GMR Airports Limited

November 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	500.00 (Enhanced from 200.00)	CARE A-; Stable/CARE A2+	Reaffirmed
Non-convertible bonds	2,015.00	CARE A-; Stable	Reaffirmed
Non-convertible bonds	500.00	CARE A-; Stable	Reaffirmed
Non-convertible bonds	400.00	CARE A-; Stable	Reaffirmed
Non-convertible bonds	1,500.00	CARE A-; Stable	Reaffirmed
Non-convertible bonds	200.00	CARE A-; Stable	Reaffirmed
Proposed non-convertible bonds*	5,000.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

*Proposed non-convertible bonds (NCBs) to be largely utilised for refinancing of the existing outstanding NCBs of ₹3,906 crore (including accumulated interest) as on September 30, 2023. Total NCBs will not exceed the principal of ₹5,000 crore.

Rationale and key rating drivers

The ratings assigned to the various debt instruments and bank facilities of GMR Airports Limited (GAL) factors in the healthy financial flexibility of the company, with GAL being the holding company of two major airports in the country, viz, the Delhi International Airport Limited (DIAL) and the GMR Hyderabad International Airport Limited (GHIAL). Both the airports are among the busiest airports in India and the passenger traffic at the airports have witnessed robust growth in FY23 and Q1FY24 and have crossed the pre-COVID levels (FY19). The greenfield airport at Goa was operationalised in January 2023 and was able to capture the envisaged market share of passenger traffic.

Furthermore, the ratings continue to derive strengths from the current 49% shareholding of Aéroports de Paris (Groupe ADP), a major international airport operator, and their board representation, which continue to provide operational efficiencies while bolstering the company's fund-raising capabilities, project execution and bidding capabilities.

Moreover, the ratings take cognisance of the announcement of the composite scheme of merger of GAL with GMR Infra Developers Limited (GIDL) and GMR Airports Infrastructure Limited (GIL; formerly known as GMR Infrastructure Limited), subject to receipt of the necessary approvals. The merger will eliminate the holding structure and GAL will eventually become a listed entity (GIL) on Indian equity markets. As a part of the understanding related to the merger, GIL has raised €331 million (₹2,900 crore) from Groupe ADP through 10-year foreign currency convertible bonds (FCCBs) in March 2023 and the proceeds of the same has been utilized for repaying debt in one of the subsidiary company as well as settling part contingent liabilities related to non-airport business. GPUIL got demerged from GIL as a listed power vertical of the GMR group during December 2021. The contingent liabilities related to GPUIL and its subsidiaries are the legacy of the pre-demerger period. While there will be no material cash inflows or outflows in the merged entity apart from the incremental FCCBs being availed, the conclusion of the merger will lead to enhanced financial flexibility, with the listed merged entity being a direct holding company of various airport assets. Post merger, no direct or indirect support is expected other than to core airport asset businesses, as articulated by the management. Any change in management stance will be a key rating sensitivity.

The ratings also derive strength from the demonstrated track record of funds raised over the past several years to meet the refinancing and/or capex requirements as well as completion of a significant portion of equity commitment in the under-construction airport asset. GAL currently has pending commitment in only GMR Visakhapatnam International Airport Limited, which is developing an airport asset at Bhogapuram, Andhra Pradesh, and major funding requirements for the same will fall due between FY24-26.

Additionally, the ratings also factor in the stake sale in Cebu Airport, Philippines, operating under the company, GMR Megawide Cebu Airport Corporation. The stake sale proceeds, which were realised by GAL in FY23, were utilised for reduction in the debt levels of GAL and partly towards investments in airport subsidiaries.

The ratings' strengths are, however, tempered by the susceptibility of revenue to the volatility associated with traffic growth and the regulatory risk faced by its airport assets, the limited revenue stream for GAL, the debt-funded equity investment in the under-construction projects resulting in elevated debt levels and reliance on refinancing. Nevertheless, the strong credit profile of the

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

underlying assets and the consequent higher valuation mitigate the refinancing risk to an extent. Going forward, the material dilution in valuation to the external debt (excluding FCCBs) is a key rating sensitivity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant reduction in the debt level.
- Significant revenue diversification, with revenues from non-aero concessions as envisaged.
- Improved cash flow of the underlying special purpose vehicles (SPVs), thereby facilitating significant higher upstreaming of cash flows.

Negative factors

- Time or cost overruns in the execution of the Bhogapuram airport and any significant increase in equity commitments or other funding support required in other projects.
- Any additional outflow in the form of non-core loans and advances or towards fulfilling a contingent liability related to non-airport business post-merger
- Significant increase in debt, diluting the valuation-to-debt ratio.

