GMR Airports Limited

October 10, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Non-Convertible Bonds	650.00	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 GAL factors in its healthy financial flexibility being a holding company of two major airports viz, Delhi International Airport Limited (DIAL) which is the largest airport in India and GMR Hyderabad International Airport Limited (GHIAL) which has demonstrated 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 factors 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 aggregating Rs.8,000 crore. On account of said delay, the company has raised additional bonds to meet part of its debt obligations due on Sept 30, 2019 which was earlier expected to be met through said investment proceeds. The rating also factors in GAL’s exposure in the form of loans & advances of Rs.400 crore towards holding company GMR Infrastructure Limited (GIL) which has a weak credit risk profile. The advances extended to GIL are funded through raising of said Rs 650 crore bonds. Additional bonds raised are expected to result in higher than envisaged debt levels thereby weakening the financial risk profile of the company.

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 extended advances to GIL are expected to be repaid with the materialization of TATA-GIC-SSG deal which is expected to close till December 2019. 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.

Going forward, timely materialization of deleveraging efforts thereby improving the overall gearing coupled with improvement in cash flows going forward shall be key rating sensitivities. Also, any delay in materialization of TATA-GIC-SSG deal beyond December 2019 shall be a credit negative for the company.

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 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. However, in Q1FY20, DIAL has reported y-o-y revenue growth of 19% in spite of the Jet Airways crises which resulted in decline of allocated airline slots.

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

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 Q1FY20 as it reported total income of Rs 381 crore with PAT of Rs.183 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 near term debt obligation, the comfort can be derived from the Bonds rated of Rs. 650 crore which have been utilized to meet the part of debt obligations due in Sept 2019. GAL has already raised Rs.800 crore in June 2019 and met part of its debt obligations due in June 2019. GAL's equity commitment of ~Rs.300 crore during FY20 towards ongoing capex requirements in the airport SPVs is expected to be met through inflow from the strategic partnership with Tata, GIC and SSG. Rs 1000 crore of the said amount will be directly infused as a part of the deal, while Rs 400 crore is expected to be received from GIL. The company has cash and liquid investments of Rs.93.52 crore as on September 30, 2019.

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. The investment amount of Rs.8,000 crore will consist of Rs.1,000 crore equity infusion in GAL while balance would be received by GIL. 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 same is likely to come till December 2019. As per recent updates one of the regulatory approvals from Competition Commission of India (CCI) is received on Sept 30, 2019 subject to certain modifications. On account of delay in materialization of said deal, the company has to raise additional bonds to meet the debt obligations due on Sept 30, 2019 which was expected to be met through said proceeds. Any delay in materialization of deal beyond December 2019 shall be a credit negative for GAL as it triggers various events including increase in interest rate, etc as per term sheet for bonds and shall remain key monitorable.

Moderation in financial risk profile of GAL due to exposure towards group company GIL

Out of the said Rs 650 crore bond issue, GAL has extended Rs 400 crore towards holding company GIL which has a weak credit risk profile. The remaining Rs 250 crore is utilised for meeting part of the debt obligations. The additional bonds raised are expected to result in higher than envisaged debt levels thereby weakening the financial risk profile for GAL.

Further, 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.

Project risk primarily with respect to project 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). 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 expected to be close to Rs.300 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. 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
Non-Convertible Bonds	Sept 26, 2019	INE903F08045	8% (Cash Coupon)	Dec 28, 2020	325.00	CARE A- (Under Credit watch with Developing Implications)
Non-Convertible Bonds	Sept 26, 2019	INE903F08052	8% (Cash Coupon)	Dec 28, 2020	325.00	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 A1 (Under Credit watch with Negative Implications) (10-Jun-19) 2)CARE A2+ (Under Credit watch with Developing Implications) (19-Sep-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)Provisional CARE A+ (Under Credit watch with Negative Implications) (25-Jun-19) 2) CARE A+ (Under Credit watch with Negative Implications) (08-July-19) 3)CARE A- (Under Credit watch with Developing Implications) (19-Sept-19)	-	-	-
5.	Bonds-Non	LT	650.00	CARE A- (Under	1)Prov CARE A-	-	-	-

	Convertible Bonds			Credit watch with Developing Implications)	(Under Credit watch with Developing Implications) (19-Sept-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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