GMR Airport Developers Limited

September 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities-term loan@	23.33	**CARE A- (CE) (Under credit watch with developing implications) [Single A Minus (Credit Enhancement)]**	Revised from CARE A+ (CE) (Under credit watch with negative implications) [Single A Plus (Credit Enhancement)]
Total	**23.33 (Rupees Twenty Three crore and Thirty Three lakh only)**		

Details of instruments/facilities in Annexure-1

@ backed by unconditional and irrevocable corporate guarantee of GMR Airports Limited (GAL, rated CARE A-/CARE A2+ (Under credit watch with developing 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 ratings of GAL factors in delay in materialization of proposed investment by Tata Group (Tata), "GIC" an affiliate of Singapore's sovereign wealth fund and SSG Capital Management "SSG in GMR Group aggregating Rs.8,000 crore. On account of said delay, the company has to raise additional bonds to meet the debt obligations due on Sept 30, 2019 which was earlier expected to be met through said investment proceeds. The revision also factors in GAL's planned exposure in the form of loans & advances of Rs.400 crore towards holding company GMR Infrastructure Limited (GIL) which has a weak credit risk profile. The advances extended to GIL and debt obligations due in Sept 2019 are proposed to be met through raising Rs 650 crore non-convertible bonds. Additional bonds raised are expected to result in higher than envisaged debt levels thereby weakening the financial risk profile of the company.

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

The extended advances to GIL are expected to be repaid with the materialization of TATA-GIC-SSG deal by December 2019. Post the materialization of said deal by December 2019, GAL is expected to receive Rs.1,400 crore through a mix of repayment by GIL and equity infusion, which is expected to reduce the overall debt levels of GAL and remains a key monitorable. CARE would keep a close watch on the developments and take an appropriate rating action once clarity emerges on the same.

Going forward, timely materialization of deleveraging efforts thereby improving the overall gearing coupled with improvement in cash flows going forward shall be key rating sensitivities. Also, any delay in materialization of TATA-GIC-SSG deal beyond December 2019 shall be a credit negative for the company.

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 Strengths of corporate guarantor GAL

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 command 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 profiles.

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

GAL has financial flexibility being majority stake holder in DIAL (64%) and GHIAL (63%). GAL's shares in both these assets are unpledged and hence can be monetized in need for meeting its debt obligations as well as requirement of growth capital. Apart from the domestic airport assets, GAL through GMR Airports International BV (GAI BV) 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.

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 atotal 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. However, in Q1FY20, DIAL has reported y-o-y revenue growth of 19% in spite of the Jet Airways crises which resulted in decline of allocated airline slots.
GHIAL also reported healthy growth in passenger traffic of 17.58% with 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. GHIAL continued its consistent operational performance in Q1FY20 as it reported total income of Rs 381 crore with PAT of Rs.183 crore. GAI BV's Mactan Cebu Airport also exhibited improved operational performance as it reported passenger traffic growth of 15% in FY19 with total passenger traffic of 11.5 million during FY19 as against 10 million in FY18.

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.

Proposed fund raising initiatives
Apart from the strategic investment by TATA-GIC-SSG, the company is planning to raise bonds in its international subsidiary. If materialized, the said bond is expected to result in lower interest rate and longer maturity profile which would add to the liquidity profile of the company.

Liquidity: - The liquidity is characterized by financial flexibility available with GAL being holdco for two major airport assets [DIAL (64%) and GHIAL (63%)] which can be utilized for meeting its debt obligations as well as requirement of growth capital. Though the cash accruals are expected to remain low during FY20 vis a vis near term debt obligation, the comfort can be derived from the Bonds rated of Rs. 650 crore which would be utilized to meet the balance debt obligations due in Sept 2019. GAL has already raised Rs.800 crore in June 2019 and met part of its debt obligations due in June 2019. GAL's equity commitment of ~Rs.300 crore during FY20 towards ongoing capex requirements in the airport SPVs is expected to be met through inflow from the strategic partnership with Tata, GIC and SSG. Rs 1000 crore of the said amount will be directly infused as a part of the deal, while Rs 400 crore is expected to be received from GIL. The company has cash and liquid investments of Rs.85.98 crore as on March 31, 2019.

Key Rating Weakness of corporate guarantor GAL
Delay in materialization of proposed strategic investment by Tata, GIC and SSG
The holding company 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 GMR group. The investment amount of Rs.8,000 crore will consist of Rs.1,000 crore equity infusion in GAL while balance would be received by GIL. The proposed investment is subject to definitive documentation, customary regulatory approvals, lenders consents and other approvals. The deal which was announced in March 2019 has taken longer than expected and faced delays due to various regulatory approvals and the inflow from the same is likely to come by December 2019. On account of delay in materialization of said deal, the company has to raise additional bonds to meet the debt obligations due on Sept 30, 2019 which was expected to be met through said proceeds. Any delay in materialization of deal beyond December 2019 shall be a credit negative for GAL as it triggers various events including increase in interest rate, etc as per term sheet for bonds and shall remain key monitorable.

Moderation in financial risk profile of GAL due to planned exposure towards group company GIL
Out of the proposed Rs 650 crore bond issue, GAL would be extending Rs 400 crore towards holding company GIL which has a weak credit risk profile. The remaining Rs 250 crore is expected to be used for meeting the debt obligations in the near

term. The additional bonds raised are expected to result in higher than envisaged debt levels thereby weakening the financial risk profile for GAL.
Further, 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 one-time expenses related to legal and professional fees.

Project risk primarily with respect to project at Goa and Nagpur
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 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). The envisaged COD of GGIAL was on September 2020; however the project has been delayed on account of Hon'ble Supreme Court's suspension of the environmental clearance by the ministry of environment and forest (MoEF). GAL has also won the bid to develop Nagpur airport and the letter of award is also received for the same. The company has also signed the concession agreement for Heraklion International Airport, Crete, Greece. and the equity commitment of GAL for FY20 is expected to be Rs 117 crore..The aggregate equity commitment for FY20 against all these projects is expected to be close to Rs.300 crore. 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 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 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.

Analytical approach: Unconditional and Irrevocable corporate guarantee provided by GMR Airports Limited (GAL, rated 'CARE A-/CARE A2+; (Under credit watch with developing implications) for the bank facilities of GADL.

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 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
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 four major operating assets include DIAL, GHIAL, Cebu Mactan International Airport (Philippines) and Delhi Duty Free Services Private Limited (rated 'CARE AA-; Stable/CARE A1+'). The company also has under implementation green field projects in Nagpur, Goa and Crete (Greece).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	350	283
PBILDT	302	80
PAT	215	-75
Overall gearing (times)	0.05	0.16
Interest coverage (times)	6.30	0.36

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 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	-	-	September 2020	23.33	CARE A- (CE) (Under Credit watch with Developing 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	23.33	CARE A- (CE) (Under Credit watch with Developing Implications)	1)CARE A+ (SO) (Under Credit watch with Negative Implications) (10-Jun-19)	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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