GMR Airports Limited

September 04, 2020

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings	Rating Action
Bank facilities – Non Fund based- LT/ST – LC/BG	200	CARE A- / CARE A2+; Negative[Single A Minus; A Two Plus; Outlook: Negative]	Removed from Credit watch with developing implications. Ratings reaffirmed and Negative outlook assigned ; Classification changed from ST to LT/ST
Total Facilities	**200.00 (Rupees Two Hundred crore only)**		
Non-Convertible Bonds	800	CARE A-; Negative [Single A Minus; Outlook: Negative]	Removed from Credit watch with developing implications. Ratings reaffirmed and Negative outlook assigned
Non-Convertible Bonds	650	CARE A-; Negative [Single A Minus; Outlook: Negative]	Removed from Credit watch with developing implications. Ratings reaffirmed and Negative outlook assigned
Non-Convertible Bonds	220	CARE A-; Negative [Single A Minus; Outlook: Negative]	Removed from Credit watch with developing implications. Ratings reaffirmed and Negative outlook assigned

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ‘Rating Watch with developing implications’ from ratings of GMR Airports Limited (GAL) and has reaffirmed the ratings at CARE A-/ CARE A2+ while assigning the ‘Negative’ outlook.

The ratings have been removed from ‘Credit Watch with developing implication’ on account of completion of the proposed 49% stake sale deal to France’s Groupe ADP in July 2020 for a total consideration of Rs 9,813 crore, including Rs 1,000 crore primary equity infusion in GAL. Post completion of the deal GAL has received Rs.1,000 crore as primary equity and also received Rs 225 crore as part of loans and advances given to group company which shall be utilized to reduce the overall debt levels of GAL.

The reaffirmation of ratings continues to factor in GAL’s healthy financial flexibility being a holding company of two major airports viz, Delhi International Airport Private Limited (DIAL) and GMR Hyderabad International Airport Limited (GHIAL). DIAL is the largest airport in India and together with GHIAL has demonstrated consistent improvement in their business profile thereby demonstrating self-sufficiency for future expansions. The ratings continue to factor in the experienced promoter group with diversified business portfolio. The ratings take cognizance of the entry of Groupe ADP as a 49% shareholder of GAL while the majority stake and management control continue to remain with GMR Group with 51% stake. With Groupe ADP having board representation, it is expected to enhance GAL’s operational efficiencies, project execution and bidding capabilities going forward.

The ratings continue to remain constrained by susceptibility of GAL’s revenues to seasonality and volatility associated with air passenger traffic growth and regulatory risk faced by its airport assets. Further, the company has got substantial repayment obligations during FY21, for which the company shall depend upon fresh debt tie up thereby exposing itself to a significant refinancing risk. Any delay in the materialization of the refinancing proposal beyond October 31, 2020 shall be a credit negative for the company.

The ratings also takes note of the restructuring exercise of GMR Group where in the flagship company GMR Infrastructure Limited (GIL) will result in it retaining only the airport business segment, while the rest of GMR group’s verticals – Energy, EPC and Urban Infrastructure will be carved out under ‘GMR Power and Urban Infra Limited’ having mirror shareholding of GIL. The appointed date for the scheme, being the date on which the undertakings shall vest in the respective resulting companies has been fixed at April 01, 2021.

Outlook: Negative
The 'Negative' outlook reflects the expectation that the financial profile of GAL's operating airport assets could weaken in the near term given the significant decline in passenger traffic in view of ongoing coronavirus (COVID-19) pandemic crisis and its spread across the world over the past few months, which has led to authorities restricting air travel, imposing nationwide lockdown (since March 25, 2020 till May 3, 2020) and quarantining of passengers etc. This has in turn resulted in reduction in air traffic movements of unprecedented proportions and thereby disrupting the entire aviation sector. As a result, GAL's revenues in the near to mid-term earned through operator fee, management fee and dividend from these airport assets are expected to be lower compared to previous years.

Rating Sensitivities
Positive
- Timely materialization of deleveraging efforts leading to significant reduction in debt levels below Rs 500 crore.

Negative
- Delay in the proposed refinancing to meet its near term debt obligations beyond October 31, 2020.
- Higher than envisaged debt levels, leading to deterioration in the financial risk profile of the company.
- Higher than envisaged increase in exposure towards group companies.

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.

