GMR Airports Limited (Revised)

January 07, 2019

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Short-term Bank Facilities	200	CARE A1 (A One)	Reaffirmed
Total	**200 (Rupees Two Hundred crore only)**		
Proposed Non-Convertible Debenture issue	500	Provisional CARE AA-; under credit watch with negative implications (Provisional Double A Minus)@	Rating placed under credit watch with negative implications

@ Provisional rating assigned is based on indicative terms of the proposed issue. Final rating shall be assigned on execution of transaction documents (including final term sheet, debenture trust deed, etc.) to the satisfaction of the CARE.
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The long term rating of GMR Airports Limited (GAL) have been placed on credit watch with negative implications in view of repayment obligations in the near term against the NCD's aggregating Rs.2,050 crore rasied by the company in October 2018. The said NCDs were raised to to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. The new NCD's have committed repayment of Rs.1,000 crore by June 30, 2019 (Rs 600 crore as firm and balance at the option of investor) which is likely to be refinanced with equity/debt closer to proposed IPO in GAL. CARE is awaiting more clarity on the management plans to fund these significant amount of repayment obligations in view of GAL's limited cash accruals. CARE will take a view on the rating of GAL once the firm plans are known which are expected by April 2019.

The ratings continue derive strength from 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.

However, the rating strenghts continue to remain constrained by susceptibility of airport's revenues to seasonality and volatility associated with traffic growth and regulatory risk faced by its airport assets.
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 the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

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. DIAL & GHIAL combined contributed 27.2% of total passenger traffic of the country during FY18. 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) which has 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. Further the financial flexibility of the group has increased post the settlement with PE investors at GAL level.

GAL major source of revenue is operator fees (FY18: Rs.116 crore), consultancy services in airport management & operations and dividend. GAL received healthy dividend from DIAL, GHIAL, GADL and DDFS of Rs.212 crore during FY18 taking its total operating income of Rs.350 crore with PAT of Rs.217 crore. During H1FY19, GAL has received a dividend of Rs.59.53 crore from GHIAL, Rs.12 crore from GADL & DDFS while no dividend was received from DIAL. The dividend from DIAL was muted muted during FY19 in the absence of any favourable order from appelleate tribunal.

Healthy business profile of airport assets

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

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 healthy growth in passenger traffic of 13.86% with a total passenger traffic of 65.70 million during FY18 as against 57.70 million in FY17. Although, passenger traffic increased in FY18, the revenue moderated for DIAL due to reduction in UDF charges. During FY18 (Aud) the total operating income of DIAL stood at Rs.3,917 crore with PAT of Rs.38 crore.

GHIAL also reported healthy growth in passenger traffic of 20.53% with a total passenger traffic of 18.20 million during FY18 as against 15.20 million in FY17. Growth in passenger traffic resulted in improved financial performance for GHIAL during FY18 (Aud) with a total operating income of Rs.1,374 crore with PAT of Rs.603 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.

GAL has diversified business portfolio with airport assets in India viz DIAL and GHIAL as well as overseas. GAL through its wholly owned subsidiary GMR Airports International B V (GAIBV) in partnership with Megawide Construction Corporation of Philippines is operating and developing Mactan Cebu International Airport – the second largest airport of Philippines. GAL along with GEK Terna Group of Greece, has emerged as successful bidder for the development, operations and management of New International Airport of Heraklion at Crete Island, Greece. GAL has also won the bid to develop Nagpur airport, the letter of award for which is yet to be received. Successful allotment of the airport operator license in Greece and Goa will help it in diversifying its portfolio geographically.

Settlement with PE investor in GAL by holding company GMR Infrastructure Limited (GIL)

GIL has settled PE investors viz Macquarie SBI Infrastructure Investments Limited, Standard Chartered Private Equity (Mauritius) III Limited and JM Financial – Old Lane India Corporate Opportunities Fund Limited who had invested Rs.1,478 crore in the form of Compulsorily convertible preference share (CCPS) in 2010-11 in GAL. As part of settlement, PE investors received 5.86% equity stake in GAL coupled with payment of Rs.3,560 crore in lieu of their entire CCPS. The payment was partly funded by GIL through sale of airport related assets including 40% in CEBU airport in Phillippines, 50% in Clark EPC project in Phillipines and 40.1% DAPSL to GAL. GAL has funded this acquisition through raising of NCD's aggregating Rs.2,050 crore subscribed by the same set of investors.

Key Rating Weakness

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, the letter of award for which is yet to be received. 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.

Liquidity

The company has cash and liquid investments of Rs.121.65 crore as on November 30, 2018. Though the cash accruals are 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: Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for Short-term Instruments](#)
[Rating Methodology – Infrastructure Companies](#)
[CARE's methodology for financial ratios (Non Financial sector)](#)
[Criteria for placing rating on credit watch](#)

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; rated 'CARE BB; Stable/CARE A4') holds 91.95% in GAL as on November 30, 2018. 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)	FY17 (A)	FY18 (A)
Total operating income	133	350
PBILDT	96	302
PAT	35	217
Overall gearing (times)	0.19	0.14
Interest coverage (times)	1.98	6.30

A: Audited;

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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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
Non-fund-based - ST-Bank Guarantees	-	-	-	200.00	CARE A1
Proposed NCD	-	-	-	500.00	Provisional CARE AA-; 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 2018-2019	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	-	-	-	1)Withdrawn (04-Apr-18)	-	1)CARE A+ (02-Dec-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	200.00	CARE A1	-	1)CARE A1 (04-Apr-18)	-	1)CARE A1 (02-Dec-16)
3.	Proposed NCD	LT	500.00	Provisional CARE AA-; Under credit watch with negative implications	-	1)Provisional CARE AA-; Stable (04-Apr-18)	1)Provisional CARE AA-; Stable (18-Apr-17)	-

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