

**Press Release**  
**Sapphire Airlines Private Limited**  
**September 28, 2023**  
**Rating Reaffirmed**



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

**Rating Rationale**

Acuite has reaffirmed its long term rating of **ACUITE A (read as ACUITE A)** to the Rs 65 Cr bank facilities of **Sapphire Airlines Private Limited (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.

**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.

**Standalone (Unsupported) Rating**

None

**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 two new aircrafts Global 7500 and Global 3500 in FY 2024 & 2025 of approx. Rs 624.75 Cr and Rs 195 Cr respectively, revenue from these aircrafts is expected from FY 2025 onwards. The company has received security deposits worth Rs. 521 Cr. from JSW Steel Ltd, JSW Energy Ltd and JSW Jaigarh Port Limited from the advance payment. Acuite notes that the plans are currently at nascent stage including the procurement, agreement terms 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 1,31,687 Cr in FY 2023, PAT margins at 3.70 percent and net cash accruals at Rs 9,889 Cr in FY 2023. 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 5,739 Cr in FY 2023, PAT margins at 12 percent and net cash accruals at Rs 1,028 Cr in FY 2023. The remaining two companies JSW Cement Ltd and JSW Jaigarh Port Ltd have reported an operating income of Rs 4,099 Cr and Rs 458 Cr in FY 2022.

### **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

### **All 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. Repayment of the loan is 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. Further for the purchase of the aircrafts the company has already received security deposit of Rs. 521 Cr. from the charterers and the remaining fund is yet to be tied up.

### **Outlook: Stable**

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.

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	21.12	0.00
PAT	Rs. Cr.	0.43	(0.46)
PAT Margin	(%)	2.06	0.00
Total Debt/Tangible Net Worth	Times	12.89	15.35
PBDIT/Interest	Times	1.60	(819.53)

### 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

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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Jul 2022	Term Loan	Long Term	65.00	ACUITE A   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Finance Limited	Not Applicable	Term Loan	28 Dec 2021	9	Not available	Simple	65.00	ACUITE A   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>  Sushant Kumar Mishra Senior Manager-Rating Operations Tel: 022-49294065 <a href="mailto:sushant.mishra@acuite.in">sushant.mishra@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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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