Satisfactory business profile of airport assets although expected to weaken in the near term
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 moderation in passenger traffic of 2.79% with total passenger traffic of 67.30 million during FY20 as against 69.23 million in FY19 primarily on account of the restriction on air traffic imposed in the month of March 2020. The moderation in the passenger traffic was on account of the outbreak of COVID-19 which has adversely affected the entire aviation sector with reduced air traffic movements, and operations limited to cargo and few rescue flights (until May 24, 2020). From May 25, 2020 onwards, GoI has lifted ban on domestic flights, however, operations are currently limited to 40%-50% capacity. The impact of COVID-19 is expected to remain in the near to medium term, impacting the operational and financial performance of the entire sector, and as the crisis unfolds, the uncertainty regarding its enormity and the period till which it could persist are a cause for concern. Despite of moderation in passenger traffic at DIAL, revenues during FY20 witnessed improvement of 11.87% to Rs 4,244 crore as against Rs. 3,793 crore in FY19, primarily driven primarily by the healthy performance of the Commercial Property Development (CPD) rentals segment, and further supported by growth in the non-aeronautical segment particularly from Cargo and Land & Space rental.
GHIAL reported growth in passenger traffic of 1.16% to 21.65 million in FY20 as against 21.40 million in FY19. The growth in passenger traffic resulted in improved financial performance for GHIAL during FY20 with growth in reported revenue of 4.5% to Rs 1,640 crore as against Rs 1,569 crore, with PAT for FY20 standing at Rs 637 crore.
GAI BV's Mactan Cebu Airport also exhibited improved operational performance as it reported passenger traffic growth of 11.3% in 2019 (January - December) with total passenger traffic of 12.67 million as against 11.38 million in 2018.

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. Further, FY20 marked the entrance of Groupe ADP as a 49% shareholder in GAL post the completion of

the stake sale deal with GMR Infrastructure Limited. Groupe ADP develops and manages airports, and owns and operates all three of Paris' international airports: Paris-Charles de Gaulle, Paris-Orly and Paris-Le Bourget. In addition, ADP also manages 21 airports globally, through its alliance with Royal Schiphol Group N.V., which operates Amsterdam Airport Schiphol. The major shareholder of ADP is the French government holding stake of 50.6%. Other major shareholders include Royal Schiphol Group N.V., VINCI S.A., Credit Agricole Assurances and
Predica Prevoyance Dialogue du Credit Agricole S.A. The management expects the entrance of Groupe ADP to enhance the GAL's bidding capabilities going forward.

Key Rating Weakness

Proposed fund raising initiatives and high dependence on refinancing

The company is planning to raise Rs 2,600 crore debt for refinancing its near term obligations due in FY21. The raised debt along with a portion of Rs 1,000 crore equity infusion and receipt of Rs 225 crore of outstanding loans and advances is expected to be used for the repayment of the company's obligations of Rs 3,277 crore due in FY21. In case the company faces any delays in the finalization of its refinancing proposal beyond October 31, 2020, the same might impact its repayment capacity and shall be a credit negative. Further, the company has plans to raise bonds in its international subsidiary viz GMR Airports International B.V. (GAIBV) which if materialized shall result in reduced debt levels and subsequent improvement in the overall financial risk profile. However, the same is dependent on the favorable international bond market amid coronavirus related uncertainties, and thus remains a key rating monitorable.

Exposure towards group companies

The company has exposure towards group companies in the form of loans & advances which increased from Rs. 32.68 crore in FY19 to Rs. 430.25 crore in FY20. As per the management, GAL has received Rs 225 crore from a group company, and expects to receive the remaining Rs 200 crore in the next 2-3 years. Going forward, any higher than envisaged exposure towards group companies shall be a credit negative and remains a key rating monitorable.

Project risk primarily with respect to project at Goa and Bhogapuram

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 with anticipated cost of around Rs 1,900 crore, and the same is expected to be funded through equity of Rs 570 crore and the remaining Rs 1,330 crore is going to be debt funded (already tied-up). The envisaged COD of GGIAL was earlier September 2020; however, the project had been delayed on account of suspension of the environmental clearance by the Hon'ble Supreme Court in March 2019. The clearance was received in January 2020 and the revised expected COD of the project is November 2022.

