprecedented pandemic. The company has renegotiated deferment of Rs.2018.0 Cr of lease rental payments for FY21 and FY22 which will likely to be repaid over next 24-48 months. The actual lease obligations for FY21 was around Rs.838 Cr and for FY22 it is Rs. 783 Cr despite addition of new aircrafts. The timely renegotiations by

Go First with its lessors has provided adequate liquidity during the pandemic period. Further, the company has also availed additional funds with its existing consortium lenders and has inducted new lenders in the consortium to firm up the incremental working capital requirements for addition of new aircrafts to its existing fleet. Apart from these factors, the company has been consistently supported by the Wadia group since its inception and the group is expected to continue provide support to Go First for sustaining its operations going forward.

Weaknesses

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 First which accounts around 35-40 percent of the revenue of the company. The ATF prices are directly linked to the crude oil prices which are inherently volatile and such volatility has further worsened due to the geo-political conflict in Ukraine and the resultant sanctions on Russia, a major oil and gas exporter. Further, the company incurs a major part of its operating expenses like lease rentals, aircraft maintenance and repairs in foreign currency while the revenues are largely in INR. The INR has witnessed a depreciation of over 10% since the start of calendar 2022. Further, the company faces intense competitions from other LCC operators in the industry which limits the ability of Go First to pass on the increase in costs to its customers. The profitability of Go First is therefore, highly susceptible to the volatility in ATF prices and fluctuations in foreign exchange rates. The losses of the entity have sharply increased in FY22 and any turnaround in operations may take a longer time, given the twin challenges of ATF prices and currency depreciation.

Drop in market share in the domestic aviation sector

Go First has been operating in the Low Cost Carrier (LCC) segment of the Indian aviation industry under the brand name 'Go Air' from Nov '2005 which implies an operational track record of nearly 17 years. However, the company rebranded itself from 'Go Air' to 'Go First' in April, 2021 and positioned itself as India's first Ultra Low Cost Carrier (ULCC) airline. The ULCC & LCC segment has been the most successful model with a total market share of 80 percent in the overall industry with faster turnarounds and lower unit costs.

The presence of Go First has been gradually increased in the domestic market reflected by increase in its domestic market share from 8.7 percent in Mar-18 to 9.7 percent as of Aug-22; however, subsequently, the company has lost market share and as on November 2022, the market share is 7.5%. Further, Go First expanded its business by commencing international operations in October, 2018 and has gradually scaled 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 December, 2022 Go First has a total fleet size of 58 aircraft with a combination of 52 A320 neo aircraft and 6 A320 xlr aircraft. However 26 aircrafts are grounded i.e. almost half of the fleet is grounded, leading to loss of market share and increase in fixed cost thereby impacting the margins.

Further, the company's performance in term of on time performance has declined from 94.5% in January 2022 to 35.9% in November 2022 making it a weak airline in terms of on time performance in top four metro airports.

ESG Factors Relevant for Rating

Environmental issues related to the air transport industry is a key concern. GHG emissions, air pollutant emissions, environmental management, energy efficiency, ESG reporting and waste management are significant environmental issues for this industry. Hence, availing necessary approvals from key regulatory bodies are important for the company.

Labor management issues, such as employee safety & development and employment quality, is a crucial issue in air transport industry. Furthermore, key material issues such as community support & development, product quality & safety, human rights, equal opportunity and responsible procurement have a significant impact on the social scores for this industry.

Air transport industry is highly exposed to governance risks associated with regulatory compliance, board oversight, business ethics and corrupt practices. Furthermore, related party transactions, management & board compensation, board independence & diversity, audit committee role, financial control and shareholders' rights are the key material issues for this industry.

Rating Sensitivities

- Improvement in profitability by aggressive cost reduction measures by the management
- Any further decline in market share due to increased competition and entry of new players
- Timely funding support from the group

Material Covenants

None

Liquidity Position

Adequate

The liquidity of the company is adequate marked by strong financial support received from its group companies in the form of ICDs and rights issue over the years whenever required and 100 percent interchangeability between the fund based and non-fund based limits. As on 31 March, 2022, the total ICDs from group was Rs. 315 Cr. and during the second wave of Covid, the group infused equity through rights issue to the tune of Rs.550 Cr. After the onset of third wave, the group further infused more equity during Q4FY22 to the tune of Rs.300 Cr. The average utilization of fund based working capital limits stood high at around 83 percent in last nine months ended August, 2022. The company further has got GECL of Rs. 588.65 in Q3FY23 providing further liquidity to the company. The company maintains unencumbered cash and bank balances of Rs. 371.74 Cr. as on 31 March, 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of strong financial support from its group entities.

