# GMR Airports Limited (Revised)

March 12, 2021

| Facilities/ Instruments | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Bank facilities – Non Fund based- LT/ST – LC/BG | 200 | CARE A- / CARE A2+; Negative [Single A Minus; A Two Plus; Outlook: Negative] | Reaffirmed |
| **Total facilities** | **200 (Rupees Two Hundred Crore only)** | | |
| Proposed Non-Convertible Bonds (2021 Bonds) | 500 | CARE A-; Negative (Single A Minus; Outlook: Negative) | Assigned |
| Non-Convertible Bonds | 3,000 | CARE A-; Negative (Single A Minus; Outlook: Negative) | Reaffirmed |
| Non-Convertible Bonds (INE903F07013) | - | - | Withdrawn |
| Non-Convertible Bonds (INE903F07021; INE903F07039) | - | - | Withdrawn |
| Non-Convertible Bonds (INE903F07047) | - | - | Withdrawn |

*Details of instruments / facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has assigned the rating of CARE A-; Negative (Single A Minus; Outlook: Negative) to the proposed non-convertible bonds (*'2021 bonds*') of GAL. The proposed bond issue will have a tenure of 36 months with bullet payment on maturity. The reaffirmation of ratings continues to factor in GAL's healthy financial flexibility, the company being the holding company of two major airports in the country viz, Delhi International Airport Private Limited (DIAL) and GMR Hyderabad International Airport Limited (GHIAL). Both the airports are among the busiest airports in India. The rating also factors in the existing ownership structure, with Groupe Aéroport de Paris (Groupe ADP), a major international airport operator group, having recently acquired a 49% stake, besides the promoter GMR group, which remains the majority shareholder with 51% stake and management control. With Groupe ADP having significant board representation, it is expected to enhance GAL's operational efficiencies, while bolstering the company's fund-raising capabilities, project execution and bidding capabilities, going forward.

The ratings, however, continue to remain constrained by the slower than expected recovery in air passenger traffic at GAL's operating assets with the persistence of the COVID-19 pandemic, resulting in a probable moderation in GAL's cashflows – from operator fees, management fees, etc. – going forward. Besides, the company has around Rs 1,330 crore of outstanding Non-Convertible Bonds (NCBs) scheduled to be repaid in June 2023, which it aspires to prepay during FY22 using the proceeds of a planned bond raised in its international subsidiary viz GMR Airports International

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[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

B.V. (GAIBV). Considering the uncertainties pertaining to international bond market, the timely issuance of such bonds would remain a key rating monitorable. In case the company's bond raising plans are delayed due to subdued market conditions, it would depend upon fresh debt tie up, thereby exposing itself to a significant refinancing risk. Any delay in the materialization of the planned bond raising initiative and/ or the company's refinancing proposal beyond December 31, 2021 shall be a credit negative for the company.

CARE has withdrawn the rating on the previously outstanding NCBs totaling Rs 1,670 crore subsequent to modifications in terms and conditions of the said bonds. The old ISINs have been delisted and new ISINs have been assigned which is part of the Rs.3000 crore NCBs.

**Outlook: Negative**

The 'Negative' outlook reflects the expectation that the financial profile of GAL's operating airport assets could weaken in the near term given the significant decline in passenger traffic in view of ongoing coronavirus (COVID-19) pandemic crisis, which has led to various Government authorities imposing lockdowns and restrictions on air travel. This has in turn resulted in reduction in air traffic movements of unprecedented proportions and thereby disrupting the entire aviation sector. As a result, GAL's revenues in the near to mid-term earned through operator fee, management fee and dividend from these airport assets are expected to get impacted in comparison to previous years. Any higher than envisaged moderation in GAL's cashflows would be credit negative.

**Rating Sensitivities**

**Positive**

- Timely materialization of deleveraging efforts leading to significant reduction in debt levels below Rs 500 crore.

**Negative**

- Persistence of the Covid-19 pandemic related constraints on international air travel, leading to slower than envisaged recovery of passenger traffic at DIAL and GHIAL.
- Delay in the proposed refinancing and/ or proposed bond raising plans to meet its debt obligations beyond December 31, 2021.
- Further delay in the receipt of funds from group companies beyond May 2021 and/or any additional outflow in the form of loans & advances/ICDs to group companies.
- Significant increase in equity commitments or other funding support required in upcoming projects.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Majority ownership of two large operating airport assets providing financial flexibility***

GAL is the holding company for two major airport assets – DIAL and GHIAL – which have strong business profiles and command monopolistic positions at their respective locations. Both these airports have regulated revenues under the hybrid till tariff structure with assured return on aero assets, which is further supported by non-aero revenues. GAL also holds 17% in Delhi Duty Free Services Limited (DDFS) and 40.1% in Delhi Airport Parking Services Private Limited (DAPS) which have healthy financial risk profiles. GAL has financial flexibility being majority stake holder in DIAL (64%) and GHIAL (63%) . Apart from the domestic airport assets, GAL through GAIBV also has 40% stake in Mactan Cebu

International Airport, which is the second largest airport of Philippines and has current capacity of 16 million passengers per annum.

