

Airports: Smooth Runway Post Pandemic

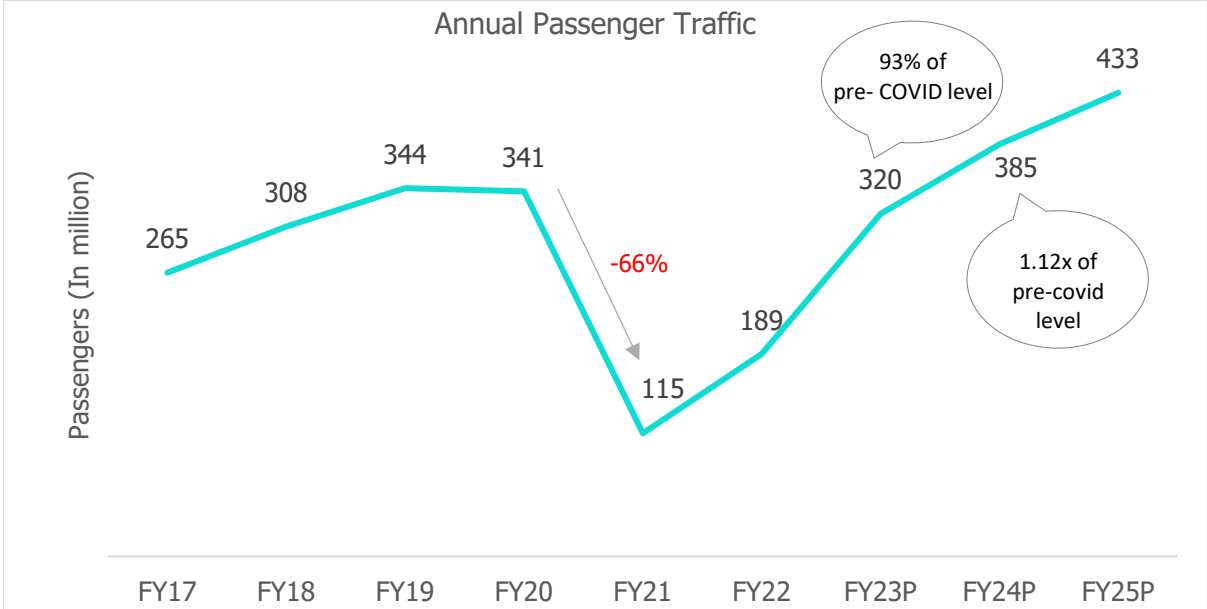
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Synopsis

In this report, CareEdge Ratings has assessed the state of air passenger traffic recovery, near term outlook of the sector and the financial performance of major Indian public-private partnership (PPP) Airport players. This article is the sequel to the CareEdge Ratings article titled: [Airports - Enroute to stability after heavy turbulence \(Published on April 20, 2022\), wherein CareEdge Ratings revised the outlook for airport infrastructure to STABLE from NEGATIVE.](#)

- CareEdge Ratings expects air passenger traffic to reach 93% of pre-pandemic levels in FY23 and surpass the pre-covid level in FY24 with 1.12 times pre-covid air passenger traffic on account of full recovery in international traffic. The recurrence of Covid-19 and its impact on air travel shall be key monitorable.
- India’s GDP growth and its multiplier effect on air passenger traffic growth with favourable demographics of a rising working population augur well for Indian airport operators.
- Improving the regulatory environment with the timely issuance of tariff orders will pave the way for timely revenue visibility for Indian airport operators.
- Leverage indicators are likely to remain at elevated levels for FY23. However, air passenger traffic growth beyond pre-Covid levels and the issuance of new tariff orders in some of the PPP airports are likely to strengthen leverage indicators from FY24.

Passenger Traffic to Grow 1.12 x of Pre-Covid Levels in FY24



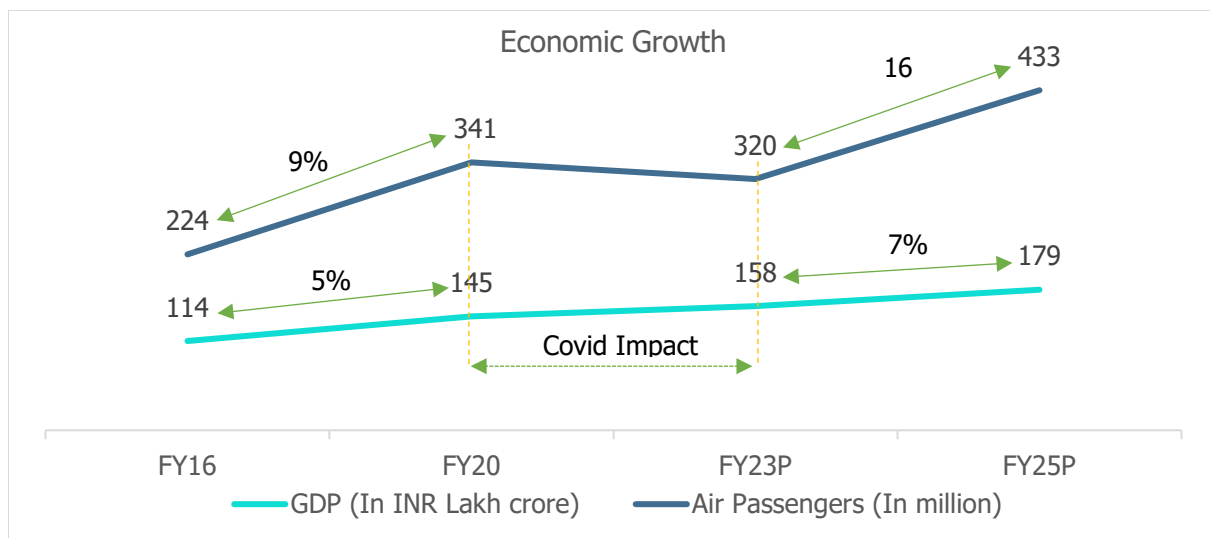
Source: Airport Authority of India and CareEdge Ratings

