GMR Airports Limited

April 4, 2018

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Short-term Bank Facilities	200	CARE A1 (A One)	Reaffirmed
Long-term Bank Facilities	-	-	Withdrawn
Total	**200 (Rupees Two Hundred crore only)**		
Proposed Non-Convertible Debenture issue	500	Provisional CARE AA-; Stable (Provisional Double A Minus; Outlook: Stable)@	Reaffirmed

@ 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, trust deed, etc.) to the satisfaction of the CARE.

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation to the long-term proposed NCD and short term bank facilities of GMR Airports Limited (GAL) continue derive strength from its position as largest domestic private airport operator with monopolistic position of its two major airport assets. The two 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 operational and financial profile thereby demonstrating self-sufficiency for future expansions. The ratings also continue to factor in the experienced promoter group with diversified business portfolio, consistent source of the revenue in terms of operator fees and comfortable financial risk profile of the company.

However, the ratings 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. The ratings take cognizance of the H'ble Supreme Court order reducing the aeronautical revenue significantly for DIAL, thereby restricting the ability of DIAL to pay dividends over the medium term. The ratings also take cognizance of the proposed acquisition of 11% stake in GHIAL from Malaysian Airports Holding for consideration of US$ 76 million (~Rs.494 crore) proposed to be funded through rasing of equity.

Going forward, continuation of dividend paying ability in anticipation of favorable outcome from the appellate tribunal for DIAL and higher than envisaged debt funded expansion projects or acquisition resulting in increased leverage shall remain the key rating sensitivities. In addition, any impact on GAL's cash flow or capital structure towards providing exit to its PE investor would also be a key rating sensitivity.

CARE has withdrawn the rating assigned to the long term bank facilities (term loans) of the company with immediate effect as the company has repaid the aforementioned term loan in full and there is no amount outstanding under the said loan as on date.

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

Detailed description of the key rating drivers

Key Rating Strengths

Largest domestic private airport operator

GAL is the largest private airport operator in the country. The two major airport assets that GAL operates are DIAL and GHIAL. Apart from being the largest private airport company in India, GMR Group is also the only Indian airport developer to have developed and operated airports outside India. GMR Infrastructure 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. Sucessful allotment of the airport operator license in Greece will help it in diversifying its portfolio geographically.

Monopolistic position of airport assets

The two major airport assets – DIAL and GHIAL commands monopolistic positions in their respective locations. DIAL & GHIAL combined contributed 27.5% of total passenger traffic of the country during FY17. GAL receives consultancy income from its airport assets as operator fees.

Healthy operating and financial performance of airport assets

The two operating airports under GAL viz, DIAL which is the largest airport in India and GHIAL have demonstrated consistent improvement in their operational and financial performance. DIAL reported healthy growth in passenger traffic of 19% with a total passenger traffic of 57.70 million during FY17 as against 48.40 million in FY16. Growth in passenger traffic resulted in improved financial performance for DIAL and GHIAL during FY17. During 9MFY17 (Prov) also the healthy growth continued and GHIAL reported total income of Rs.916 crore with PAT of Rs.419 crore. DIAL and GHIAL during FY17. During 9MFY17 (Prov) DIAL reported total income of Rs.2934 crore with PAT of Rs.106 crore. During 9MFY18, GAL has received a dividend of Rs.102 crore from DIAL and Rs.96 crore from GHIAL.

Financial risk profile (Standalone)

GAL primarily acts as a holding company for GMR group's airport asset. GAL major is operator fees (FY17: Rs.102 crore). Other than operator fee which the company receives, GAL also renders consultancy services in airport management and operations. During 9MFY18 GAL reported total operating income of Rs.349 crore with PAT of Rs.204 crore as against a total operating income of Rs.101 crore and a PAT of Rs.26 crore in the similar period previous year. Significant boost to the total income and profitability OF GAL was largely on account of returns received on investment from both DIAL and GHIAL in the form of dividends. During 9MFY18, GAL has received a dividend of Rs.102 crore from DIAL and Rs.96 crore from GHIAL. The dividend from DIAL, however, is expected to remain muted during FY19 on account of H'ble Supreme Court order reducing the aeronautical revenue significantly for DIAL. Going forward, dividend paying ability of DIAL in anticipation of favorable outcome from the appellate tribunal to restore UDF charges shall remain key monitorable. Any higher than envisaged debt funded expansion projects or acquisition resulting in increased leverage shall remain crucial from the credit perspective.

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.

Key Rating Weakness

Project risk primarily with respect to Greenfield project at Goa

GAL has received "Letter of Award" for development of Airport in Goa. The airport is expected to be built under the BOT (Build Operate Transfer) model. The airport would have 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 and Debt of Rs.1,330 crore (already tied-up). 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. The regulatory risk is evident from the Supreme Court order dated July 03, 2017 UDF charged by DIAL from airlines has been reduced significantly for second control period (2014-2019). The order has been asked to implement immediately by Director General of Civil Aviation vide its letter dated July 07, 2017. Favorable outcome from the appeleate tribunal for DIAL shall remain important from the dividend paying ability.

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)](#)

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 97.15% in GAL as on March 31, 2017. 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)	FY16 (A)	FY17 (A)
Total operating income	122	133
PBILDT	97	96
PAT	32	35
Overall gearing (times)	0.22	0.19
Interest coverage (times)	2.20	1.98

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

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

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	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	200.00	CARE A1
Proposed NCD	-	-	-	500.00	Provisional CARE AA-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE A+ (02-Dec-16)	1)CARE A (20-Oct-15)
2.	Non-fund-based - ST-Bank Guarantees	ST	200.00	CARE A1	-	-	1)CARE A1 (02-Dec-16)	-
3.	Proposed NCD	LT	500.00	Provisional CARE AA-; Stable	-	1)Provisional CARE AA-; Stable (18-Apr-17)	-	-

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