



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDIAN AVIATION INFRASTRUCTURE SECTOR

**Second wave of covid-19 to put a brake
on traffic recovery; growth estimates in
FY2022 revised downwards to 80%-85%
YoY from 130%-135% YoY**

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CREDIT OUTLOOK: NEGATIVE



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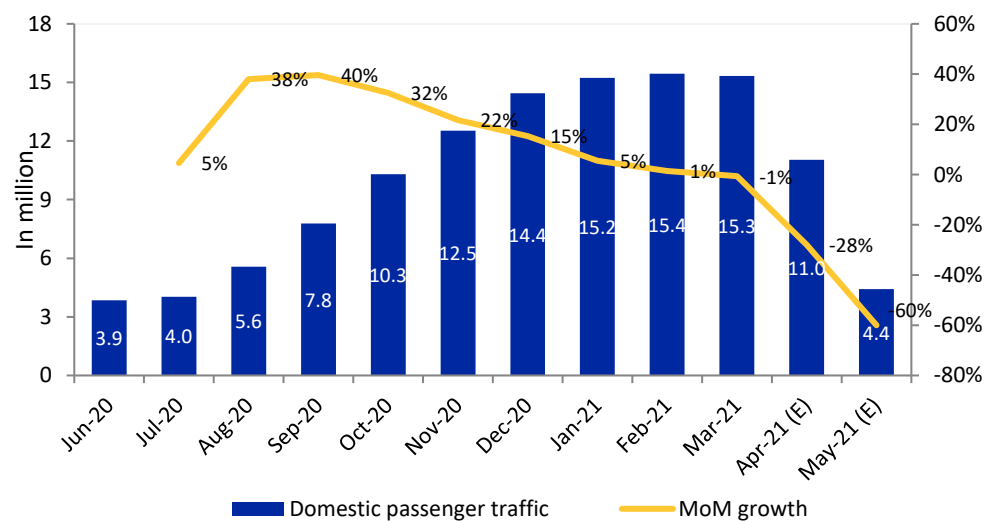
Second wave of Covid-19 would delay recovery in passenger traffic at Indian airports; the passenger traffic growth estimates are revised downwards to 80%-85% YoY as compared to our earlier estimate of 130%-135% in FY2022.

- ICRA continues to have a Negative credit outlook on the Indian aviation infrastructure industry
- The passenger traffic declined significantly by 66% YoY in FY2021 (62% YoY decline in domestic passenger traffic to 105.2 million and sharper 85% YoY decline in international traffic to 10.1 million) due to Covid-19 disruption. The domestic passenger traffic which witnessed a steady ramp up post resumption of airport operations from May 25, 2020, reaching 64% of the previous year levels in Feb 2021 has again suffered a setback. As per ICRA note, the spike in Covid-19 infections towards Mar-end and Apr 2021 has resulted in several state governments implementing fresh restrictions, resulting in marginal de-growth in traffic in Mar 2021 (-0.7% M-o-M) compared to Feb 2021 (+1.4% M-o-M).
- The average daily number of departing passengers during March 2021 stood at 2.49 lakh; and declined by 28% M-o-M in April 2021 to 1.79 lakh. There was a further dip of 56% during May 1, 2021 to May 16, 2021, compared to the average of April 2021. With many states extending lockdown restrictions till May 31, 2021, the air travel is likely to be curtailed and the domestic passenger traffic is estimated be lower by 60% MoM in May 2021.
- The second wave of Covid-19 infections is likely to delay traffic recovery; the passenger traffic growth estimates are revised downwards to 80%-85% YoY as compared to our earlier estimate of 130%-135% in FY2022. This is factoring in the assumption that majority of population (above 18+ years) will be vaccinated by December 2021, in line with the Gol's vaccination policy targets, and impact of future waves (if any) to be minimal due to mass vaccination. ICRA expects domestic air travel to recover back to pre-Covid levels by FY2023 and the international sector by FY2024.
- The operating income (OI) and profits for FY2022 are estimated to decline by 12% and 40% to Rs. 12,800 crore and Rs. 2560 crore respectively, as compared to our earlier estimates due to revision in traffic. However, on a YoY basis, OI is estimated to increase by 50% and operating margins to 20% as against estimated operating losses of Rs. 1700 crore in FY2021. With the improvement in the operating margins and the consequent cash flows in FY2022, the interest coverage and DSCR are expected to improve to 1.3x and 1.1x respectively (as against our earlier estimates of 2.4x and 1.5x. These indicators remain much lower than the interest cover and the DSCR of 3.1x and 4.6x respectively in FY2020). Slow ramp up in traffic would affect the cash flows available for debt servicing for airport operators adversely. However, the on-balance sheet liquidity for the airports is strong to meet the debt obligations.

