

IndianOil Skytanking Private Limited (Revised)

October 10, 2022

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	85.54 (Reduced from 92.58)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total bank facilities	85.54 (₹ Eighty-five crore and fifty-four lakh only)		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of IndianOil Skytanking Private Limited (IOSL) continues to take comfort from the strong parentage of Indian Oil Corporation Limited (IOCL) and Skytanking Holdings GmbH (Skytanking); the operational and managerial support from the sponsors; the status as a service provider at India's various major airports, viz, Bengaluru International Airport (BIAL; Kempegowda International Airport), Delhi International Airport (DIAL; Indira Gandhi International Airport), and Mumbai International Airport (MIAL; Chhatrapati Shivaji International Airport). The rating also factors in the strong credit risk profile, characterised by a strong capital structure and liquidity position maintained by the company and the improvement in the operational and financial performance of the company during FY22 (refers to the period from April 01 to March 31) on account of the gradual relaxation of travel restrictions related to the COVID-19 pandemic, which resulted in improved flight and passenger movements across the country.

The rating strengths are, however, partially offset by the company's exposure to the regulatory risks in air traffic. The rating also takes note of the concession agreement (CA) signed by IOSL and IOSL Noida Private Limited (INPL – a wholly owned subsidiary of IOSPL) with Yamuna International Airport Private Limited (YIAPL) to construct an aviation turbine fuel (ATF) facility at Noida International Airport (NIA), Jewar, on a design finance build operate transfer (DFBOT) basis (Noida project), its associated project implementation risk, and the expected increase in debt levels.

Going forward, the ability of the company to sustain healthy cash generation from its operations and the timely completion of the Noida project will remain the key rating sensitivities while any adverse regulatory changes will weigh negatively on its credit.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Continuous increase of the total operating income (TOI) in the range of 10%-15% and improvement in profit before interest, lease rentals, depreciation and taxation (PBILDT) margin.
- Sustenance of a comfortable capital structure and the liquidity profile of the company.
- Timely execution of the Noida Project and generation of revenues as envisaged.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Large debt-funded capex impacting the cash accruals (total debt (TD)/gross cash accruals (GCA) above 1.50x) and the liquidity of the company on a continued basis.
- Delays in the execution of the Noida Project, causing significant cost overruns.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and support from promoters: IOSL, incorporated in 2006, is a joint venture (JV) between IOCL and Skytanking, each holding a 50% share. IOSL was incorporated as a special purpose vehicle (SPV) by IOCL with a focus on

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

aviation fueling at various Indian airports. IOCL's aviation service division supplies ATF to air carriers in India at more than 126 fueling locations country-wide. During FY22, IOCL commanded a 62.5% market share in the aviation fuel segment, which positively impacts IOSL's earnings too. Skytanking's activities encompass the design, engineering, funding, and construction of aviation fuel tanks and hydrants, as well as tank farm, hydrant and into-plane operations. IOSL derives financial, operational, and managerial support from both of its parent companies. Mr. Sanjay Sahay, Chairman of IOSL, is also the Executive Director-Aviation at IOCL; Mr. TS Dupare, Director & Chief Executive Officer of IOSL, was General Manager-Aviation of IOCL in his previous assignment; and Mr. BG Wankhede, Chief Financial Officer of IOSL was Deputy General Manager-Internal Audit at IOCL in his previous assignment. The day-to-day operations of IOSL are overseen under the able leadership of Mr TS Dupare, who is a veteran in the aviation industry, assisted by a well-qualified management team with prior industry experience.