***Satisfactory business profile of airport assets, although weakened in 9MFY21***

The two main operating airports under GAL - DIAL, which is the largest airport in India and GHIAL, have demonstrated consistent improvement in their business performance over the years. DIAL and GHIAL put together handled more than 26% of the total passenger traffic in the country during FY20. The total passenger traffic at DIAL had increased from 29.94 million during FY11 to 67.30 million during FY20 equivalent to a compounded annual growth rate (CAGR) of 9.42%. Similarly, the total passenger traffic at GHIAL increased from 7.60 million during FY11 to 21.65 million during FY20 at a CAGR of 12.33%. However, due to the onset of Covid-19, the entire aviation sector has been adversely affected with reduced air traffic movements, and operations limited to cargo and few rescue flights (until May 24, 2020). While the GoI has permitted domestic flights from May 25, 2020 onwards, operations are currently limited to 80% capacity. The impact of COVID-19 is expected to remain in the near to medium term, impacting the operational and financial performance of the entire sector, and the recovery of the same remains highly dependent on the successful Covid-19 vaccination programme rolled out by the GoI.

During 9MFY21, total revenue for DIAL declined by 57.04% to Rs 1,351.55 crore, primarily on account of the decline in passenger traffic during the period. The substantial drop in revenues resulted in a net loss of Rs 665.82 crore during 9MFY21 as against net profit of Rs 3.61 crore during 9MFY20. On similar lines, the total revenue for GHIAL during 9MFY21 moderated by 70.48% to Rs 375.01 crore which resulted in a net loss of Rs 221.17 crore as against net profit of Rs 566.13 crore during 9MFY20. GAI BV's Mactan Cebu Airport also exhibited moderation in the operational performance as it reported decline in total passenger traffic to 2.7 million for 2020 as against 12.7 million during 2019.

***Experienced promoters with diversified business portfolio***

GMR Group was founded by Mr. G. M Rao in 1978. The group began its corporate journey nearly 30 years ago from a small family managed business to become a large, diversified, professionally managed corporation. Over the years, the company has demonstrated successful execution capabilities across diverse sectors. At present, the group's investment interests span across various infrastructure businesses such as energy, airports, roads and urban infrastructure. Besides, in FY20, the large international airport operator, Groupe ADP acquired a 49% stake in GAL subsequent to the completion of the stake sale deal with GMR Infrastructure Limited. Groupe ADP develops and manages airports, and owns and operates all three of Paris' international airports: Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget. In addition, ADP also manages 21 airports globally, through its alliance with Royal Schiphol Group N.V., which operates Amsterdam Airport Schiphol. The major shareholder of ADP is the Government of France, which holds a stake of 50.6%. Other major shareholders include Royal Schiphol Group N.V., VINCI S.A., Credit Agricole Assurances and Predica Prevoyance Dialogue du Credit Agricole S.A. The management expects the entrance of Groupe ADP to enhance the GAL's bidding capabilities going forward.

**Key Rating Weakness**

**Significant reliance on refinancing**

The company plans to prepay around Rs 1,330 crore of outstanding NCBs during FY21 while the remaining Rs 1,670 crore shall be repaid in FY24 along with the repayment of the proposed Rs 500 crore bonds. The repayment of all these NCBs would be done out of fresh fund raised including USD 300 million at its international subsidiary GAIBV in FY22.

Further, the company plans to refinance debt of Rs 2,350 crore during FY24, which shall be utilized for repayment of obligations due in FY24. CARE would monitor the progress on both the said events, which remain a key rating monitorable.

***Exposure towards group companies***

The company has exposure towards group companies in the form of loans and advances, which increased from Rs. 32.68 crore in FY19 to Rs. 430.25 crore in FY20. As per the management, Rs 200 crore is now expected to be received from GIL in Q1FY22, while the remaining amount will be received in the next 2-3 years. Going forward, any further delays in the receipt of fund from group companies beyond May 2021 and/or any additional outflow in the form of loans & advances/ICDs to group companies shall be a credit negative and remains a key rating monitorable.

