GMR Airports Limited

July 08, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Bonds	1,100	CARE A+; Under credit watch with negative implications(Single A Plus)	Final Rating#

 # CARE has received the executed bond trust deed, private placement offer cum application letter 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 GAL factors in its 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) which has demonstrated consistent improvement in their business profile thereby demonstrating self-sufficiency for future expansions. The ratings also factor in the experienced promoter group with diversified business portfolio.

The rating takes cognizance of proposed investment by Tata Group (Tata), "GIC" an affiliate of Singapore's sovereign wealth fund and SSG Capital Management "SSG" aggregating Rs.8,000 crore into GMR Group incluiding Rs.1,000 crore in GAL. The proposed investment is subject to definitive documentation, customary regulatory approvals, lenders consents and other approvals. Going forward, timely receipt of funds from the aforesaid investors shall be a key monitorable.

The rating, however is 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 also factors in the moderation in financial risk profile of GAL during FY19 with loss at net level and elevated gearing levels. The loss was largely attributable to accrued interest on existing NCDs and few one time expenses. The company has raised Rs.800 crore out of the bonds rated and met the part of its debt obligations due in June 2019. The company has further debt obligations of Rs.400 crore in August 2019 against the NCD's aggregating Rs.2,050 crore raised by the company in October 2018 to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. Though, the green shoe option under the bond issue along with other fund raising options being evaluated are expected to be utilized for meeting the near term debt obligations, however, timely inflow of funds and meeting the debt obligations falling due in the near term shall remain a key monitorable. CARE will take a view on the rating once the clarity emerges on the said inflow.

Going forward, timely materialization of divestment/asset monetization/refinancing its debt with longer maturity thereby improving its cash flows shall be 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 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%) which can be monetized in need for meeting its debt obligations as well as requirement of growth capital.

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 on standalone basis stood at Rs.3,793 crore with a net loss of Rs.112 crore.

GHIAL also reported healthy growth in passenger traffic of 17.58% with a 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.

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

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 strategic partnership with Tata, GIC and SSG
The holding company GMR Infrastructure Limited (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 GAL. The investment amount of Rs.8,000 crore will consist of Rs.1,000 crore equity infusion in GAL among others. The proposed investment is subject to definitive documentation, customary regulatory approvals, lenders consents and other approvals. The inflow from the same is likely to be beyond June 2019. Going forward, timely receipt of funds from the aforesaid investors shall be remain important from credit perspective.

Liquidity: Adequate – Adequate liquidity characterized by financial flexibility available with GAL being holdco for two major airport assets [DIAL (64%) and GHIAL (63%)] which can be utililized for meeting its debt obligations as well as requirement of growth capital. Though the cash accruals are expected to remain low during FY20 vis vis near term debt obligation, the comfort can be derived from the Bonds rated of Rs.1,100 crore which would be utilized to meet the debt obligations of Rs.1,000 crore including accrued interest during FY20. GAL has already raised Rs.800 crore from the said issue and met part of its debt obligations due in June 2019. Its equity commitment of ~Rs.500 crore during FY20 is expected to be met through inflow of Rs.1,000 crore expected from the strategic partnership with Tata, GIC and SSG. The company has cash and liquid investments of Rs.85.98 crore as on March 31, 2019.

Key Rating Weakness
Moderation in financial risk profile of GAL
GAL (Standalone) has reported moderation in financial risk profile characterized by loss reported at net level, subdued profitability and leverage indicators. During FY19 (Prov), 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 fee. Subdued profitability and increased debt levels resulted in moderation in capital structure with overall gearing of 1.00x as on March 31, 2019 as against 0.14x as on March 31, 2018.

Refinancing of repayment obligations due in near term
GAL has raised NCD's aggregating Rs.2,050 crore in October 2018 to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. GAL has already raised Rs.800 crore from the said bonds issue and met part of its debt obligations due in June 2019 and part of its equity commitment. The company has further debt obligations of Rs.400 crore by August 2019 at the option of investor against the NCDs aggregating Rs.2,050 crore raised by the company in October 2018 to facilitate reorganization of GMR group's airport related assets under GAL and settlement with PE investors in GAL. The green shoe option under the bond issue along with other fund raising options being evaluated by the management are expected for meeting the near term repayment obligations, however, timely inflow of funds and meeting the repayment obligations falling due in the near term shall remain a key monitorable. CARE will take a view on the rating once the clarity emerges on the said inflow.

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 and the letter of award is also received for the same. The equity commitment for FY20 against these projects is expected to be close to Rs.500 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: Standalone

Applicable Criteria
Criteria for placing rating on credit watch
CARE's Policy on Default Recognition
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) holds 91.95% in GAL as on March 31, 2019. 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)	FY18 (A)	FY19 (Prov)
Total operating income	350	283
PBILDT	302	80
PAT	215	-75
Overall gearing (times)	0.14	1.00
Interest coverage (times)	6.30	0.36

A: Audited; Prov: Provisional

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Non Convertible Bonds (INE903F08037)	-	8% (Cash Coupon)	Dec 25, 2020	1100.00	CARE A+ (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 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 A1 (Under Credit watch with Negative Implications)	1)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	1100.00	CARE A+ (Under Credit watch with Negative Implications)	1)Provisional CARE A+ (Under Credit watch with Negative Implications) (25-Jun-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:

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