

Press Release
SpiceJet Limited

January 04, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	790.52	ACUITE B Stable Reaffirmed	-
Bank Loan Ratings	659.48	-	ACUITE A4 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	1450.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE B**' (read as **ACUITE B**) and its short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 1,450.00 Cr bank facilities of Spicejet Limited (SpiceJet). The outlook is '**Stable**'.

The rating was earlier flagged as "Issuer Non-Cooperating" in the PR dated Aug 3, 2022 but subsequently, the company has provided adequate information for the current rating review.

Rating Rationale

The rating continues to factor SpiceJet's market position as the third largest domestic airliner in India and its significant presence in the low-cost air travel space and regional routes, the revenue diversity through the cargo business and the management's track record in the airline business. While the airline industry has been severely impacted by the Covid pandemic since FY 2021, SpiceJet's credit quality challenges are also accentuated by the challenges around its grounded fleet, the pending 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. The company is in the process of raising funds to the tune of approx \$200 mn; however, the contours of the funding plan are yet to be crystallized.

The rating remains constrained given the tight liquidity position of the company. Around 43% of the airline's fleet is grounded and this is primarily due to non-payment of lease rentals and supply chain crunch which restricts the aircrafts from visiting the shop floor. This has had an adverse impact on the operations of the airline, impacting the revenue generation capabilities. The airline's strategy is to hive-off the cargo business into Spice Xpress and Logistics Private Limited (Spice Xpress), coupled with the debt-to-equity swap of the outstanding lease rentals of Spicejet Limited into equity of Spice Xpress.

SpiceJet is expanding its operations under the Regional Connectivity Scheme (RCS) which awards the airline better yields than the prime sectors. This is likely to improve the operational feasibility of the airline since the airline will incur relatively lower costs for operating such sectors due to the government initiatives promoting RCS flights. The passenger traffic is expected to

improve gradually from the regional destinations. The airline plans to add capacity in the fleet, which is likely to uplift the liquidity position through a profit on sale and lease back transaction. Acuite believes that if the pace of addition to fleet supersedes the growth in passenger traffic, it may also add to the profitability pressures.

About 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 72 aircrafts (28 Boeing NG (700/800/900), 13 Boeing max (737), 28 Q-400 and 3 freighter aircrafts) serving domestic as well as international destinations as on November 30, 2022.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has considered the consolidated business and financial risk profiles of SpiceJet Limited along with the following entities to arrive at the rating:

- Canvin Real Estate Private Limited
- SpiceJet Merchandise Private Limited
- Spice Shuttle Private Limited
- Spicetech System Private Limited
- SpiceJet Technic Private Limited
- Spice Xpress and Logistics Private Limited

While the company plans to hive off of the cargo business into Spice Xpress and Logistics Private Limited, the management control will remain with SpiceJet.

Key Rating Drivers

Strengths

Significant market 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 ~ 10-11 percent since Covid-19 outbreak in 2020. SpiceJet is currently ranked at the third position amongst the Indian domestic airlines in terms of passengers carried (Pax). It is one of the largest regional player in the country with multiple UDAN flights operating across destinations under the regional connectivity scheme. The company's fleet size stands at 72 aircrafts as on Nov-2022. 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. The number of flights operated were recorded at 92,527 and the total passenger traffic volume in 2022 (Jan – Oct) stood at 1.02 Cr.

Experienced management and healthy business model with diversified revenue
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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 three streams; Primary (Passenger air travel), Ancillary (Preferred Seating, Business Class, Spice Max, Loyalty Programmes, Insurance, Meals, Spice Vacations, Lounge, Visa, Cab, Cargo, Onboard Merchandise), and, Cargo business. The company has also added aircrafts 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.

Cargo segment hive-off & debt-to-equity swap of outstanding lease rentals

The airline is in the process of hiving-off the cargo segment of its business and has received in-principle NOC from all the lending banks regarding the hive-off. This exercise is to allow the airline to clean-up its balance sheet by methods of initiating a debt-to-equity swap of the outstanding lease rentals of Spicejet Limited into equity share capital of Spice Xpress. Spice Xpress has been currently valued at approx. \$1.2 bn - \$1.5 bn (as per the management comment). Acuite through management interaction learns that, the major lessors of the airline have agreed to swap their debt with the equity of Spice Xpress, however, the swap has not been crystallised in the form of an agreement document yet. Acuite believes that the swap is likely to alleviate the pressure around the payment of lease rentals to an extent.

Revenue recovery after the pandemic

SpiceJet's total operating income (TOI) has been consistently growing over the past two years. It reported TOI of Rs. 7,417.83 Cr in FY 2022 which was recorded at Rs. 5,782.42 Cr in FY 2021. The company had been incurring net profit since FY 2016 till FY 2018. Company reported Y-o-Y TOI growth of 28.28 percent in revenue from FY 2021 to FY 2022. The significant growth in revenues in FY 2022 was due to resumption of operations pursuant to the lockdowns imposed in FY 2021. Passenger segment accounted for 68.70 per cent of the total revenue, whilst, the cargo segment recorded revenue of 28.82 per cent, with the remainder 2.48 per cent being revenue earned from other services. Acuite believes that the penetration in the cargo segment is likely to augur well for the company over the near to medium term.