***Project risk primarily with respect to project at Goa and Bhogapuram***

GAL is developing Goa Airport (GGIAL) under the BOOT (Build Own Operate Transfer) model having 40 years + 20 years (extension by bid process with GMR having a Right of First Refusal) project life. The project is at initial phase with anticipated cost of around Rs 1,900 crore, and the same is expected to be funded through equity of Rs 570 crore and the remaining Rs 1,330 crore is going to be debt funded (already tied-up). The envisaged commercial operations date (COD) of GGIAL was earlier September 2020; however, the project had been delayed on account of suspension of the environmental clearance by the Hon'ble Supreme Court in March 2019. The clearance was received in January 2020 and the revised expected COD of the project is November 2022.

GAL is also developing an international airport in Bhogapuram, Andhra Pradesh with an expected capacity of around six million passengers per annum. The total project cost is expected to be funded in a debt-equity ratio of 70:30. The company had also signed the concession agreement for Heraklion International Airport, Crete, Greece and has a 21.6% stake in the airport. The aggregate equity commitment of around Rs. 230 crore during FY21 against all these projects is expected to be met partly through internal accruals, and partly using Rs 1,000 crore received as part of equity infusion post the completion of the Group ADP deal. Further, the proceeds of the '2021 bonds' would be partly utilized for meeting the equity commitments of the company in future years. Any higher than expected major investments in near future funded through debt shall remain a key monitorable.

***Regulatory risk***

GAL is exposed to regulatory risk pertaining to its airport assets as the regulatory regime for airport operators in India is still evolving. The airport operators, on their own do not have any authority to decide/revise the tariffs for aeronautical services provided by them. Operators are required to file their aeronautical revenue requirements with AERA, who critically assesses the filing and passes a tariff order. Instances of revisions in various rates, which have direct impact on the revenue, expose the companies to regulatory risk.

***Liquidity: Adequate***

The liquidity is characterized by financial flexibility available with GAL being the holdco for two major airport assets [Delhi International Airport Limited (DIAL - 64%) and GMR Hyderabad International Airport Limited (GHIAL - 63%)]. The total principal repayment obligation for the company in FY21 stood at Rs 2,976 crore and the same has already been repaid through the Rs 3,000 crore bond raised by the company in December 2020. The proceeds from the '2021 bonds' issuance shall be utilized to provide cash collateral of around Rs 360 crore for Crete Airport concession which was earlier expected to be funded through the inflow of Rs 200 crore of ICDs from group companies in Jan 2021 but got delayed.

The remaining funds of the bond proceeds will be kept as part of the liquidity buffer to meet future debt obligations and equity commitments during FY22 (refers to the period April 01 to March 31). The company has free cash and liquid investments of around Rs 287 crore as on March 01, 2021. The company has not availed moratorium available as per RBI guidelines dated March 27, 2020 and May 23, 2020 and continues to repay as per existing schedule.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating of loans by investment holding companies
Liquidity Analysis of Non-Financial Sector Entities
Policy on withdrawal of Ratings

**About the Company**

GAL is the holding company of GMR Group's investments in the airport sector. GAL's holding company, GMR Infrastructure Limited (GIL) holds 51% in GAL, and the remaining 49% is held by Groupe ADP as on July 31, 2020. GAL's major operating assets include DIAL, GHIAL, Cebu Mactan International Airport (Philippines) and Delhi Duty Free Services Private Limited. The company also has under implementation projects in Goa, Bhogapuram and Crete (Greece). During August 2020, GIL had announced the restructuring exercise of GMR Group which once approved shall result in GIL retaining only the airport business segment, while the rest of group's businesses including Energy, EPC and Urban Infrastructure shall be housed under GMR Power and Urban Infra Limited having mirror shareholding of GIL. Regarding the same, the company on March 05, 2021 has filed the said amalgamation and demerger scheme with the National Company Law Tribunal (NCLT), Mumbai for necessary approvals.

