GMR Airport Developers Limited

June 10, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities-term loan@	40.42	**CARE A+ (SO) (Under credit watch with negative implications) [Single A Plus (Structured Obligation)]**	Revised from CARE AA- (SO) (Under credit watch with negative implications)
Total	**40.42 (Rupees Forty crore and Forty Two lakh only)**		

Details of instruments/facilities in Annexure-1

@ backed by unconditional and irrevocable corporate guarantee of GMR Airports Limited (GAL, rated Prov CARE A+/CARE A1 (Under credit watch with negative implications))

Detailed Rationale & Key Rating Drivers

The rating for the bank facilities of GMR Airport Developers Limited (GADL) are based upon credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by GMR Airports Limited (GAL). The revision in rating of GADL factors in the revision in the rating of the corporate guarantor GAL.

The revision in the long term rating of GAL factors in the moderation in financial risk profile of GAL during FY19 with loss at net level of Rs.74.80 crore as against a PAT of Rs.215.47 crore in FY18 and elevated gearing levels. The loss was largely attributable to accrued interest on existing NCDs and onetime expenses. The rating revision also factors in delay in the arrangement of funds for repayment obligations falling due on June 30, 2019 (Rs 600 crore as firm and balance at the option of investor – Rs.400 crore by August 14, 2019) through raising of equity/debt. The repayments are due against the NCD's aggregating Rs.2,050 crore rasied by the company in October 2018 to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. As indicated by the management, certain options are being explored for meeting the aforesaid debt obligations. CARE will take a view on the rating once more clarity emerges on the matter.

The ratings continue to remain constrained by susceptibility of GAL's revenues to seasonality and volatility associated with traffic growth and regulatory risk faced by its airport assets.

The ratings take cognizance of proposed investment by Tata Group (Tata), "GIC" an affiliate of Singapore's sovereign wealth fund and SSG Capital Management "SSG" aggregating Rs.8,000 crore into GMR Group incluiding Rs.1,000 crore in GAL. The proposed investment is subject to definitive documentation, customary regulatory approvals, lenders consents and other approvals.

The ratings, takes into consideration GAL's healthy financial flexibility being a holding company of two major airports viz, Delhi International Airport Private Limited (DIAL) which is the largest airport in India and GMR Hyderabad International Airport Limited (GHIAL) have demonstrated consistent improvement in their business profile thereby demonstrating self-sufficiency for future expansions. The ratings also continue to factor in the experienced promoter group with diversified business portfolio.

Going forward, ability of the company to meet its committed obligations including repayment and equity commitments through timely materialization of divestment/asset monetization/refinancing its debt with longer maturity thereby improving its cash flows shall be key rating sensitivities.

Detailed description of the key rating drivers

Unconditional and irrevocable corporate guarantee

The ratings for the bank facilities of GADL are based upon the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by GAL.

Key Rating Weakness of corporate guarantor GAL

Delay in refinancing of repayment obligations due in near term

GAL has raised NCD's aggregating Rs.2,050 crore in October 2018 to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. The repayment obligations for said NCDs are due on June 30, 2019 (Rs 600 crore as firm and balance at the option of investor – Rs.400 crore by August 14, 2019) and were expected to funded through raising of equity/debt. As indicated by the management, certain options are being explored for meeting the

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

aforesaid debt obligations. CARE is awaiting more clarity on the management plans to fund these significant repayment obligations in view of GAL's limited cash accruals.

Moderation in financial risk profile of GAL

GAL (Standalone) has reported moderation in financial risk profile characterized by loss reported at net level, subdued profitability and leverage indicators. During FY19, GAL has reported loss at net level of Rs.75 crore on a total operating income of Rs.283 crore as against a PAT of Rs.215 crore on a total operating income of Rs.350 crore during FY18. The moderation in income and profitability was largely on account of non-receipt of dividend from DIAL. The profitability was subdued largely on account of accrued interest cost owing to new NCDs raised coupled with few onetime expenses related to legal and professional fee. Subdued profitability and increased debt levels resulted in moderation in capital structure with overall gearing of 1.00x as on March 31, 2019 as against 0.14x as on March 31, 2018.