Service provider at various major airports of the country: The company has established facilities with integrated nature of operations. IOSL has an annual throughput capacity of 3.2 billion litres in fuel farm (FF) facilities and 3.6 billion litres in into-plane (ITP) services. IOSL operates 33 km of fuel hydrant pipeline and fuelled 33 aircraft per hour in FY22. IOSL derives most of its income from operations at three major airports of India, ie, BIAL (provides FF and ITP), DIAL (provides FF and ITP), and MIAL (provides ITP). Apart from these airports, IOSL also provides operations and maintenance (O&M) services at 22 other airports under fixed contracts (where revenue is based on fixed lumpsum amount plus variable revenue over and above fixed volume), which assures steady revenue, and is not dependent on throughput volume. IOSL is the sole provider of FF facility at BIAL on an open access basis for the storage of aviation turbine fuel supplied by oil marketing companies. At DIAL, IOSL has a long-term agreement to operate the aviation FF at DIAL, under which IOSL is being paid on a cost-plus basis, which ensures stable margins for the company, irrespective of the volume handled by it. The company also provides ITP services at BIAL, DIAL, and MIAL, along with other players. Under the ITP model, the company has entered into sub-CAs with BIAL, DIAL, and Mumbai Aviation Fuel Farm Facility Private Limited (MAFFPL) – for a period of 10 years each at BIAL (from May 2019 to May 2029) and MAFFPL (from October 2014 to October 2024) and 15 years at DIAL (from April 2021 to March 2036).

Financial risk profile, characterised by low debt and comfortable liquidity: The company's financial risk profile remains comfortable, with a strong capital structure and comfortable liquidity. As on March 31, 2022, the company's TD stood at ₹6.65 crore on a tangible net worth (TNW) of ₹181.60 crore. The overall gearing as on March 31, 2022, stood at 0.04x as against 0.07x as on March 31, 2021. The company operates with a negative to zero working capital cycle and does not have any sanctioned fund-based working capital limits. The TOI of the company improved by almost 25% in FY22 on account of the recovery of the aviation sector with the curbing of the COVID-19-related air travel restrictions. Following the gradual relaxation in COVID restrictions, air travel in the country is recovering on a month-on-month basis. The TOI of the company during Q1FY23 improved to ₹61 crore as against ₹42 crore reported during Q1FY22. As on June 30, 2022, the company had cash and liquid assets of almost ₹40 crore, which supports the liquidity position of the company. Going forward, CARE Ratings Limited (CARE Ratings) expects the debt-funded capex being undertaken at NIA to moderately impact the company's debt metrics. However, the same is expected to remain in a comfortable range. Notably, the company has infused the entire promoter contribution for the Noida project upfront in the form of the equity share capital of the wholly-owned subsidiary INPL, which will be executing the Noida Project.

Noida project on DBFT basis at the upcoming NIA, Jewar: IOSL and INPL have signed a CA with YIATPL to construct an ATF Facility at the NIA, Jewar, on a DBFT basis. The estimated commercial operations date (COD) is September 2024 and the concession period is 30 years from COD. The total estimated project cost is ₹194 crore, which is to be funded by ₹136 crore debt and ₹58 crore equity at a debt-to-equity ratio of 70:30. It will be executed by a newly incorporated wholly-owned subsidiary of IOSL, ie, INPL. IOSL has infused the entire promoter contribution upfront in INPL, in the form of equity share capital. IOSL has indicated that a term loan of ₹136 crore has already been sanctioned, however, drawdown is pending. Until August 31, 2022, the company has incurred around ₹40 crore towards the project, which is entirely from the promoter contribution. IOSL has floated tenders for various activities, which are in the final stages of approval. IOSL has a strong project execution capability, which mitigates the project implementation risk to an extent. However, this debt-funded capex is expected to impact the leverage levels and the liquidity position of the company in the medium term to some extent.

Improving throughput volume and operational parameters, although short of pre-COVID levels: The company's operational performance, both in FF and ITP operations at the three major airports was hit by the outbreak of the COVID-19 pandemic and the resultant decline in air traffic movement during FY21. However, with the gradual withdrawal of COVID-19-related restrictions in flight movements, the overall throughput volume and air traffic improved during FY22 and further during Q1FY23. Air traffic continues to witness a revival in demand after COVID-related restrictions on airline travel and operations imposed by the Government of India (GoI) and state governments have been lifted. Because of this, the overall demand outlook for FF and ITP fueling services at major airports in the country has improved. The capacity utilisation by major carriers

and airports continues to improve from the FY22 levels. In India, about 188.71 million passengers travelled by air in FY22 from domestic and international flights put together as compared with 115.29 million passengers in FY21, according to the Airports Authority of India (AAI). The overall air travel volume and operations has increased significantly, although still short of the pre-COVID levels. CARE Ratings expects a V-shape recovery in the passenger traffic in FY23, with nearly 70% growth over FY22 passenger traffic. Assuming there is no recurrence of the pandemic, the passenger traffic during FY23 is expected to recover to 93% of the pre-COVID level traffic. The international traffic is expected to revive to pre-COVID levels by early FY24 after the resumption of international flights to full capacity from March 27, 2022.