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

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 283 | 574 |
| PBILDT | 80 | 500 |
| PAT | -75 | 75 |
| Overall gearing (times) | 0.16 | 0.20 |
| Interest coverage (times) | 0.36 | 1.18 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable
**Any other information:** Not Applicable
**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-fund-based - LT/ ST-Bank Guarantees | | - | - | - | 200.00 | CARE A-; Negative / CARE A2+ |
| Bonds-Non Convertible Bonds | INE903F07013 | June 26, 2019 | 8% | December 28, 2020 | 0.00 | Withdrawn |
| Bonds-Non Convertible Bonds | INE903F07021; INE903F07039 | September 26, 2019 | 8% | December 28, 2020 | 0.00 | Withdrawn |
| Bonds-Non Convertible Bonds | INE903F07047 | January 30, 2020 | 8% | January 31, 2021 | 0.00 | Withdrawn |
| Bonds-Non Convertible Bonds | INE903F08078; INE903F08094; INE903F08102; INE903F08110; INE903F08086 | December 28, 2020 | 6% | Dec 28, 2023 | 3000.00 | CARE A-; Negative |
| Debentures-Non Convertible Debentures | | - | - | Proposed | 500.00 | CARE A-; Negative |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Fund-based - LT-Term Loan | LT | - | - | - | - | 1)Withdrawn (04-Apr-18) | - |
| 2. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 200.00 | CARE A-; Negative / CARE A2+ | 1)CARE A-; Negative / CARE A2+ (04-Sep-20) | 1)CARE A2+ (CWD) (19-Sep-19) 2)CARE A1 (CWN) (10-Jun-19) | 1)CARE A1 (07-Jan-19) 2)CARE A1 (04-Apr-18) | - |
| 3. | Bonds | LT | - | - | - | 1)Provisional CARE A+ (CWN) (10-Jun-19) 2)Withdrawn (10-Jun-19) | 1)Provisional CARE AA- (CWN) (07-Jan-19) 2)Provisional CARE AA-; Stable (04-Apr-18) | 1)Provisional CARE AA-; Stable (18-Apr-17) |
| 4. | Bonds-Non Convertible Bonds | LT | - | - | 1)CARE A-; Negative (04-Sep-20) | 1)CARE A- (CWD) (19-Sep-19) 2)CARE A+ (CWN) (08-Jul-19) | - | - |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| | | | | | | 3)Provisional CARE A+ (CWN) (25-Jun-19) | | |
| 5. | Bonds-Non Convertible Bonds | LT | - | - | 1)CARE A-; Negative (04-Sep-20) | 1)CARE A- (CWD) (10-Oct-19) 2)Provisional CARE A- (CWD) (19-Sep-19) | - | - |
| 6. | Bonds-Non Convertible Bonds | LT | - | - | 1)CARE A-; Negative (04-Sep-20) | 1)CARE A- (CWD) (20-Feb-20) 2)Provisional CARE A- (CWD) (13-Dec-19) | - | - |
| 7. | Bonds-Non Convertible Bonds | LT | 3000.00 | CARE A-; Negative | 1)CARE A-; Negative (28-Dec-20) 2)Provisional CARE A-; Negative (11-Dec-20) | - | - | - |
| 8. | Debentures-Non Convertible Debentures | LT | 500.00 | CARE A-; Negative | - | - | - | - |

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

| Name of the Instrument | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| 1. Permitted Indebtedness | A. The aggregate financial indebtedness of the issuer (whether funded or unfunded including guarantees issued by GAL except permitted guarantees) shall not exceed INR 3,750 crore (including accrued PIK/ redemption premium) provided the aggregate notional value of indebtedness incurred under this clause as of the day on which such indebtedness is first incurred shall not exceed Rs 3,500 crore. |
| 2. Other conditions | A. Up-streaming of any other cash outflow from GAL (except for permitted inter-corporate debt) shall not be allowed without the permission of the bond holders. |
| | B. Payment of any dividend or any loans/ advances / debt by GAL shall require approval of bond holders. |
| **B. Non-financial covenants** | |

| Name of the Instrument | Detailed explanation |
|---|---|
| 1. Negative lien / negative pledge | A. GAL shall not create or permit to subsist any encumbrance over any of its assets, other than the security created pursuant to the 2021 bonds and permitted encumbrances. |
| 2. Other conditions | B. Security over all moveable assets owned by GAL under a hypothecation agreement and pledge over certain shares owned by GAL in its subsidiaries, including DIAL and GHIAL shall be created on the occurrence of the following events:<br>i. An insolvency event (as defined under GHIAL SHA) in respect of GIL or GAL<br>ii. A material breach (as defined under GHIAL SHA) by GIL or GAL<br>iii. A termination event (as defined under DIAL SHA) in respect of GIL or GAL<br>iv. A HIAL default event (as defined under GHIAL concession agreement)<br>v. A JVC event of default (as defined under DIAL OMDA) |

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

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Bonds-Non Convertible Bonds | Simple |
| 2. | Proposed-Non Convertible Bonds | Simple |
| 3. | Non-fund-based - LT/ ST-Bank Guarantees | Simple |

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

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



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