GMR Airports Limited

December 13, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Proposed Non-Convertible Bonds@	250.00	Provisional CARE A-; Under Credit watch with Developing Implications (Provisional Single A Minus)	Assigned

Details of instruments/facilities in Annexure-1
@ 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, debenture trust deed, etc.) to the satisfaction of the CARE.

Detailed Rationale & Key Rating Drivers

CARE has assigned a long term rating of Prov CARE A- (Credit watch with developing implications) (Provisional Single A Minus) to the proposed non-convertible bonds aggregating Rs.250 crore of GAL.

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, largest airport in India) and GMR Hyderabad International Airport Limited (GHIAL) which has reported 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 to raise additional funds to meet part of its equity commitment for Crete airport in Greece in Dec 2019 which was earlier expected to be met through said investment proceeds.

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 company had earlier extended advances to GIL aggregating Rs.400 crore which are expected to be repaid with the materialization of TATA-GIC-SSG deal which is expected to close by end of 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.

Rating sensitivities

Positive factors

Timely materialization of deleveraging efforts leading to significant reduction in debt levels below Rs.1000 crore.

Negative factors

Delay in materialization of TATA-GIC-SSG deal beyond the long stop date of binding agreement.
Any increase in exposure towards holding company/companies with weak credit profile.

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%

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

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. However, in H1FY20, DIAL has reported y-o-y revenue growth of ~17% in spite of the Jet Airways crises which resulted in decline of allocated airline slots. DIAL reported a total income of Rs.2,087 crore and a PAT of Rs.17 crore during H1FY20.

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 H1FY20 as it reported total income of Rs 828 crore with PAT of Rs.367 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 debt obligation, comfort can be derived from the fact that during H2FY20, the company has no scheduled debt repayment obligations and the next repayment falls due in December 2020. The current rated bonds of Rs.250 crore shall be largely utilized to meet the equity commitment in Crete airport in Greece. Other equity commitment during FY20 towards ongoing capex requirements in the airport SPVs is expected to be met through Rs 1000 crore infusion as a part of Tata, GIC and SSG deal, while Rs 400 crore is expected to be received from GIL. The company has cash and liquid investments of Rs.112.58 crore as on November 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 deal is likely to be available by end of December 2019. As per recent updates, one of the regulatory approvals from Competition Commission of India (CCI) is received subject to certain modifications while another approval from Government of India is pending. On account of delay in materialization of said deal, the company has to raise additional bonds to meet the debt obligations as well as equity commitments, which was earlier expected to be met through the investment 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 a key monitorable.

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

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. Further during H1FY20, GAL has reported a loss of Rs.39.7 crore on a total operating income of Rs.187.7 crore. The company has raised bonds aggregating Rs.1,450 crore during H1FY20 to meet its debt obligations and also extended Rs 400 crore towards holding company GIL which has a weak credit risk profile. Additional Rs 250 crore is proposed to be utilised for meeting equity commitment towards Crete airport in Greece. The additional bonds raised are expected to result in higher than envisaged debt levels thereby weakening the financial risk profile for GAL.

Project risk primarily with respect to projects 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
Proposed Non-Convertible Bonds	-	-	8% (Cash Coupon)	Dec 28, 2020	250.00	Provisional 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) 3)CARE A2+ (Under Credit watch with Developing Implications) (10-Oct-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	1)Provisional CARE A+ (Under Credit watch with Negative	-	-	-

				Implications)	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) 4)CARE A- (Under Credit watch with Developing Implications) (10-Oct-19)			
5.	Bonds-Non Convertible Bonds	LT	650.00	CARE A- (Under Credit watch with Developing Implications)	1)Prov CARE A- (Under Credit watch with Developing Implications) (19-Sept-19) 2)CARE A- (Under Credit watch with Developing Implications) (10-Oct-19)	-	-	-
6.	Bonds-Non Convertible Bonds (Proposed)	LT	250.00	Prov CARE A- (Under Credit watch with Developing Implications)	-	-	-	-

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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