Analytical approach

CARE Ratings Limited (CARE Ratings) has combined the standalone financials of GAL and GMR Airport Developers Limited (GADL; rated 'CARE A-; Stable'). GAL is the holding company for airport operations of the GMR group and GADL operates as an extended arm of GAL to provide manpower services in the airport industry. There are business, management, and financial linkages between the entities by virtue of the parent-subsidiary relationship as well as providing various services to the group airport assets.

GAL is to be merged with its listed holding company. For analytical purpose, CARE Ratings has considered the estimated combined financials of the merged entity (including outstanding FCCBs) for arriving at GAL's rating.

Outlook: Stable

Over the medium term, CARE Ratings expects GAL's business profile to persist due to the robust performance of the underlying airport assets.

Detailed description of the key rating drivers

Key strengths

Proposed merger of GAL with its holdco to provide enhanced financial flexibility

On March 19, 2023, GIL announced a composite scheme of arrangement for the merger of GAL, GIDL, and GIL, subject to the receipt of various approvals. The merger will eliminate a layer from the holding structure and GAL will eventually become a listed entity (GIL) on Indian equity markets. Post merger, GMR will continue to remain the largest shareholder. Upon merger, GMR (33.70% shareholding) and Groupe ADP (32.30% shareholding) will be categorised as co-promoters. The conclusion of the merger will lead to enhanced financial flexibility with direct access to equity markets.

Majority ownership of two large operating airport assets providing financial flexibility

GAL is the holding company for two major airport assets, viz, DIAL and GHIAL, which have strong business profiles. Both these airports have regulated revenues under the hybrid tariff structure with assured return on aero assets, which is further supported by non-aero revenues. GAL is also the holding company of the GMR Goa International Airport Limited (GGIAL), which is a greenfield airport and commenced operations from January 2023, aiding the financial flexibility of GAL.

GAL also holds 17.03% in Delhi Duty Free Services Limited (DDFS) and 50.1% in Delhi Airport Parking Services Private Limited (DAPS), which have healthy financial risk profiles. GAL has financial flexibility, being the majority stakeholder in DIAL (64%), GHIAL (63%), and GGIAL (100%, except one golden share being held by the Government of Goa). Apart from the domestic airport assets, GAL, through its subsidiaries, has 49% stake in the operational Medan Airport, Indonesia, and 21.6% stake in the under-construction Crete Airport, Greece.

Improvement in business profiles of airport assets post-COVID

The two main operating airports under GAL – DIAL and GHIAL – have demonstrated consistent improvement in their business performance over the years. DIAL and GHIAL together contributed 26-28% of the total passenger traffic of the country during the past six years. Both the airports are located at strategic locations of the country, thus leading to significant traffic volumes.

The passenger traffic at DIAL and GHIAL saw robust recovery during FY23 to reach 94% and 98% of the pre-COVID levels, respectively. The passenger traffic continued its growth momentum as DIAL and GHIAL registered 18% and 24% of the passenger traffic growth for H1FY24 against H1FY23, respectively.

DIAL and GHIAL are expanding their current capacities to reach 100 million passengers per annum (MPPA) and 34 MPPA, respectively. Due to the unserved demand and added capacity, the passenger traffic is expected to remain robust, going forward, at both the airports.

GGIAL is a greenfield airport and it commenced commercial operations in January 2023. Goa has another operating airport at Dabolim, run by the Airports Authority of India (AAI). Notably, GGIAL was able to tap the unserved demand at goa and capture 35% of the passenger market share by July 2023.

Demonstrated fundraising capabilities
GAL has a demonstrated track record of successful fundraising in the past, to support the refinancing requirements and/or meeting the capex requirements for its airport assets. While the successful fundraising has enabled meeting the refinancing requirements, the high cost of debt has impacted the cash flow. Post merger with its parent – GIL, the merged entity will have enhanced financial flexibility in terms of being a listed entity in the Indian equity markets.

Experienced promoters and synergic benefits from Groupe ADP
The GMR group was founded by GM Rao in 1978. Over the years, the company has demonstrated successful execution capabilities across diverse sectors. In FY20, Groupe ADP acquired a 49% stake in GAL. 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. ADP operates 26 airports globally. The major shareholder of ADP is the Government of France, which holds a stake of 50.6%. The presence of Groupe ADP on the board of GAL is expected to improve the operational efficiencies of GAL's airport assets along with its bidding capabilities.

Key weaknesses
Refinancing risk and elevated debt level
GAL being the holding entity of the airport assets has equity investment commitments in the under-construction SPVs and also has to extend need-based support to other subsidiaries. However, in the absence of limited upstreaming of cash flows from operational subsidiaries (DIAL and GHIAL), GAL has relied on debt-funded equity investments, resulting in elevated debt levels. Besides, bullet repayments of the debt instruments have necessitated timely refinancing. The outstanding NCBs with accrued interest stand at ₹3,906 crore as on September 30, 2023, with the next redemption in December 2023.

