

Airports - Enroute to Stability After Heavy Turbulence



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Summary

CareEdge expects a recovery in the domestic air travel traffic to reach the pre-Covid levels by June 2022 on account of the waning impact of the Omicron wave, significant vaccination coverage and the pent-up demand from the leisure travel segment. Strong gross domestic product (GDP) growth, the rising middle-class population in India, and strong traffic growth in tier-II cities are other long-term growth drivers for the sector. Therefore, CareEdge expects a V-shape recovery in the passenger traffic in FY23, with nearly 70% growth over FY22 passenger traffic. Assuming there is no recurrence of the pandemic, the passenger traffic during FY23 is expected to recover to 93% of the pre-Covid level traffic. The international traffic is expected to revive to pre-Covid levels by early FY24 after the resumption of international flights to full capacity from March 27, 2022.

Moreover, the regulatory support through the timely release of tariff orders is positive for the sector. This will help the operators recoup aero revenue losses of Rs.5,200 crore suffered during FY21-FY22. Aero revenues continue to dominate the revenue stream of domestic airport operators with 60% contribution. Nevertheless, growth in the non-aero revenue from both, the passengers and non-passengers segments, will be a key monitorable in light of the low penetration of non-aero revenue in India.

CareEdge estimates the total capex for the airports' sector to be around Rs.75,000 crore for FY22-FY24, mainly for expanding passenger capacities and monetising non-aero revenues, with an estimated debt of Rs.52,000 crore. This exposes the sector to inherent project risk. Timely reimbursement of the capex by the authority through future aero revenues, longer residual concession period, and comfortable leverage of private players are prominent mitigants for this risk.

The outlook for the airport sector is revised to Stable from Negative, and the recovery in the sector is expected to be fuelled by leisure travel. According to CareEdge, any severe impact from recurrence of pandemic-induced disruptions, the effect of rising crude prices on air-bound traffic, and growth in the corporate trips are the key monitorable.

V-shaped Recovery in Passenger Traffic

Annual air passenger traffic in India registered a healthy compounded annual growth rate (CAGR) of 14% during FY17-FY19, growing from 265 million passengers in FY17 to 344 million in FY19. The passenger traffic remained stagnant in FY20 and witnessed a steep decline during FY21 following Covid-19-induced disruptions.

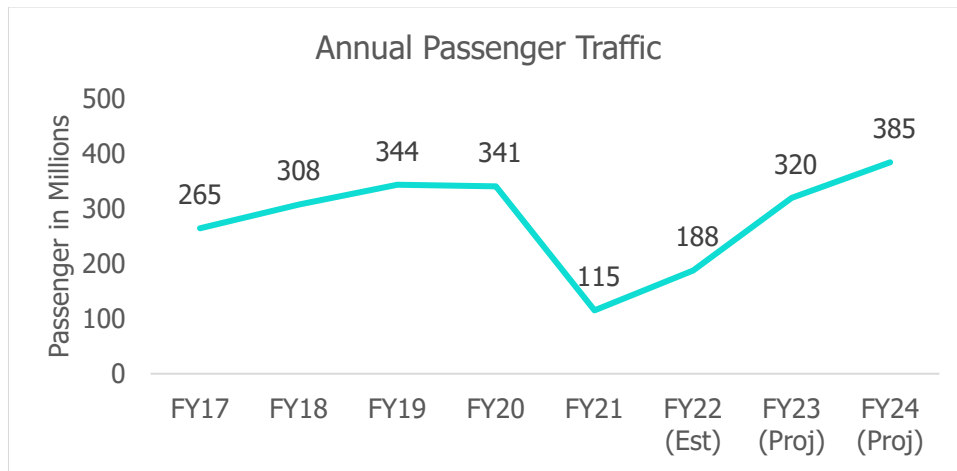


Figure 1: Passenger traffic over FY17-FY24; Source: Airports Authority of India Limited and CARE Ratings Limited

Nevertheless, domestic traffic exhibited resilience post the second wave of the pandemic and steadily rose to 88% of pre-Covid levels by the end of December 2021, as presented below:

