GMR Airports Limited

April 18, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Non-Convertible Debenture issue	500	**Provisional CARE AA-; Stable (Provisional Double A Minus; Outlook: Stable)@**	**Assigned**
Total	**500 (Rupees Five Hundred crore only)**		

@ 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 and repayment of existing term loan out of NCD proceeds.

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term proposed NCD of GMR Airports Limited (GAL) factors in its position as largest domestic private airport operator by virtue of its two airports viz, Delhi International Airport Private Limited (DIAL) which is the largest airport in India and GMR Hyderabad International Airport Limited (GHIAL, rated 'CARE AA-/CARE A1+'). The two airport assets have a monopolistic position and have demonstrated consistent improvement in their operational and financial profile thereby demonstrating self-sufficiency for future expansions.

Furthermore, the ratings of GAL factor in experienced promoter group with diversified business portfolio, consistent source of revenue in terms of operator fees and expected comfortable debt protection metrics of the company in view of of extended repayment schedule for the NCD issue vis-à-vis the repayment schedule of the existing bank facilities.

However, the ratings are 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, return from investments in subsidiaries as envisaged, the impact of New Aeronautical Tariff for the 2nd regulatory period (FY15-FY19 [refers to the period April 1 to March 31]) for DIAL, timely completion of the envisaged expansion projects at existing airports and greenfield project at Goa and fructification of traffic growth amid challenging economic environment would 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.

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.

Monopolistic position of airport assets: The two major airport assets – DIAL and GHIAL commands monopolistic positions in their respective locations. DIAL & GHIAL combined contributed 27.2% of total passenger traffic of the country during FY16.

Significant improvement in operating and financial performance of airport assets: The two major airport assets: DIAL and GHIAL has demonstrated significant improvement in the operational and financial profile during past couple of years. DIAL has witnessed consistent improvement in the passenger traffic as well as cargo traffic. During FY16, passenger traffic

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

improved by 18% leading to improvement in the total income of the company. Similarly, GHIAL has shown healthy improvement with passenger traffic growing at 18% to 12.40 million as against 10.40 million in FY15.

During FY16 (Aud), DIAL reported total income of Rs.5016 crore (PY: Rs. 4280 crore) with PAT of Rs.509 crore (PY: Rs.228 crore). During 9MFY17 (Prov), DIAL reported total income of Rs.4217 crore with PAT of Rs.335 crore. During FY16 (Aud), GHIAL reported total income of Rs.646 crore (PY: Rs. 435 crore) with PAT of Rs.40 crore (PY: net loss of Rs.188 crore). During 9MFY17 (Prov), GHIAL reported total income of Rs.808 crore with PAT of Rs.210 crore.

Both these assets have demonstrated healthy improvement in the financials over last couple of years. The capex in DIAL and GHIAL expected in next 4-5 years is expected to be self-funded (internal accruals & debt) and no outflow is expected from GAL towards those capex.

Financial risk profile (Standalone): GAL primarily acts as a holding company for GMR group's airport asset. GAL major is operator fees (FY16: Rs.87.38 crore). Other than operator fee which the company receives, GAL also renders consultancy services in airport management and operations. During 9MFY17, GAL reported total income of Rs.101 crore with PAT of Rs.25.55 crore.

GAL in May 2015 acquired additional 10% stake in DIAL from Malaysia Airports (Mauritius) Private Limited (MAMPL) for the total consideration of Rs.508 crore funded through Debt of Rs.450 crore (Term loan from Axis Bank) and Rs.58 crore through internal accruals/cash and bank balances. As on March 31, 2016, GAL had a term loan of Rs.450 crore resulting in an overall gearing ratio of 0.22x.

The company plans to raise NCD amounting to Rs.1,000 crore in two tranches of Rs.500 each. The first tranche to be utilized towards repayment of existing term debt and the remaining would be utilized towards investment in green field airport projects SPVs as equity contribution over the period of FY18-FY20.

The NCD is expected to provide extended moratorium of 5 years as NCD would have a bullet repayment in FY23, where as the existing term loan has a ballooning repayment spread across FY17-21 With expected improvement in revenue profile coupled with favourable debt repayment terms, the debt protection metrics would be strengthened.

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.

Demonstrated track record of raising funds: The promoters have infused funds in the form of equity to the tune of Rs.350.86 crore as on March 31, 2016.

Furthermore, three PE investors have invested approximately Rs.1,478 crore (including premium) through compulsorily convertible preference share (CCPS). The company had issued the same in two tranches in FY11 and FY12.

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 on September 17, 2016. 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 (yet to be tied-up). The approval of master plan is yet to be received. The COD of the project is in H1FY20.

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: 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 BBB-/CARE A3') holds 97.15% in GAL as on March 31, 2017. GAL's three major operating assets include DIAL, GHIAL (rated 'CARE AA-/CARE A1+'), and Delhi Duty Free Services Private Limited (rated 'CARE AA-/CARE A1+').

During FY16, GAL reported PAT of Rs.32 crore on the total operating income of Rs.122 crore as against PAT of Rs.46 crore on total operating income of Rs.115 crore during FY15. During 9MFY17 (Provisional), the company reported PAT of Rs.25.56 crore on a total operating income of Rs.100.57 crore as against PAT of Rs.28.98 crore on total operating income of Rs.90.70 crore during 9MFY16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Status of non-cooperation with previous CRA: NA

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
Bonds (proposed)	-	-	-	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	450.00	CARE A+	-	1)CARE A+ (02-Dec-16)	1)CARE A (20-Oct-15)	1)CARE A- (19-Sep-14)
2.	Non-fund-based - ST-Bank Guarantees	ST	200.00	CARE A1	-	1)CARE A1 (02-Dec-16)	-	-
3.	Bonds	LT	500.00	Provisional CARE AA-; Stable	-	-	-	-

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