GAL is in the process of refinancing all its outstanding NCBs with issuance of fresh NCBs of ₹5,000 crore. The additional proceeds will also be utilised towards investments and/or additional stake purchases in the subsidiaries.

While the merger will not lead to material cash inflow or outflow apart from the FCCBs, CARE Ratings has treated the FCCBs as part of the debt for assessment purpose. However, the longer tenor of the FCCB with no cash coupon payments is expected to provide cushion from the credit perspective. As per the covenants of the proposed bonds, the minimum valuation of GAL will be at least ₹20,000 crore at all times. On considering the refinanced debt of ₹5,000 crore and valuation as on March 31, 2023, the valuation-to-debt (excluding FCCBs) multiple stands at 10.22x. Considering the post-merger scenario (including FCCBs), the valuation-to-debt multiple basis the March 31, 2023, valuation of GAL is expected to be at 6.47x. Any adverse deviation of more than 25% from the said level is a key monitorable from the credit perspective. In addition, GAL may have a contingent liability related to a non-airport business. However, as indicated by management there shall not be any cash out flow or support requirement for the aforesaid exposure. Any deviation in stance of the management or recourse requirement to GAL shall be critical rating sensitivity.

Exposure to group companies
The company has advanced ICDs to group entities, with no major principal repayments during the past two years. Any additional exposure to non-airport group entities (other than commitments in the under-construction assets) by way of advances or delayed recovery of advances extended to such entities will be important from the credit perspective.

Project risk associated with under-construction assets
The company has two under-implementation projects comprising the construction of greenfield airports at Bhogapuram, Andhra Pradesh (6.0 MPPA), and Crete, Greece, which exposes GAL to project risk. The briefs of the ongoing projects are as follows:

Bhogapuram, Andhra Pradesh: The total project cost is estimated to be in the range of ₹4,700-4,800 crore. The construction is expected to commence from November 2023. The financial closure is in an advanced stage. Based on the current estimate of the project cost, pure equity of ₹1,027 crore (GAL to infuse 51%) is to be infused during the period from FY24 to FY26.

Heraklion International Airport, Crete, Greece: GAL, through its overseas subsidiary, GMR Greece Limited, is developing the airport at a project cost of €632.5 million (increased from €520 million; the increased cost will be provided by the Government of Greece in the form of grant). The entire equity commitment of GAL has been completed. The expected commercial operations date (COD) is in CY2027.

As all the airport projects are in intermediate or preliminary stages of construction, any cost or time overruns in any of the ongoing projects, thereby necessitating GAL to fund the cost increase through debt, will be important from the credit perspective.

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 regulatory tariff determination for the underlying airports may get delayed. The airport operators, on their own, do not have any authority to decide or revise the tariffs for aeronautical services provided by them. The operators are required to file their aeronautical revenue requirements with the regulator, who critically assesses the filing and passes a tariff order. Instances of revisions in various rates, which have a direct impact on the revenue, expose the companies to regulatory risk. However, the risk of delay in tariff determination is somehow mitigated by the true-up mechanism in the next control period.

Liquidity: Adequate

The liquidity is characterised by the financial flexibility available with GAL being the holdco for two major airport assets, i.e., DIAL and GHIAL. The company has fulfilled all its equity commitments in the ongoing airport projects handled under various subsidiaries and joint ventures (JVs) except in the Bhogapuram airport, where GAL has already infused ₹105 crore as on date and is expected to further infuse ₹418 crore over a period of three years (FY24-FY26), with funding requirements during FY24 of around ₹350 crore. GAL has upcoming repayment of bonds worth ₹1,406 crore (plus accrued interest) due in December 2023, which will be met through proposed refinancing of bonds. As on March 31, 2023, the company had cash and cash equivalents balance of ₹435 crore (at the standalone level).

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Airports
Infrastructure Sector Ratings
Consolidation & combined approach
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Airport and airport services

GAL is the holding company of the GMR group's investments in the airport sector. GAL was incorporated on February 6, 1992, with the name of Medvin Finance Private Limited. Later, w.e.f. April 28, 2005, its name was first changed to GVL Investments Private Limited and then w.e.f. November 10, 2009, to GMR Airports Holding Private Limited. The company was converted into a public limited company on February 09, 2010. Thereafter, the company has been known as GMR Airports Limited since May 03, 2012.

Groupe ADP has invested in the company in FY21 and holds 49% stake, with the balance held by GIL (formerly known as GMR Infrastructure Limited).