The resumption of international traffic w.e.f March 25, 2022, increased vaccination pace, and receding impact of Covid-19 led to a steady recovery for airport passenger traffic. After the third wave in Q4FY22, passenger traffic

touched 90% of pre-Covid levels in Q1FY23 compared to Q1FY20. After witnessing a dip in passenger traffic recovery to 86% of Pre-Covid levels in Q2FY23, it rebounded again in October 2022 to 93% of the pre-Covid level in October 2019. CareEdge Ratings expects passenger traffic to reach 93% of pre-Covid levels in FY23 with the onset of the festive season and growth in international traffic, marking V-shape recovery for the sector, indicating growth by 70% in FY23 on a YoY basis. CareEdge Ratings expects a full recovery in international traffic by early FY24 combined with steady domestic traffic growth. Thus, on an overall basis passenger traffic is expected to surpass the pre-Covid level by 1.12 times in FY24.

Key Growth Propellers in Passenger Traffic

There is a multiplier effect between passenger growth rates and GDP growth rates. During FY16-FY20, the Compounded Annual Growth Rate (CAGR) of passenger traffic was 1.80 times GDP CAGR. Over FY23-FY25, CareEdge Ratings expects the air traffic growth rate to be at 2.25 times that of the GDP growth rate, primarily due to the low base in FY22. Moreover, India has favourable demographics with the largest working population, with 67% of the total population in the working age group of 15-64 years in 2020. The rising working population and widening middle-class demography will propel passenger growth. Declining the fare gap between rail and air, new fleet additions by major airlines shall also drive passenger growth. Thrust on green field and brown field expansion of airports is also a significant driver for passenger traffic growth.



Source: Airport Authority of India and CareEdge Ratings

Deferred Privatisation under National Monetization Pipeline

NMP has identified 25 airports for monetisation. Estimated fund inflows from monetisation of 14 airports and divestment of Airport Authority of India's stake at existing airports is Rs.13,000 crore till FY23. In the backdrop of such ambitious timelines mentioned with no commensurate initiatives for monetisation, CareEdge Ratings believes that these timelines are likely to be further deferred, thus necessitating intervention from the Government of India.

Improving Regulatory Environment, albeit Challenges in Approval of First Tariff Order

There is an evolution of a well-defined regulatory environment in India with a mature tariff-setting process. Over the years, there has been a significant reduction in delays in issuing tariff orders in existing PPP concessions. Tariff orders have been issued in two existing PPP concessions in FY22 with a marginal delay of around six months, thus bolstering investor confidence. Timely receipt of tariff orders for the upcoming control period renders strong

revenue visibility and aids in recouping the loss in aero revenues. However, there have been delays in issuing the first tariff orders in some of the concessions mainly because of differences in capex estimation and proposed user development fees (UDF) between developers and authorities. CareEdge Ratings expects the regulatory environment to remain conducive for Airport Sector.

Leverage to Reduce from FY24 despite Large-sized Capex

CareEdge Ratings has assessed the aggregate financial position of nine PPP airports which represent 50% of total India's passenger traffic. The aggregate revenues of these airports are estimated to grow by 50% from Rs. 6,450 crore during FY22 to Rs. 9,650 crore during FY23, mainly led by strong passenger growth of 70% on a y-o-y basis. Although healthy passenger traffic is positive for the sector, on-time issuance of tariff orders with an envisaged tariff rate hike for a few airports is critical.

During the Covid period, the Airport Authority of India extended relief to airport operators by exempting claims on revenue share. Due to this, in FY22, PBILDT margins remained at a healthy level of 56%. However, with the resumption of revenue sharing with the Airport Authority of India, PBILDT margins are likely to drop to 37% during FY23. From FY24, PBILDT margins are likely to stabilise at ~ 45%, mainly supported by the increased scale of operations.

The leverage marked by net debt / PBILDT at the end of FY23 is expected to remain at an elevated level of 7.16 times, considering the resumption of revenue sharing with authority. The Net debt / PBILDT should improve to comfortable levels of around five times from FY24 onwards despite significant debt-funded capex. Longer residual concessions of the airports also continue to impart financial flexibility to Indian airport operators.

CareEdge Ratings' View

"CareEdge Ratings expects air passenger traffic to reach 93% of pre-pandemic levels in FY23 and surpass the pre-covid level in FY24 with 1.12 times of pre-covid air passenger traffic on account of full recovery in international traffic. The recurrence of Covid-19 and its impact on air travel shall be key monitorable. Over FY23-FY25, CareEdge Ratings expects the air traffic growth rate to be at 2.25 times that of the GDP growth rate, primarily due to the low base in FY22. Key growth drivers include improved economic output, declining fare gap between rail & air and full resumption of international travel in the short term while India's favourable demographic profile with a rising working population and widening middle class hold good for long-term prospects. Timely receipt of tariff orders for the upcoming control period renders strong revenue visibility and aids in recouping the loss in aero revenues. However, there have been delays in issuing the first tariff orders in some of the concessions mainly because of differences in capex estimation and proposed user development fees (UDF) between developers and authority," said Maulesh Desai, Director, CareEdge Ratings.

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