Weaknesses

Weak financial position

SpiceJet financial position is below-average, marked by a negative networth and gearing along with deteriorating debt protection metrics. The EBITDAR margins of the company deteriorated to (1.14) per cent in FY 2022 against 13.95 per cent in FY 2021 on account of second wave of Covid-19 pandemic during the period. The PAT margins of the company has further deteriorated to (22.47) per cent in FY 2022 against (17.81) per cent in FY 2021 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 0.26 times and 0.15 times, respectively in FY 2022 as against 2.08 and 1.43 times, respectively in the previous year FY 2021. The net worth of the company stood negative at Rs. (4,340.22) Cr as on 31 March, 2022 as against Rs. (2,604.25) Cr as on 31 March, 2021. This decline is on the account of accretion of negative net profits to reserves in FY 2022. The leverage ratios are not meaningful for the period under consideration.

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 per cent 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 to a certain extent.

Significant proportion of grounded fleet

The airline has a fleet size of 72 aircrafts as on November 30, 2022. Out of the said 72 aircrafts, 31 aircrafts are non-operational. The grounding of aircrafts is primarily due to non-payment of lease rentals to the lessors and the supply chain crunch which restricts the aircrafts from visiting the shop floor for maintenance. The airline is in the process of raising funds for ungrounding these aircrafts. However, until the funds are raised, a substantial portion of the fleet will remain grounded which will affect the revenue generation capabilities of the airline.

ESG Factors Relevant for Rating

Environment

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.

Social

Labour 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.

Governance

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

Rating Sensitivities

- Significant improvement in the liquidity position along with a resolution of the pending aircraft lease rentals
- Improvement in profitability by aggressive cost reduction measures by the management
- Any increase in crude oil prices and/or adverse movement in dollar/rupee rate

Material Covenants

None

Liquidity Position

Stretched

SpiceJet's liquidity is stretched marked by inadequate net cash accruals to its maturing debt obligations, modest level of unencumbered cash and bank balance. The net cash accruals have been negative in FY 2022 at ~Rs. 373.48 Cr. The company had long term debt obligations of Rs. 312.88 – 459.30 Cr over the last 3 financial years. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 104 days as on March 31, 2022 as compared to 163 days as on March 31, 2021. The current ratio stood below unity at 0.24 times as on March 31, 2022. It remained below unity even in the past 2 years ending March 31, 2021. SpiceJet's non-fund based working capital limits utilization has been around ~90-95 per cent. The disclosures made by the company in the annual report of FY22 indicate that there are significant arrears of statutory dues that are outstanding for more than six months.

While SpiceJet has been promptly repaying its debt obligations for the last 4 months ended November 2022, Acuité believes that the liquidity of the company is likely to remain stretched

over the short term on account of cash losses from operations vs the maturing debt obligations.

Outlook: Stable

Acuité believes that SpiceJet's business profile will continue to benefit over the medium to long term on account of the long track record of operations and the experience of its management. The outlook may be revised to 'Positive', in case of timely deliveries of Boeing Max aircrafts and successful restructuring of aircraft lease rentals along with a recovery in the profitability and an improvement in the liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any further deterioration in the liquidity position and a disruption in the airline's operations.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	7417.83	5782.42
PAT	Rs. Cr.	(1666.81)	(1029.89)
PAT Margin	(%)	(22.47)	(17.81)
Total Debt/Tangible Net Worth	Times	(0.25)	(0.41)
PBDIT/Interest	Times	0.26	2.08

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

SpiceJet Limited did not co-operate with CRISIL Limited (Crisil), which classified the entity as non-cooperative through a release dated June 09, 2022. The reason provided by Crisil is non-payment of surveillance dues for monitoring of the rating.

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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
	Packing Credit	Short Term	150.00	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	100.00	ACUITE A4 (Issuer not co-operating*)
	Packing Credit	Short Term	173.00	ACUITE A4 (Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	100.00	ACUITE B (Issuer not co-operating*)

03 Aug 2022	Term Loan	Long Term	127.50	ACUITE B (Issuer not co-operating*)
	Bank Guarantee	Short Term	192.00	ACUITE A4 (Issuer not co-operating*)
	Bank Guarantee	Short Term	100.00	ACUITE A4 (Issuer not co-operating*)
	Term Loan	Long Term	50.00	ACUITE B (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	7.50	ACUITE B (Issuer not co-operating*)
	Bank Guarantee	Short Term	450.00	ACUITE A4 (Issuer not co-operating*)
12 May 2022	Proposed Bank Facility	Long Term	7.50	ACUITE B (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	50.00	ACUITE B (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	173.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	127.50	ACUITE B (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	100.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	192.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Working Capital Demand Loan	Long Term	100.00	ACUITE B (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	100.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	450.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Packing Credit	Short Term	150.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
09 Aug 2021	Term Loan	Long Term	50.00	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	450.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Long Term	7.50	ACUITE BB- Stable (Assigned)
	Packing Credit	Short Term	173.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	192.00	ACUITE A4+ (Assigned)
	Packing Credit	Short Term	150.00	ACUITE A4+ (Assigned)
	Working Capital Demand Loan	Long Term		
	Term Loan	Long Term	100.00	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	127.50	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A4+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	310.50	ACUITE A4 Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	59.70	ACUITE A4 Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	270.78	ACUITE A4 Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE A4 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	352.04	ACUITE B Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	60.00	ACUITE B Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	150.98	ACUITE B Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	127.50	ACUITE B Stable Reaffirmed
IDFC First Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE B Stable Reaffirmed
City Union Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	80.00	ACUITE B Stable Reaffirmed

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