Press Release

SpiceJet Limited

August 09, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 1,450.00 crore
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long term rating of **'ACUITE BB-' (read as ACUITE double B minus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** to the Rs.1,450.00 crore bank facilities of **SpiceJet Limited (SpiceJet).** The outlook is **'Stable'**.

The rating takes into account SpiceJet's market position as the second largest domestic airliner in India and its systemic importance in the low cost air travel space, the gradual revenue diversity through the cargo business and the experience of the management with a track record of past turnaround in the airline's operations. While the airline industry has been severely impacted by the Covid pandemic since FY21, SpiceJet's credit quality is also constrained by the challenges around its Boeing Max fleet and the uncertainty around the compensation from Boeing, the renegotiation of lease rentals and its weak financial position. Although, the company has a moderate level of debt and upcoming repayments, timely infusion of equity and receipt of additional working capital facilities from banks would be critical for sustaining an adequate liquidity position.

About the Company

Established in 1984 and based in Gurugram (Haryana), SpiceJet Limited (SpiceJet) was initially set up as an air taxi provider. In 1993, the company diversified into domestic aviation service provider business and changed its name to 'Modiluft' in 1994 through a technical partnership with Lufthansa AG. In 2000, the company got a new name - Royal Airways. In the year 2005, the company got its prevailing name, when its services were re-launched. SpiceJet operated its first flight in May 2005 and commenced operations with 3 leased Boeing 737-800s fleets. In 2008, a US-based asset investor, Mr.Wilbur Ross acquired a 30 percent stake.

In June 2010, Mr. Kalanithi Maran, Chairman and Managing Director of the Sun Group, acquired 38 percent stake in SpiceJet from the US- based investor, Mr. Wilbur Ross and the UK-based Kansagra family. The stake was sold back to Mr Ajay Singh (present promoter) in January 2015. Mr. Ajay Singh and HUF holds around 59.54 percent as on June 30, 2021 (around 44.32 of the promoter shareholding remains pledged).

Spicejet follows the Low Cost Carrier (LCC) business model with an objective to deliver the lowest air fares with the highest consumer value, to price sensitive consumers. SpiceJet, a public limited company, is listed on Bombay Stock exchange (BSE) and National Stock Exchange (NSE) and is promoted by Mr. Ajay Singh with majority holdings. The airline had a total fleet size of 94 aircrafts (43 Boeing NG (700/800/900), 13 Boeing max (737), 32 Q-400 and 5 wide-body aircrafts on wet-lease) serving domestic as well as international destinations as on March 31, 2021.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SpiceJet to arrive at this rating.

Key Rating Drivers

Strengths

- **Systemically critical position in the domestic aviation sector and established track record of operations**

SpiceJet has been maintaining its market share in the domestic aviation segment at ~12-13 percent since the takeover by Mr. Ajay Singh in 2015. SpiceJet is currently ranked at 2nd position amongst the Indian domestic airlines in terms of passengers carried (Pax). Phasing out of other airlines helped SpiceJet attain the 2nd position with market share remaining intact until FY2019. The market share improved to 16.1 percent in FY2020 (13.7 percent in FY2019) followed by InterGlobe Aviation Limited' – Indigo (market share of 49 percent). The market share touched the FY16-FY19 levels again to an average of ~13 percent in FY2021 driven by the unprecedented disruption caused by the novel coronavirus pandemic and its extended impact on domestic demand for air travel. As per the Directorate General of Civil Aviation (DGCA), the market share of SpiceJet was 10.8 percent in Q1FY2022 due to the 2nd wave of Covid. SpiceJet held market share of 12.6 percent until Q4FY2021 by flying its aircrafts in the International aviation market too, followed by Air India and Indigo (market share of 54.3 percent and 28.4 percent, respectively). All international operations were however ceased from Q1FY2021 due to Covid-19.

The company's fleet size increased from 34 in FY2015 to 114 in FY2020 by continuous addition of Q400 Bombardiers, Boeing NG and Max. The fleet size reduced to 94 by returning back few of its Boeing NG aircrafts. The company aims to increase its fleet size by induction of the highly fuel-efficient Boeing 737 Max aircrafts over the near to long term. Subsequently, number of Flights operated in a year increased due to expansion in fleet size and enhanced aircraft utilization. The number of flights operated increased from 1,02,615 in FY2015 to 195,976 in FY2020 and 14,651 in FY2021. The total passenger carried by SpiceJet increased from 1.34 Cr in FY2016 to 2.48 Cr in FY2020. Like other carriers, the number of passengers carried in FY2021 declined to 0.53 Cr on account of Covid related disruptions. SpiceJet covered 40 destinations in FY2016 covering 150 off routes (domestic and international); this increased to 57 in FY2020 (47 domestic and 10 international). Notably, SpiceJet is the largest regional player in the country with 53 UDAN flights (39 flying) operating in 10 destinations under the regional connectivity scheme (as per FY2020).