GAL is also developing an international airport in Bhogapuram, Andhra Pradesh with expected capacity of around 6 million passengers per annum, and the total project cost is expected to be funded in a debt-equity ratio of 70:30. The company had also signed the concession agreement for Heraklion International Airport, Crete, Greece and has a 21.6% stake in the airport. GAL plans to transfer its stake in Crete Airport to GMR Airports Greece Single member S.A. (subsidiary of GAIBV), subject to approval from the Government of Greece. The aggregate equity commitment of ~Rs. 230 crore during FY21 against all these projects is expected to be met partly through internal accruals, and partly using Rs 1,000 crore received as part of equity infusion post the completion of the Group ADP deal. 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.

Liquidity: Adequate

The liquidity is characterized by financial flexibility available with GAL being the holdco for two major airport assets [Delhi International Airport Limited (DIAL - 64%) and GMR Hyderabad International Airport Limited (GHIAL - 63%)]. The repayment obligation for the company in FY21 stands at Rs 3,276.86 crore (including accrued interest). The company expects to refinance a portion of its outstanding debt equivalent to Rs 2,600 crore, exposing it to a refinancing risk, and shall be a key monitorable going forward. The proceeds from refinancing along with the Rs 1,000 crore from the equity deal would be used for payment of the debt obligations during the year. The company has free cash and liquid investments of ~Rs 616 crore as on August 13, 2020, as against ~Rs 121 crore as on March 31, 2020. As per RBI guidelines dated March 27, 2020 and May 23, 2020, companies can avail a moratorium of 6 months on their payment obligations due during the period March – August 2020. However, the company has not availed the same, and continues to repay as per existing schedule.

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
Rating of loans by investment holding companies
Liquidity Analysis of Non-Financial Sector Entities

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 51% in GAL, and the remaining 49% is held by Groupe ADP as on July 31, 2020. GAL's major operating assets include DIAL, GHIAL, Cebu Mactan International Airport (Philippines) and Delhi Duty Free Services Private Limited. The company also has under implementation projects in Bhogapuram, Goa and Crete (Greece).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	283	574
PBILDT	80	500
PAT	-75	75
Overall gearing (times)	0.16	0.20
Interest coverage (times)	0.36	1.18

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	200.00	CARE A-; Negative / CARE A2+
Bonds-Non Convertible Bonds	INE903F07013	June 26, 2019	8%	December 28, 2020	800.00	CARE A-; Negative
Bonds-Non Convertible Bonds	INE903F07021 INE903F07039 INE903F07039	September 26, 2019	8%	December 28, 2020	650.00	CARE A-; Negative
Bonds-Non Convertible Bonds	INE903F07047	January 30, 2020	8%	January 31, 2021	220.00	CARE A-; Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-18)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	200.00	CARE A-; Negative / CARE A2+	-	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)	-
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-; Negative	-	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-; Negative	-	1)CARE A- (Under Credit	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
						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-; Negative	-	1)CARE A- (Under Credit watch with Developing Implications) (20-Feb-20) 2)Provisional CARE A- (Under Credit watch with Developing Implications) (13-Dec-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Permitted Indebtedness	a) The aggregate financial indebtedness shall comprise of such fund based financial indebtedness of the issuer (including the bonds), does not exceed INR 2,500 crore plus any permitted guarantees.
	b) Financial indebtedness up to EUR 65 million for funding equity portion of airport at Crete.
2. Other conditions	a) Up-streaming of any other cash outflow from GAL (subject to agreed carve outs) shall not be allowed without the permission of the bond holders.
	b) Payment of any dividend or any loans/ advances / debt by GAL shall require approval of bond holders.
B. Non-financial covenants	
1. Shareholding in subsidiaries	a) GAL shall maintain the current shareholding and control in DIAL, GHIAL, DDFS and DAPS until completion of GAL acquisition and control and 50.1% shareholding in such entities after completion of the GAL acquisition.
2. Negative lien / negative pledge	b) GAL shall not create or permit to subsist any

Name of the Instrument	Detailed explanation
	encumbrance over any of its assets, other than the security created pursuant to the bonds and permitted encumbrances.
3. Other conditions	c) Borrower shall ensure than from on or before 30 December 2019 till final redemption date, the bonds issued under the transaction documents shall comprise at least 36% of the total funded indebtedness of the borrower (including, without limitation, any cash interest / coupon, capitalized interest and redemption premium).

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds-Non Convertible Bonds	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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