Brief Financials (₹ crore) – Combined*	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	730	950
PBILDT	426	410
PAT	(51)	(148)
Overall gearing (times)	0.21	0.11
Interest coverage (times)	2.22	0.99

*Combined financials of GAL and GADL.

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available. Interest coverage ratio calculation considers the finance expenses of GADL and cash coupon payment portion of GAL.

Brief Financials (₹ crore) – Standalone	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	568	649
PBILDT	389	366
PAT	(81)	(179)
Overall gearing (times)	0.20	0.11
Interest coverage (times)	2.07	0.92

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available. Interest coverage ratio calculation considers the cash coupon payment portion only.

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: Annexure-4

Lender details: Annexure-5

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
Bonds-Non-Convertible Bonds	INE903F08094	23-12-2020	6	28/12/2023	800	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08102	23-12-2020	6	28/12/2023	325	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08110	23-12-2020	6	28/12/2023	325	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08086	23-12-2020	6	28/12/2023	220	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08169	23-12-2020	6	24/09/2024	345	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08128	17-08-2021	6	17/08/2024	500.00*	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08136	24-06-2022	6	24/06/2024	400.00	CARE A-; Stable
Bonds-Non-Convertible Bonds	INE903F08151	22-09-2022	5.5	22/09/2024	1,500.00^	CARE A-; Stable
Bonds-Non-Convertible Bonds	-	-	-	2 years from date of issuance	200.00^^	CARE A-; Stable
Bonds-Non-Convertible Bonds	-	Proposed	-	3 years from the date of issuance	5,000.00@	CARE A-; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	500.00	CARE A-; Stable / CARE A2+

#Coupon rate is only cash coupon. Besides this, premium in kind in the range of 5.50-7.25% for various NCB tranches is to be repaid at the time of redemption.
@Proposed instrument to be raised to refinance all the existing NCBs.
*Amount raised: ₹300 crore.
^Amount raised: ₹1,110 crore.
^^Not yet placed.

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 2023-2024	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	500.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (14-Dec-22) 2)CARE A-; Stable / CARE A2+ (06-Dec-22) 3)CARE A-; Negative / CARE A2+	1)CARE A-; Negative / CARE A2+ (06-Jul-21)	1)CARE A-; Negative / CARE A2+ (12-Mar-21) 2)CARE A-; Negative / CARE A2+ (04-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						(15-Sep-22) 4)CARE A-; Negative / CARE A2+ (13-Jun-22)		
2	Bonds-Non-Convertible Bonds	LT	-	-	-	-	-	1)Withdrawn (12-Mar-21) 2)CARE A-; Negative (04-Sep-20)
3	Bonds-Non-Convertible Bonds	LT	-	-	-	-	-	1)Withdrawn (12-Mar-21) 2)CARE A-; Negative (04-Sep-20)
4	Bonds-Non-Convertible Bonds	LT	-	-	-	-	-	1)Withdrawn (12-Mar-21) 2)CARE A-; Negative (04-Sep-20)
5	Bonds-Non-Convertible Bonds	LT	2015.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Dec-22) 2)CARE A-; Stable (06-Dec-22) 3)CARE A-; Negative (15-Sep-22) 4)CARE A-; Negative (13-Jun-22)	1)CARE A-; Negative (06-Jul-21)	1)CARE A-; Negative (12-Mar-21) 2)CARE A-; Negative (28-Dec-20) 3)Provisional CARE A-; Negative (11-Dec-20)
6	Bonds-Non-Convertible Bonds	LT	500.00	CARE A-; Stable	-	1)CARE A-; Stable	1)CARE A-; Negative	1)CARE A-; Negative (12-Mar-21)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						(14-Dec-22) 2)CARE A-; Stable (06-Dec-22) 3)CARE A-; Negative (15-Sep-22) 4)CARE A-; Negative (13-Jun-22)	(06-Jul-21)	
7	Bonds-Non-Convertible Bonds	LT	400.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Dec-22) 2)CARE A-; Stable (06-Dec-22) 3)CARE A-; Negative (15-Sep-22) 4)CARE A-; Negative (13-Jun-22)	-	-
8	Bonds-Non-Convertible Bonds	LT	1500.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Dec-22) 2)CARE A-; Stable (06-Dec-22) 3)CARE A-; Negative	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
						(15-Sep-22)		
9	Bonds-Non-Convertible Bonds	LT	200.00	CARE A-; Stable	-	1)CARE A-; Stable (14-Dec-22)	-	-
10	Bonds-Non-Convertible Bonds	LT	5000.00	CARE A-; Stable	-	-	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	• Minimum valuation of GAL will be at least ₹20,000 crore at all times. • Principal debt should not exceed ₹5,000 crore.
B. Non-financial covenants	• The direct shareholding of GAL in GHIAL and DIAL will not be below 51% each.

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of 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.

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About us:

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