The continuous fleet addition and higher demand led to higher passenger load factor (PLF). SpiceJet has been maintaining highest PLF of 90 percent plus, which is above the industry average PLF of 80-85 percent. The PLF reformed from 81 percent in FY2016 and ranged between 91 to 94 percent until FY2020. Despite the impact of 1st and 2nd wave of Covid-19 pandemic, SpiceJet registered industry's highest PLF ~76 per cent in FY2021 (lowest being 66.7 percent in Q1FY2021).

The continuous uplift in PLF and fleet size led to higher Available Seat Kilometrers (ASKM) and Revenue Passenger Kilometres (RPKM). The ASKM elevated from 12,916 in FY2016 to 31,334 in FY2020, while the RPKM moved from 11,700 in FY2016 to 28,079 in FY2020. Overall, SpiceJet witnessed a year of peak performance with its total operating income touching a record high of Rs.13,093.31 Cr.

Acuité believes that the company's sustainable improvement in operational metrics (barring the Covid-19 impacted FY of 2021) will help retain SpiceJet its 2nd dominant position in the Indian aviation segment.

- **Experienced management and Robust business model with diversified revenue streams**

SpiceJet, a Low cost carrier segment airline provider, has established presence in the Indian aviation industry. Mr. Ajay Singh, the Chairman and Managing Director of SpiceJet, has more than 15 years of experience in the line of aviation and is involved in the day-to-day operations of the company. In the past, through his extensive and rich experience, Mr. Singh successfully turnaround SpiceJet Limited by undertaking and implementing various measures in revenue and cost management, customer retention and employee welfare. SpiceJet, over the years with its established presence in the aviation industry has been able to diversify its revenue stream for its cash generation. The company majorly has two streams- Primary (Passenger air travel) and Ancillary (Preferred Seating, Business Class, Spice Max, Loyalty Programmes, Insurance, Meals, Spice Vacations, Lounge, Visa, Cab, Cargo, Onboard Merchandise). The company also proposes to add wide body aircraft (under Charter operations) for passenger and cargo operations on wet lease basis. Acuité believes that the presence of diversified revenue stream and robust fleet will aid SpiceJet' s revenue profile over the medium term.

- **Consistent improvement in total operating income until FY2020 (yet incurred net losses); significant impact of Covid-19 in FY2021**

SpieceJet's total operating income (TOI) has been consistently growing since FY2016. It reported TOI of Rs.5,088 Cr in FY2016 which gradually scaled up to Rs.13,093.31 Cr in FY2020. The company had been incurring net profit since FY2016 till FY2018. In FY2019 and FY2020, Company reported Y-o-Y TOI growth of 18 and 43 percent, respectively in revenue. The significant growth in TOI in FY2020 was due to phasing out of operations by other airlines (mainly Jet airways) and the increase in fleet size because of same. The revenue of the Company grew at CAGR of more than 20 percent FY2018 to FY2020. Passenger and cargo services constituted on an average 90 percent and 4 percent of total revenue from FY2018 to FY2020. The Company had Earnings before Taxation (EBT) margin of 7.2 percent in F2018 which deteriorated to 2.8 percent and 7.1 percent in FY2019 and FY2020 due to pricing pressures, sudden increase in aircraft turbine fuel, rupee depreciation and from grounding of Boeing 737 Max aircrafts. The ATF expenses which comprised of ~30 percent of the TOI increased to 38 percent in FY2019 and 35 percent in FY2020. The EBITDA improved from FY2019 due to restatement of lease rentals as depreciation and interest. The EBITDA margin was 0.13 percent in FY2019, 9.56 percent in FY2020 and 18.98 percent in FY2021. The EBITDAR margin (EBITDA + Lease rentals + Other income) was 24 percent in FY2018, 16 percent in FY2019 and 13 percent in FY2020. The company reported loss of Rs.934.7 Cr in FY2020 which includes non-cash loss of Rs. 697 Cr due to foreign exchange loss on restatement of lease liability due to implementation of INDAS 116 from April 2019.

