GMR Airports Limited

December 11, 2020

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Non-Convertible Bonds@	3,000	Provisional CARE A-; Negative (Provisional Single A Minus; Outlook: Negative)	Assigned

@ Provisional rating is based on indicative terms of the proposed bond issue. Final rating shall be assigned on execution of the transaction documents (including final term sheet, debenture trust deed, etc) to the satisfaction of CARE.

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has assigned a rating of Provisional CARE A-; Negative (Provisional Single A Minus; Outlook: Negative) to the proposed non-convertible bonds of GAL. The proceeds from the said bonds shall be utilized to meet the repayment obligations due at the end of December 2020 and January 2021.

The rating factors in GAL's healthy financial flexibility, the company being the 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 one of the largest airports in Asia. DIAL and GHIAL have demonstrated consistent improvement in their business profile till FY20 thereby demonstrating self-sufficiency for future expansions. The rating also factors in the current ownership structure, especially with the entry of Groupe Aéroport de Paris (Groupe ADP), a major international airport operator group, as a 49% shareholder, besides the promoter GMR group, which remains the majority shareholder with 51% stake and management control. With Groupe ADP having board representation, it is expected to enhance GAL's operational efficiencies, while bolstering the company's financial management, project execution and bidding capabilities, going forward.

The rating, however, continues to remain constrained by the susceptibility of GAL's revenues to seasonality and volatility associated with air passenger traffic growth in its operating assets, as already evidenced during the Covid-19 pandemic and regulatory risk faced by its airport assets. The proposed bond issue shall have tenure of 12 months for up to Rs 1,500 crore and 36 months for the remaining quantum. The company plans to repay part of its debt obligations during FY22 using the proceeds of the planned bond raising in its international subsidiary viz GMR Airports International B.V. (GAIBV), which makes the company susceptible to the depressed sentiments in the international bond market with a possible persistence of Covid-19 related uncertainties, and consequently, remains a key rating monitorable. In case the company's bond raising plans are delayed due to subdued market conditions, it would depend upon fresh debt tie up, thereby exposing itself to a significant refinancing risk. Any delay in the materialization of the planned bond raising initiative and/ or the company's refinancing proposal beyond September 30, 2021 shall be a credit negative for the company.

The ratings also takes note of the impending 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.

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

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

Negative
- Persistence of the Covid-19 pandemic related constraints on international air travel, leading to slower than envisaged recovery of passenger traffic at DIAL and GHIAL.
- Delay in the proposed refinancing and/ or proposed bond raising plans to meet its debt obligations beyond September 30, 2021.
- 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
Majority ownership of two large operating airport assets providing financial flexibility
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 weakened in H1FY21
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 and GHIAL combined handled more than 26% of the total passenger traffic in the country during FY20. The total passenger traffic at DIAL has increased from 29.94 million during FY11 to 67.30 million during FY20 equivalent to a compounded annual growth rate (CAGR) of 9.42%. On the other hand, the total passenger traffic at GHIAL increased from 7.60 million during FY11 to 21.65 million during FY20 at a CAGR of 12.33%. However, on account of the outbreak of Covid-19, the same 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). DIAL reported moderation of 2.79% with total passenger traffic of 67.30 million during FY20 as against 69.23 million in FY19 on account of the restriction on air travel imposed in the month of March 2020. From May 25, 2020 onwards, GoI has lifted ban on domestic flights, however, operations are currently limited to 80% 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. During H1FY21 total revenue for DIAL declined by 61.38% to Rs 806.24 crore as against Rs. 2,087.44 crore in H1FY20 primarily on account of the meltdown in passenger traffic during the period. The substantial drop in revenues resulted in a net loss of Rs 486.87 crore in H1FY21 as against net profit of Rs 17.42 crore during H1FY20. On similar lines, the total revenue for GHIAL during H1FY21 moderated by 73.72% to Rs 217.67 crore as against Rs 828.22 crore during H1FY20 on account of lower passenger traffic, which subsequently resulted in a net loss of Rs 177.76 crore during H1FY21 as against net profit of Rs 367.26 crore during H1FY20.
GAI BV's Mactan Cebu Airport also exhibited moderation in the operational performance as it reported decline in passenger traffic of around 61% during H1FY21 with total passenger traffic of 2.5 million as against 6.4 million in H1FY20.

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, the 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 subsequent to 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 Government of France, which holds a 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

Significant reliance on planned fund-raising initiatives and refinancing in depressed financial markets

The company has high principal repayment obligation of around Rs 2,976 crore in FY21 which is expected to be repaid using the proceeds from the proposed bonds issue of Rs 3,000 crore, along with Rs 1,000 crore equity infused post the completion of the Groupe ADP deal. The proposed bond issue shall have tenure of 12 months for up to Rs 1,500 crore and 36 months for the remaining quantum. However, the company plans to repay the entire amount of Rs 3,000 crore during FY22 itself for which the company plans to refinance a portion of around Rs 1,700 crore during FY22. The company also plans to raise bonds of around USD 300 million at its international subsidiary GAIBV during FY22 which along with the proceeds of the refinanced debt would be utilized for the repayment obligation during FY22. In case the company faces any delays in the finalization of its refinancing proposal and successfully raising bonds at GAIBV beyond September 30, 2021, the same might impact its repayment capacity and shall be a credit negative. CARE would monitor the progress on both the said events, and the same shall remain 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. GAL has received Rs 225 crore from a group company post the completion of Groupe ADP deal in July 2020. However, during August-October 2020, the exposure again increased to around Rs 416 crore on account of loans and advances extended to GMR Infrastructure Limited. As per the management, around Rs 200 crore is expected to be received in January 2021, while the remaining amount will be received 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 Right of First Refusal) 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 commercial operations date (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 principal repayment obligation for the company in FY21 stands at Rs 2,976 crore out of which the current outstanding stands at Rs 2,527 crore, with the remaining already repaid. The company plans to utilize the proceeds of the proposed bonds issue for repayment of the outstanding principal and accrued interest during December 2020 and

January 2021. The company has free cash and liquid investments of ~Rs 393 crore as on November 15, 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Non Convertible Bonds	-	-	-	3000.00	Provisional 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 A-; Negative / CARE A2+ (04-Sep-20)	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-; Negative (04-Sep-20)	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-;	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
					Negative (04-Sep-20)	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-; Negative (04-Sep-20)	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)	-	-
7.	Bonds-Non Convertible Bonds	LT	3000.00	Provisional CARE A-; Negative	-	-	-	-

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 of the issuer shall not exceed INR 3,750 crore (including accrued PIK/ redemption premium).
2. Other conditions	A. Up-streaming of any other cash outflow from GAL (except for permitted inter-corporate debt) 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. Negative lien / negative pledge	A. GAL shall not create or permit to subsist any encumbrance over any of its assets, other than the security created pursuant to the bonds and permitted encumbrances.
2. Other conditions	B. Security over all moveable assets owned by GAL under a hypothecation agreement shall be created on the occurrence of the following events: i. An insolvency event (as defined under GHIAL SHA) in respect of GIL or GAL ii. A material breach (as defined under GHIAL SHA) by GIL or GAL iii. A termination event (as defined under DIAL SHA) in respect of GIL or GAL iv. A HIAL default event (as defined under GHIAL concession agreement) v. A JVC event of default (as defined under DIAL OMDA)

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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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.

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