Outlook: Negative

Acuité believes that the company may continue to incur losses in the near term leading to higher dependence on external borrowings or support from group. The outlook may be revised to 'stable' in case the group registers higher than expected growth in revenue and returns to profitability along with lower dependence on the group for funding its operations. The rating may be downgraded if Go First sustains losses for a longer period and witnesses any further loss in market share due to higher competition or operational challenges.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	4255.88	2171.74
PAT	Rs. Cr.	(1804.08)	(870.16)
PAT Margin	(%)	(42.39)	(40.07)
Total Debt/Tangible Net Worth	Times	(1.06)	(1.08)
PBDIT/Interest	Times	0.17	0.26

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

The rating from Brickworks dated January 17, 2022 is flagged as Issuer not cooperating and is under INC flag since July 09, 2020.

Any Other Information

None

Applicable Criteria

- Application Of 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Oct 2022	Term Loan	Long Term	31.60	ACUITE A- Negative (Assigned)
	Letter of Credit	Short Term	1200.00	ACUITE A1 (Reaffirmed)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A- Negative (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	93.00	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	73.90	ACUITE A- Negative (Assigned)
	Secured Overdraft	Long Term	100.00	ACUITE A- Negative (Reaffirmed)
	Secured Overdraft	Long Term	843.02	ACUITE A- Negative (Reaffirmed)
	Term Loan	Long Term	3.78	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	25.65	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	64.05	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	1320.00	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	5.00	ACUITE A- Negative (Reaffirmed)
	Proposed Bank Facility	Short Term	450.00	ACUITE A1 (Assigned)
	Proposed Bank Facility	Long Term	650.00	ACUITE A- Negative (Assigned)
	Term Loan	Long Term	98.22	ACUITE A- Negative (Assigned)
	Proposed Bank Facility	Long Term	100.00	ACUITE A- Negative (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE A- Negative (Reaffirmed)
	Letter of Credit	Short Term	456.98	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	4.80	ACUITE A- Negative (Assigned)

01 Apr 2022	Letter of Credit	Short Term	504.00	ACUITE A1 (Reaffirmed)
	Secured Overdraft	Long Term	20.00	ACUITE A- Stable (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A- (Withdrawn)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	100.00	ACUITE A- Stable (Reaffirmed)
	Secured Overdraft	Long Term	363.50	ACUITE A- Stable (Reaffirmed)
		Short		
06 Jan 2021	Letter of Credit	Term	1200.00	ACUITE A1 (Reaffirmed)
	Secured Overdraft	Long Term	100.00	ACUITE A- Stable (Reaffirmed)
	Letter of Credit	Short Term	30.00	ACUITE A1 (Reaffirmed)
	Working Capital Demand Loan	Long Term	30.00	ACUITE A- Stable (Assigned)
	Secured Overdraft	Long Term	432.50	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	5.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	567.50	ACUITE A1 (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A- Stable (Assigned)
	Secured Overdraft	Long Term	432.50	ACUITE A- Stable (Assigned)
	Secured Overdraft	Long Term	100.00	ACUITE A- Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	1200.00	ACUITE A1 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Central Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	456.98	ACUITE A2+ Downgraded (from ACUITE A1)
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1200.00	ACUITE A2+ Downgraded (from ACUITE A1)
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A2+ Downgraded (from ACUITE A1)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	650.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	450.00	ACUITE A2+ Downgraded (from ACUITE A1)
Central Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	843.02	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
IDBI Bank Ltd.	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Central Bank of India	Not Applicable	Term Loan	Not available	9.90	Not available	Simple	5.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Central	Not	Term	Not	Not	Not			ACUITE BBB+ Negative

Bank of India	Applicable	Loan	available	available	available	Simple	93.00	Downgraded (from ACUITE A-)
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	73.90	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	64.05	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Central Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	25.65	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.80	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.78	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Deutsche Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1320.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	31.60	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	98.22	ACUITE BBB+ Negative Downgraded (from ACUITE A-)
IDBI Bank Ltd.	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	30.00	ACUITE BBB+ Negative Downgraded (from ACUITE A-)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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