CARE Ratings
Professional Risk Opinion

GMR Airports Limited

February 20, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Bonds	220.00 (reduced from 250.00)	CARE A-; Under Credit watch with Developing Implications (Single A Minus)	Final Rating#

#CARE has received the executed bond trust deed and signed copy of term sheet, pursuant to which the rating has been confirmed.
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Non-Convertible Bonds of GMR Airports Limited (GAL) factors in its healthy financial flexibility being a holding company of two major airports viz, Delhi International Airport Limited (DIAL, largest airport in India) and GMR Hyderabad International Airport Limited (GHIAL) which has reported consistent improvement in its business profile thereby demonstrating self-sufficiency for future expansions. The rating continues to factor in the experienced promoter group with diversified business portfolio.
The rating also continue to factor 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. On account of said delay, the company has raised additional funds to meet part of its equity commitment for Crete airport in Greece in Jan 2020 which was earlier expected to be met through said investment proceeds.
The rating continues 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 rating takes cognizance of the increase in transaction size of the proposed strategic investment by TATA-GIC-SSG to acquire 49% in GAL as against 44.44% earlier and extension of the long stop date to March 31, 2020.
The company had earlier extended advances to GIL aggregating Rs.400 crore which are expected to be repaid with the materialization of TATA-GIC-SSG deal which is now expected to close by end of March 2020 as against December 2019 expected earlier. Post the materialization of said deal, 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.

Rating sensitivities

Positive factors

Timely materialization of deleveraging efforts leading to significant reduction in debt levels below Rs.1000 crore.

Negative factors

Delay in materialization of TATA-GIC-SSG deal beyond the revised long stop date of binding agreement.
Any increase in exposure towards holding company/companies with weak credit profile.

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 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. GAL has financial flexibility being majority stake holder in DIAL (64%) and GHIAL (63%). GAL’s shares in both these assets 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 a 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

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

on standalone basis stood at Rs.3,793 crore with a net loss of Rs.112 crore. However, in 9MFY20, DIAL has reported y-o-y revenue growth of ~15% in spite of the closure of Jet Airways which resulted in decline of allocated airline slots. DIAL reported a total income of Rs.3,146.59 crore and a PAT of Rs.3.6 crore during 9MFY20.
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 9MFY20 as it reported total income of Rs 1,270.17 crore with PAT of Rs.566.13 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 debt obligation, comfort can be derived from the fact that during H2FY20 and H1FY21, the company has no scheduled debt repayment obligations and the next repayment falls due in December 2020. GAL has met its equity commitment in Crete airport in Greece by raising bonds of Rs.220 crore while no significant amount is expected to go towards equity commitment in Q4FY20. GAL is expected to get Rs 1000 crore as a part of Tata, GIC and SSG deal, while Rs 400 crore is expected to be received from GIL before March 2020 which shall be utilized to reduce debt levels and meet future equity commitments. The company has cash and liquid investments of Rs.148 crore as on February 10, 2020.

Key Rating Weakness
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. However in January 2020, there is an increase in the transaction size (49% as against 44.44%) and also extension of long stop date to March 31, 2020. The investment amount is expected to increase in similar proportion, however the proportion of equity infusion in GAL aggregating Rs.1,000 crore shall remain the same. The proposed investment is subject to 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 deal is likely to be available by end of March 2020 as against December 2019 expected earlier. As per updates, the regulatory approval from Competition Commission of India (CCI) is received subject to certain modifications while another approval from Government of India is pending. On account of delay in materialization of said deal, the company has raised additional bonds at periodic intervals to meet the debt obligations as well as equity commitments, which was earlier expected to be met through the investment proceeds. Any further delay in materialization of deal beyond March 2020 shall be a credit negative for GAL as it triggers various events as per term sheet for bonds and shall remain a key monitorable.

Moderation in financial risk profile of GAL due to exposure towards group company GIL
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. Further during H1FY20, GAL has reported a loss of Rs.39.7 crore on a total operating income of Rs.187.7 crore. The company has raised bonds aggregating Rs.1,450 crore during H1FY20 to meet its debt obligations and also extended Rs 400 crore towards holding company GIL which has a weak credit risk profile. Additional Rs 220 crore is utilised for meeting equity commitment towards Crete airport in Greece.

Project risk primarily with respect to projects 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). As per recent updates Hon'ble Supreme Court has allowed resuming the construction of airport on January 16, 2020 almost after a year of suspension order. 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 The aggregate equity commitment for FY20 against all these projects is already met and no significant amount is expected in Q4FY20. 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. 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.

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]

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 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 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 Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN No	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Non Convertible Bonds	January 30, 2020	INE903F07047	8% (Cash Coupon)	January 31, 2021	220.00	CARE A- (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	-	-	-	1)Withdrawn (04-Apr-18)	-	1)CARE A+ (02-Dec-16)
2.	Non-fund-based - ST-Bank Guarantees	ST	200.00	CARE A2+ (Under Credit watch with Developing Implications)	1)CARE A2+ (Under Credit watch with Developing Implications) (19-Sep-19) 2)CARE A1 (Under Credit watch with Negative Implications) (10-Jun-19)	1)CARE A1 (07-Jan-19) 2)CARE A1 (04-Apr-18)	-	1)CARE A1 (02-Dec-16)
3.	Bonds	LT	-	-	1)Provisional CARE A+ (Under Credit watch with Negative Implications) (10-Jun-19) 2)Withdrawn (10-Jun-19)	1)Provisional CARE AA- (Under Credit watch with Negative Implications) (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	800.00	CARE A- (Under Credit watch with Developing Implications)	1)CARE A- (Under Credit watch with Developing Implications) (19-Sep-19) 2)CARE A+ (Under Credit watch with Negative Implications)	-	-	-

					(08-Jul-19) 3)Provisional CARE A+ (Under Credit watch with Negative Implications) (25-Jun-19)			
5.	Bonds-Non Convertible Bonds	LT	650.00	CARE A- (Under Credit watch with Developing Implications)	1)CARE A- (Under Credit watch with Developing Implications) (10-Oct-19) 2)Provisional CARE A- (Under Credit watch with Developing Implications) (19-Sep-19)	-	-	-
6.	Bonds-Non Convertible Bonds	LT	220.00	CARE A- (Under Credit watch with Developing Implications)	1)Provisional CARE A- (Under Credit watch with Developing Implications) (13-Dec-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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