

Press Release

Sapphire Airlines Private Limited

July 07, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE A Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	65.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE A (read as ACUITE A)** to the Rs 65 Cr bank facilities of Sapphire Airlines Pvt Ltd (SAPL). The outlook is **Stable**.

Rationale for rating

The rating reflects the strength of the Take or Pay Agreement (ToPA) which provides revenue certainty for SAPL for the life of the acquired asset. Under the key terms of ToPA the charterers (which includes JSW Steels Limited, JSW Energy Limited, JSW Cement Limited and JSW Jaigarh Port Limited) pay for minimum guaranteed hours, and exit of charterers requires a prior written consent from lender of SAPL. The rating also draws comfort from being part of the JSW Group which translates into robust financial flexibility for the company. Further, the rating draws comfort from the escrow mechanism. However, the rating remains constrained by the nascent stage of operations, moderate earning profile and the cost structure which is yet to be established.

About the Company

Mumbai based Sapphire Airlines Private Limited was incorporated in 2007. The company main line of business is to provide Aircraft Chartering Service. The directors of the company are Mr. Sadashiv Mahadeo Patil, Mr. Sreenivas Krishnan and Mr. Manoj Kumar Mohta. Sajjan Jindal Family Trust owns the Everbest Consultancy Services Pvt Ltd, which is a 100% shareholder of the SAPL.

Sapphire Airlines Pvt Ltd (SAPL) has entered into a take or pay agreement with JSW Group companies namely, JSW Steel Ltd, JSW Energy Ltd, JSW Cement Ltd and JSW Jaigarh Port Limited for providing chartering services of the helicopter for their business travel requirements.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SAPL to arrive at the rating.

Key Rating Drivers

Strengths

Strength derived from Agreement

SAPL has entered into a Take or Pay Agreement with JSW Group companies namely, JSW Steel Ltd, JSW Energy Ltd, JSW Cement Ltd, and JSW Jaigarh Port Limited for providing chartering services of the helicopter for their business travel requirements for a period of 12 years with an option of extension for additional 3 years. The helicopter, AW169 was imported in March 2022 and is operational from April 13, 2022.

JSW Steel Limited and JSW Energy Limited are estimated to contribute to around 85% of revenue out of the total guaranteed annual income. Further, the charterer under the term of the agreement are expected to pay for actual flight expenses and taxes as per the extant regulations, if any. In addition to the same, all the charterers in proportion to their usage will share overhauling /maintenance expenses.

The risk for termination of agreement and the uncertainty on the revenue stream is mitigated partly under the terms of the agreement. A termination notice by either party can only be sent post a written consent from the lender. Further, the company has received the interest bearing security deposit of Rs 30 crore from charterers, which are repayable after the repayment of bank loan in 36 equal instalments along with accumulated interest.

The company plans to purchase a two new aircrafts Global 6500 and Global 3500 in FY 2024 of approx. Rs 435 Cr and Rs 195 Cr respectively, revenue from these aircrafts is expected from FY 2025 onwards. Acuite notes that the plans are currently at nascent stage including the procurement and the funding tie-ups. However, given the strong parentage of the company the resource mobilization ability of the company remains robust.

Acuite believes that company is likely to record a stable revenue in medium term with the assured minimum hours as per the agreement.

Strong Counterparty Credit Profile

The counterparties to the agreement are JSW Group Companies, wherein JSW Steel Ltd and JSW Energy Ltd are constituting 85% of minimum guaranteed income and remaining is contributed by JSW Cement Ltd and JSW Jaigarh Port Ltd. JSW Steel Ltd is among the leading manufacturer of diverse range of steel products with an export presence in over 100 countries. The operating income of the company on a standalone basis stood at Rs 1,18,820 Cr in FY 2022, PAT margins at 13.83 percent and net cash accruals at Rs 23,608 Cr in FY 2022.

JSW Energy Ltd is India's leading private sector power producing with presence across power sectors including generation, power transmission, mining, power plant equipment manufacturing and power trading. The company has recorded an operating income of Rs 3,643 Cr in FY 2022, PAT margins at 14.72 percent and net cash accruals at Rs 897 Cr in FY 2022. The remaining two companies JSW Cement Ltd and JSW Jaigarh Port Ltd have reported an operating income of Rs 3,413 Cr and Rs 663 Cr in FY 2021.

Waterfall mechanism in ESCROW Account

SAPL has escrow mechanism through which cash flows from take or pay agreement are routed through the designated current account and charterers to provide confirmation for the deposit of all cash flows. The cash flows will be used for payment as per the defined payment waterfall. Only surplus cash flow after meeting operating and statutory expenses, overdue recovery (if any), schedule interest payments and principal repayments can be utilised as per borrower's discretion. Further, the undertaking has also been obtained by the banker that 51% shareholding and management control of SAPL directly or indirectly will remain with the JSW Group.

Weaknesses

Nascent stage of operations and uncertainty on the cost structure

SAPL has started operations recently in April 2022 only. The revenues are assured with the charterer obliged to pay for minimum guaranteed hours, however, operating costs and fixed cost are yet to be established. Under the terms of the agreement, SAPL is obligated to provide substitute helicopters to the charter in case of non-availability of the procured asset. The rentals for such transaction may significantly impair the DSCR estimates.

Acuite believes that any significant increase in operating and fixed cost estimate is likely to impact the rating.

Rating Sensitivities

Change in cost estimates

Non-compliance or a revision in the terms of ToPA

Any material changes in the credit profile of the charterers

Any regulatory changes which materially impacts the operations of SAPL

Material covenants

Minimum DSCR of 1.15 times to be maintained during the tenor of the facility.

Liquidity Position: Adequate

SAPL has an adequate liquidity as debt-tie up with Axis Finance of Rs 65 Cr is already in place which is disbursed in December 2021 upto Rs 63.46 Cr. Repayment of the loan will be quarterly, starting from July 2022. Further, the minimum guaranteed incomes are sufficient to cover the repayment of loan with an average DSCR of 1.34 times. The company has also received interest bearing security deposit of approx. Rs 30 Cr from charterers.

Outlook: Stable

Acuité believes the outlook on SAPL will remain 'Stable' over the medium term backed by its strength of agreement with the charterers, proper escrow mechanism and strong counterparty credit profile. The outlook may be revised to 'Positive' if the cost remains as estimated. Conversely, the outlook may be revised to 'Negative' in case of increase in cost leading to deterioration in operating margins and debt-service-coverage-ratio.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(1.09)	(0.31)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	18.07	0.00
PBDIT/Interest	Times	(1.08)	0.00

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Finance Limited	Not Applicable	Term Loan	28-12-2021	9	30-04-2030	65.00	ACUITE A Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sehal Birla Manager-Rating Operations Tel: 022-49294065 sehal.birla@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.