The aviation sector has been severely impacted by the pandemic and is expected to witness a prolonged road to recovery given the risk aversion among air travelers and travel restrictions. The impact of Covid-19 is felt across the entire aviation industry globally and is not limited to SpiceJet. SpiceJet reported loss of Rs.593.4 Cr n in Q1FY2021, howbeit, the financials improved as losses in Q2 and Q3FY2021 reduced to Rs.112.5 Cr and Rs.57 Cr, respectively due to certain strategic measures adopted by the Company such as re-structuring of aircraft leases and early return of NG aircrafts, thereby, having long term saving impact on costs, Increased cargo operations (SpiceJet emerged as the largest air cargo operator in India), Introduction of wide body aircraft to capture high yielding international markets, Started long haul flights to North America Europe using aircraft available at lowest costs, operated charter flights and repatriated 2 lakh stranded Indian nationals from various international markets, facilitated transportation of Covid-19 vaccine and introduced 92 new domestic and 16 international flights (under air bubble agreement). SpiceJet reported TOI of Rs.6,120.79 Cr and EBITDA margin of 18.98 percent in FY2021; a net loss of Rs.998.31 Cr due to high depreciation and interest cost w.r.t. lease liability. Acuité believes that SpiceJet has demonstrated capability to improve its operational metrics in the past and even in the time of pandemic.

- **Induction of fuel-efficient Boeing Max and retirement of older Boeing NG fleet to keep Pax revenue in momentum; Timely receipt of DGCA approval to fly Boeing Max to remain key monitorable**

SpiceJet operates 43 Boeing NGs leased way back in 2010-13; leases of which are mostly expiring by FY2024. The company aims to replace and enhance this by induction of Boeing Max over the near to longer run. SpiceJet has ordered 155 Boeing aircrafts of which 13 were inducted but are grounded since Q1FY2020. In March 2019, the Boeing Max aircraft were grounded worldwide after two Boeing Max plane crashed. The technical glitches in Boeing Max aircraft were resolved and currently, the US regulator Federal Aviation Administration and various other aviation authorities of the world have given approval for Boeing Max aircraft to return to operations. DGCA has not yet given its approval for commencing the operations of Boeing Max aircraft in India. SpiceJet expects the approval from DGCA by December 2021. Boeing Max planes are 18-20 percent more fuel efficient and have lower maintenance cost which leads to higher profitability. Acuité believes that the timely receipt of the DGCA approval and timely induction of Boeing Max to remain key monitorable over the near term as SpiceJet's revenue banks highly on these aircrafts. Any delay in receipt of the same might lead to lower –than-envisaged revenue and margins.

- **Increasing Cargo off-take through wet-lease aircrafts and conversion of Pax aircrafts into freighter to boost future revenue growth and margins**

In FY2021, on account of Covid-19 pandemic on global scale and its impact on domestic air travel, SpiceJet recalibrated its focus to the cargo operations and has emerged as the largest air cargo operator in India. The cargo network of the company spans over 63 domestic and 44 international destinations. SpiceJet carried 78,000 tonnes of cargo in FY2020. By Q3FY2021, the company has operated more than 14,000 cargo flights and carried 1,15,500 tonnes of cargo since the lockdown by operating a fleet of 15 cargo planes including 3 wide-body aircrafts on wet lease. Revenue from cargo for SpiceJet has increased by 36 per cent Quarter on Quarter (QoQ) basics. SpiceJet has also tied-up with Brussels Airport, Adani Ahmedabad International Airport, GMR Hyderabad Air Cargo for transporting Covid-19 vaccines. The cargo business was further boosted by domestic players being able to carry cargo too, apart from the largest cargo player – Qatar Airways. On a segment basis, the revenue from cargo operations increased by 518 percent aggregating to Rs. 1,117.5 Cr for FY2021 with profit of Rs.130.9 Cr for the full year against a loss of Rs.134.2 Cr for the previous year. SpiceJet's Cargo business never contributed more than 3-4 percent to the overall TOI until FY2020. It was only in FY2021, when the Cargo contributed ~19 percent to the TOI.

The company also operates a dedicated air cargo service under the brand name SpiceXpress offering safe, on-time, efficient and seamless cargo connectivity across India and on international routes through its 100 percent wholly-owned subsidiary 'SpiceXpress and Logistics Pvt Ltd'. Management has near-term plans to hive-off Cargo business siting the potential demand to its subsidiary company (announced through the outcome of board meeting document dated June 30, 2021). The company is in nascent stage of seeking shareholder's approval for the same. Acuité believes that the sustainable improvement in scale of cargo operations will ensure stability and diversity in SpiceJet' s revenue profile over the medium term. Acuité will continuously monitor any further development in the process of hiving off the Cargo business.