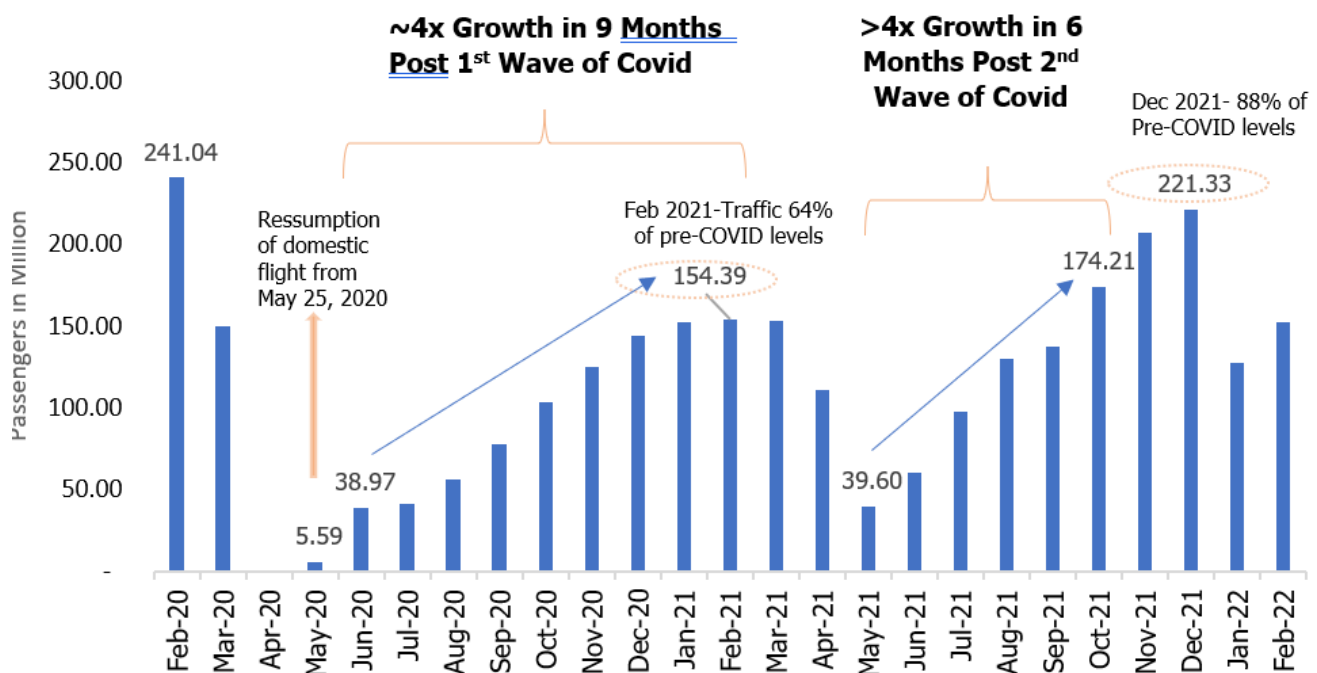


Figure 2: Domestic traffic recovery; Source: AAI & CARE Ratings

The receding impact of the Covid-19, benefits of the mass vaccination drive, and revival of leisure travel-led demand are expected to drive recovery of the domestic traffic to pre-Covid levels by June 2022.

International traffic continued to lag in FY22. However, with the resumption of international flights from March 27, 2022, the international traffic is expected to recover by the end of FY24. Therefore, CareEdge expects a V-shaped recovery in the airport sector in FY23, assuming no significant impact of further waves of Covid. However, persistently elevated air turbine fuel (ATF) prices are likely to dampen the passenger traffic growth especially, leisure travel prospects due to a surge in the airfares.

Stable Aero Revenues

The regulated return on aero assets with a hybrid-till-tariff structure involving true-up/true-down of the revenue takes care of the traffic fluctuations at the time of the subsequent tariff determination process. Aero revenues constituted around 53% of the total revenue for all domestic private airports for FY17-FY20, and 60%, including the airports operated by the Airports Authority of India. Moreover, the process for tariff determination and timelines for issuance of tariff orders has also been streamlined. The orders for tariff revision have been issued for three private airports in FY22, mitigating the regulatory risk to an extent. The timely issuance of tariff orders for the upcoming control period will render strong revenue visibility and aid in recouping aero revenue losses of around Rs.5,200 crore in FY21 and FY22.

Relatively Low Penetration of Non-aero Revenues

Non-aero revenue has steadily increased from Rs.195 per passenger in FY18 to Rs.212 per passenger in FY20. For private airports, non-aero revenue increased from Rs.229 per passenger in FY18 to Rs.255 per passenger in FY20. However, non-aero revenue yield is significantly lower for major Indian airports as compared with the range of Rs.425-1,230 per passenger for some of the major airports across the world.

Considering the low penetration of non-aero revenue in India, growth in non-aero revenue from both, passenger and non-passenger segments, will be the key monitorable. The growth in non-aero revenue is crucial for unlocking potential upside in airport assets.

Capacity Augmentation Underway, Largely Dominated by Private Airports

The total capex estimated for the sector is around Rs.75,000 crore for FY22-FY24, mainly for expanding passenger capacities and monetising non-aero revenues. This entails a funding requirement of around Rs.52,000 crore. Funding challenges for the capex are relatively moderate on account of the expected true-up of the same in the future aero revenues and a longer residual concession period of 28-50 years.

Comfortable Leverage and Liquidity of Majority of Private Airports

The leverage of the four private airports is comfortable, marked by aggregate external debt/profit before interest, lease rentals, depreciation and taxation (PBILDT) of 5.65x in FY20. The traffic of these four private airports constitutes around 50% of the passenger traffic of India and 43% of the capex for the sector, and hence, are appropriate representatives for the sector. Airport special purpose vehicles (SPVs) witnessed stronger resilience despite the COVID-19 turbulence due to the healthy liquidity maintained at the SPV levels, partial deferment of the capex, and fund infusion by the sponsors.

Sector Moving to Stable Outlook

The outlook for the airport sector is revised to Stable from Negative, anticipating recovery of domestic traffic by Q1FY23 and international traffic by end of FY24. According to CareEdge, any severe impact from recurrence of pandemic-induced disruptions, the effect of rising crude prices on air-bound traffic, and the growth in corporate trips are key sector monitorable.

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