Key rating weaknesses

Exposure to regulatory risks in air traffic: The Airports Economic Regulatory Authority of India (AERA) is the regulatory body that determines and regulates the tariff fixed in rendering aeronautical services at airports in India. IOSL's operations also come under the ambit of AERA regulations and tariffs for such services rendered by IOSL are determined by AERA. Various tariffs charged by IOSL are governed by AERA. These charges are fixed by AERA for a control period, which for both ITP as well as FF, is five years. While deciding the tariff, AERA takes into consideration the likely volume throughput, the return on equity, the return on assets, etc, and accordingly revises the tariffs. The business remains susceptible to air traffic in the airports in which the company operates. The revenue from FF and ITP services depends on throughput volumes and any decrease in throughput volume will impact the revenue.

Liquidity: Strong

IOSL derives financial flexibility from its strong parentage. The company operates with a negative to zero working capital cycle and receives payments from oil manufacturing companies (OMCs) for a particular month during the same month itself and does not have fund-based working capital limits. The GCA during FY22 stood at ₹34 crore as against the total debt repayment obligations of ₹4.43 crore in FY23. Furthermore, the company has cash and liquid investments to the tune of ₹40 crore as on June 30, 2022. With a recovery in the aviation sector post curbing of the COVID-19-related restrictions on air travel, CARE Ratings expects the operating income of the company to further improve in FY23. However, the timely execution of the Noida Project along with the generation of revenue as envisaged will remain a key monitorable in the future.

Analytical approach: Consolidated

The list of subsidiaries considered for consolidation is presented in Annexure-6.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company

Incorporated in 2006, IOSL is a 50:50 JV between IOCL and Skytanking. At BIAL, IOSL is engaged in the design, finance, construction, and operation of the aviation FF facility. It also operates the FF facility at DIAL. IOSL also provides ITP services at the airports at Bengaluru, Delhi, and Mumbai. It also provides O&M services to airports at 22 other airports. IOSPL and INPL have signed a concession agreement with YIAPL to construct an ATF facility at Noida International Airport (NIA), Jewar, on a design finance build operate transfer (DFBOT) basis. Concession period is for 30 years from the COD.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
TOI	161.80	201.66	61.30
PBILDT	37.26	43.26	17.18
PAT	10.20	12.44	7.82
Overall gearing (times)	0.07	0.04	NA
Interest coverage (times)	30.93	48.37	122.71

A: Audited, UA: Unaudited, NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Bank guarantee	-	-	-	-	80.00	CARE AA; Stable
Fund-based - LT-Term loan	-	-	-	September 2023	5.54	CARE AA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Non-fund-based - LT-Bank guarantee	LT	80.00	CARE AA; Stable	-	1)CARE AA; Stable (September 15, 2021)	1)CARE AA; Negative (September 03, 2020)	1)CARE AA; Stable (July 03, 2019)
2.	Fund-based - LT-Term loan	LT	5.54	CARE AA; Stable	-	1)CARE AA; Stable (September 15, 2021)	1)CARE AA; Negative (September 03, 2020)	1)CARE AA; Stable (July 03, 2019)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Fund-based - LT-Term loan	Simple
2.	Non-fund-based - LT-Bank guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please [click here](#).

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-6: Subsidiaries being consolidated

Sr. No.	Name of the Company	Percentage Ownership Interest
1.	IndianOil Skytanking Delhi Private Limited	100.00%
2.	IOSL Noida Private Limited	100.00%

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About us:

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