- **In-process QIP and equity infusion to aid its liquidity profile**

SpiceJet's management is in-process of raising fresh capital of up to Rs.2,500 Cr through issue of eligible securities to qualified institutional buyers (QIBs). The company shall be seeking shareholders' approval as disclosed via its 'Outcome of Board meeting document' dated June 30, 2021. The equity infusion activity is expected to be undertaken by FY2023. Acuité believes that the equity infusion will aid SpiceJet' s financial profile over the medium term. Acuité shall closely monitor any further development in this regards.

Weaknesses

- **Timely receipt of Boeing compensation, restructuring of its lease rentals and renegotiations with its fuel suppliers to remain key monitorable and rating sensitivity factor**

SpiceJet has placed order for 155 Boeing Max aircraft and received 13 aircraft in FY2019. In March 2019, the Boeing Max aircraft were grounded worldwide after the incident of two Boeing Max plane crashes. Directorate General of Civil Aviation (DGCA), Indian authority that regulates civil aviation had stopped the operations of Boeing Max aircraft during the same period. SpiceJet has recognized income of nearly Rs.1,250 Cr as compensation for grounding of aircraft in FY2020 and FY2021. The company has realized and received ~Rs.275 Cr from Boeing as on date and with the on-going negotiations, the balance compensation is expected to be received in the near to medium term or waive-off the same is expected and restructure the lease rentals with longer tenure. Acuité believes that the timely receipt of compensation for grounded aircrafts from Boeing will aid the SpiceJet' s business and financial risk profile over the medium term. Besides, timely restructuring of Boeing Max lease rentals and the agreement with fuel suppliers to supply fuel against non-fund based facilities such as BG/LC will be monitorable as well as a key rating sensitivity factor to sustenance of operations over the medium term. SpiceJet is in discussion with its lessors of existing Max aircrafts to re-structure the old leases, whereby old leases are likely to be terminated and new leases will be executed. This would entail waiver of past lease rentals on Max aircraft when the aircraft were not operated in last 2 years. The revision of lease rental translates to annual savings of ~Rs.150.0 Cr on 13 aircrafts. Besides, SpiceJet is in the process of renegotiating the EDC loan repayment schedule for its Q400 aircrafts which would lower down its debt obligations relatively over the medium term. Acuité is in receipt of such mails/documents w.r.t. the on-going discussions on lease rental, fuel negotiation, EDC loan restructuring and Boeing compensation.

Acuité takes cognizance of the fact that any delay in commencement of operations of Boeing Max aircraft may have significant impact on profitability/cash flow as majority of the future growth is linked to the commencement of Boeing max. Further, the compensation from Boeing Sale and lease back income is linked to new inductions of Max aircraft which shall be delayed, if DGCA doesn't approve commencement of Max aircraft in India.

- **Below-average financial risk profile**

SpiceJet financial risk profile is below-average, marked by a negative networth and gearing along with deteriorating debt protection metrics. The EBITDAR margins of the company marginally deteriorated to 14.24 per cent in FY2021 against 14.89 per cent in FY2020 on account of Covid-19 pandemic during the period. The PAT margins of the company has significantly deteriorated to (16.31) per cent in FY2021 against (7.14) per cent in FY2020 on account increase in depreciation and finance cost charged during the period. The deteriorating profitability levels vis-à-vis increase in the finance cost has led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.93 times and 1.41 times, respectively in FY2021as against 2.41 and 1.93 times, respectively in the previous year. The net worth of the company stood negative at Rs. (2571.53) Cr as on 31 March, 2021 as against Rs. (1579.22) Cr as on 31 March, 2020. This decline is on the account of accretion of negative net profits to reserves in FY2021. The gearing level (debt-equity) has stood at (0.42) times as on 31 March, 2021 as against (0.69) times as on 31 March, 2020. TOL/TNW (Total outside liabilities/Total net worth) has stands at (5.42) times as on 31 March, 2021 against (9.21) times in previous year.

The total debt of Rs.1079.58 Cr as on 31 March, 2021 consist of long-term debt of Rs.352.67 Cr, short-term debt of Rs.416.14 Cr and maturing portion of long term borrowings of Rs.310.76 Cr. NCA/TD (Net cash accruals to total debt) has deteriorated to 0.52 times in FY2021 as against 0.70 times in FY2020. Acuité expects the financial risk profile to remain improve over the medium to long term period on account of expected improvement in operational metrics and stable 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 SpiceJet 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 SpiceJet 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 SpiceJet to pass on any increase in prices to its customers. Nevertheless, higher proportion of fuel efficient Boeing Max aircrafts to be operated by the company in the near future is likely to partially offset the risk of volatility in ATF prices.