Project risk primarily with respect to greenfield project at Goa and Nagpur

GAL is developing Goa Airport under the BOT (Build Operate Transfer) model having 40 years + 20 years (extension by bid process with GMR having a ROFR) project life. The project is at initial phase and the cost (approximately Rs.1,880 crore) expected to be funded through equity of Rs.550 crore over next 3 years and Debt of Rs.1,330 crore (already tied-up). GAL has also won the bid to develop Nagpur airport and the letter of award is also received for the same. With GAL being the investment vehicle for GMR Group's airport business, it is expected to explore growth options which would require equity infusion from GAL. Any higher than expected major investments in near future funded through debt shall remain 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 and the track record of the tariff determination mechanism is yet to be established. 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 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.

Key Rating Strengths of corporate guarantor GAL

Proposed strategic partnership with Tata, GIC ans SSG

The holding company GMR Infrastructure Limited (GIL) has signed a binding term sheet with the investors [Tata Group (Tata), "GIC" an affiliate of Singapore's sovereign wealth fund and SSG Capital Management "SSG"] pursuant to which the investors agreed to invest Rs.8,000 crore in GAL. The investment amount of Rs.8,000 crore will consist of Rs.1,000 crore equity infusion in GAL among others. The proposed investment is subject to definitive documentation, customary regulatory approvals, lenders consents and other approvals. The inflow from the same is likely to be beyond June 2019. Going forward, timely receipt of funds from the aforesaid investors shall be remain important from credit perspective.

Healthy financial flexibility being holding company of DIAL and GHIAL having monopolistic position

GAL is the holding company for two major airport assets DIAL and GHIAL which have strong business profiles and commands monopolistic positions in their respective locations. Both these airports have regulated revenue under the hybrid till tariff structure with assured return on aero assets and growing 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 profile. GAL has financial flexibility being majority stake holder in DIAL (64%) and GHIAL (63%) which can be monetized in need for meeting its debt obligations as well as requirement of growth capital.

Healthy business profile of airport assets

The two main operating airports under GAL viz, DIAL which is the largest airport in India and GHIAL have demonstrated consistent improvement in their business performance over the years. DIAL reported growth in passenger traffic of 5.32% with total passenger traffic of 69.20 million during FY19 as against 65.70 million in FY18. Although, passenger traffic increased in FY19, the revenue moderated for DIAL due to reduction in tariff charges. During FY19 the gross revenues of DIAL on standalone basis stood at Rs. 3,793 crore with a net loss of Rs.112 crore.

GHIAL also reported healthy growth in passenger traffic of 17.58% with a total passenger traffic of 21.40 million during FY19 as against 18.20 million in FY18. Growth in passenger traffic resulted in improved financial performance for GHIAL (Standalone) during FY19 with a gross revenue of Rs.1,569 crore with PAT of Rs.733 crore.

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, Group's investment interests span across various infrastructure businesses such as energy, airports, roads and urban infrastructure.

Liquidity

The company has cash and liquid investments of Rs.85.98 crore as on March 31, 2019. Though the cash accruals continue to remain lower vis vis near term debt obligation for the near term, the comfort can be derived from financial flexibility available both at holdco level or individual business level [DIAL (64%) and GHIAL (63%)] which can be utililized for meeting its debt obligations as well as requirement of growth capital.

Analytical approach: Unconditional and Irrevocable corporate guarantee provided by GMR Airports Limited (GAL, rated 'Prov CARE A+/CARE A1; (Under credit watch with negative implications) for the bank facilities of GADL.

Applicable Criteria

[Criteria for placing rating on credit watch]
[CARE's Policy on Default Recognition]
[Rating Methodology – Infrastructure Companies]
[CARE's methodology for financial ratios (Non Financial sector)]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company

GADL is the project management company of the GMR group and GAL holds 100% in the company as on March 31, 2019. Revenue stream is primarily divided between revenue from construction contracts and revenue from services.

About the Corporate Guarantor

GAL is the holding company of GMR Group's investments in the airport sector. GAL's holding company; GMR Infrastructure Limited (GIL) holds 91.95% in GAL as on March 31, 2019. GAL's three major operating assets include DIAL, GHIAL, and Delhi Duty Free Services Private Limited (rated 'CARE AA-; Stable/CARE A1+').

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov)
Total operating income	350	283
PBILDT	302	80
PAT	215	-75
Overall gearing (times)	0.14	1.00
Interest coverage (times)	6.30	0.36

A: Audited, Prov: Provisional

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Sept 2020	40.42	CARE A+ (SO) (Under Credit watch with Negative Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	40.42	CARE A+ (SO) (Under Credit watch with Negative Implications)	-	1) CARE AA- (SO) (Under Credit watch with Negative Implications) (07-Jan-19)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. 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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