- **Susceptible of revenue and profitability to any unprecedented stress caused by 3rd wave of Covid-19, intense competition in aviation industry**

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 since March 2020. The company witnessed minor hit on PLFs too during the 2nd wave of Covid-19. Acuité believes that further lockdown induced on account to 3rd wave of Covid-19 might be detrimental to the operational performance of the company.

Despite being the 2nd market leader in the domestic aviation industry and flying under the LCC model SpiceJet's ability to command a pricing premium remains restricted. This is due to the cost sensitive nature of the market and the intensely competitive pricing among LCCs. However, this is expected to improve over the long-term as the airline ramps up its operations with addition of fuel-efficient Max, where it would be able to command relatively higher yields.

Liquidity Position: Stretched

SpiceJet's liquidity is stretched marked by modest/insufficient net cash accruals to its maturing debt obligations, modest level of unencumbered cash and bank balance, high utilization of its PCFC and exposure to sizeable amount of contingent liabilities in form of BG. The net cash accruals excluding the Boeing's compensation has been negative in FY2021 and modest at ~Rs.96 Cr which have remained insufficient in meeting its debt obligations. The company had long term debt obligations of Rs.200-330 Cr over the last 3. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 157 days as on March, 2021 as compared to 63 days as on March, 2020. The current ratio stood below unity at 0.32 times as on 31 March 31 2021. It remained below unity even in the past 2 years ending March 31, 2020. The fund based limit (PCFC) remains utilized at ~90-95 per cent over the 12 months ended June, 2021. SpiceJet's non-fund based working capital limits utilization has been around 80-85 per cent too. The company maintained unencumbered cash and bank balances of Rs.32.03 Cr as on 31 March 31 2021against Rs.28.16 Cr in previous year. SpiceJet has been promptly repaying its debt obligations since it's the last default in the month of May/June of 2020. The company has been prompt in repaying its debt obligations since November 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of improved cash accruals to its maturing debt obligation and equity raising.

Rating Sensitivities

Positive

- Improvement in profitability by aggressive cost reduction measures by the management
- Substantial improvement in scale of operations while maintaining profitability margins and liquidity position over the medium term.
- Sustainable improvement in Leverage and Solvency position of the company.

Negative

- Prolonged impact of Covid-19 disruptions leading to decline in air traffic in FY2022 or beyond
- Any increase in crude oil prices and/or adverse movement in Dollar/Rupee conversion rate
- Any material increase in net debt levels, on a sustained basis
- Delay in receipt of DGCA approval to fly Boeing Max, which will eventually lead to delay in induction of newer Max aircrafts
- Inability to restructure lease rentals and EDC loans as envisaged along with renegotiation with duel suppliers to impact its cost structure
- Lower-than-expected revenue or profitability resulting from any of the above factors

Outlook: Stable

Acuité believes that SpiceJet will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry. The outlook may be revised to 'Positive', in case of in case of timely approval from authorities for flying of Boeing Max aircraft, restructuring of max lease rentals, improvement in Passenger load factor (PLF) leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SpiceJet registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

Particulars	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	6,120.79	13,093.31
PAT	Rs. Cr.	(998.31)	(934.81)
PAT Margin	(%)	(16.31)	(7.14)
Total Debt/Tangible Net Worth	Times	(0.42)	(0.69)
PBDIT/Interest	Times	1.93	2.41

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Entities In Services Sector - https://www.acuite.in/view-rating-criteria-50.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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Yes Bank	PCFC	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A4+ (Assigned)
Yes Bank	PCFC	Not Applicable	Not Applicable	Not Applicable	173.00	ACUITE A4+ (Assigned)
IDFC Bank	Term Loan	21-08-2019	12.50%	31-10-2023	50.00	ACUITE BB-/Stable (Assigned)
City Union Bank	WCDL	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BB-/Stable (Assigned)
Yes Bank	Term Loan (ECLGC)	22-06-2021	9.25%	23-06-2027	127.50	ACUITE BB-/Stable (Assigned)
Proposed Bank Facility		Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB-/Stable (Assigned)
Yes Bank	Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A4+ (Assigned)

Yes Bank	Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	450.00	ACUITE A4+ (Assigned)
Indian Bank	Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	192.00	ACUITE A4+ (Assigned)
ICICI Bank	Bank Guarantee*	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A4+ (Assigned)

**facility has option for Interchangeability of limits between BG and LC.

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