DOMESTIC PASSENGER TRAFFIC DECLINE BY 28% MoM IN APRIL 2021 AND ESTIMATED TO DECLINE BY 60% MoM IN MAY 2021 DUE TO SPIKE IN COVID-19 INFECTIONS

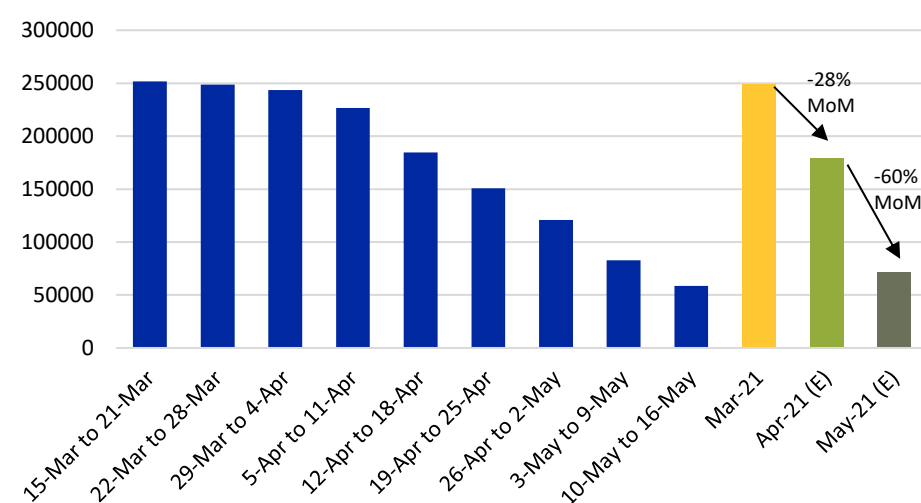
To contain the spread of the Covid-19 pandemic, the Government of India ordered the closure of all airport operations (excluding cargo) in the country from March 25, 2020. Domestic operations partially resumed from May 25, 2020 with 33% effective capacity, which was gradually increased to 80% in December 2020. The domestic passenger traffic witnessed MoM growth during Jul 2020 to Feb 2021 and has steadily reached 64% of the previous year levels in February 2021. The spike in Covid-19 cases towards Mar-end and Apr 2021 has resulted in several state governments implementing fresh restrictions, resulting in marginal de-growth in traffic of 0.7% MoM in Mar 2021 compared to growth of 1.4% MoM in Feb 2021. In addition to the passengers being apprehensive for air travel, increase in infection rate forced many state governments to implement strict covid-19 restrictions during last two months even on the air travel. The domestic airports are mandating negative covid-19 test reports from all or some arriving passengers and imposing mandatory home quarantine measures, which have adversely impacted the passenger traffic in Apr 2021 and May 2021. The average daily number of departing passengers during Mar 2021 stood at 2.49 lakh which declined by ~28% in April 2021 to 1.79 lakh. During May 1, 2021 to May 16, 2021 there has been dip of 56% in domestic passenger traffic as compared to the average of Apr 2021. With many states extending lockdown restrictions till May 31, 2021, the air travel is likely to be curtailed and the domestic passenger traffic is expected be lower by 60% MoM in May 2021. The average daily departing passengers which stood at 2.5 lakh in the third week of Mar 2021 has declined significantly to 0.6 lakh in third week of May 2021 due to second wave of covid-19 infections.

EXHIBIT 1: MoM growth in domestic passenger traffic



Source: AAI, ICRA research; *domestic operations resumed from May 25, 2020

EXHIBIT 2: Weekly trends in daily departing passengers



Source: MOCA, ICRA research

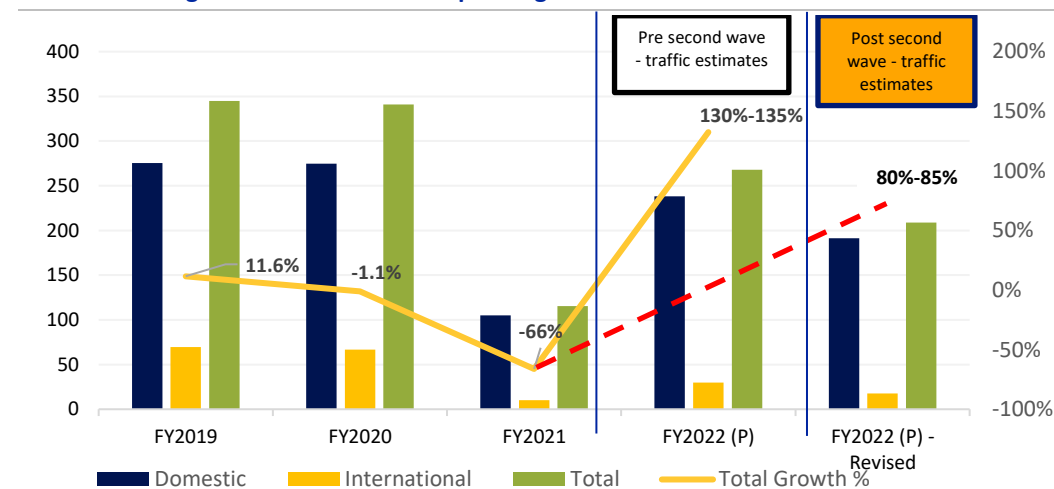
SECOND WAVE OF COVID-19 TO DELAY THE RECOVERY OF PASSENGER TRAFFIC AT INDIAN AIRPORTS

The passenger traffic declined significantly by 66% YoY in FY2021 (~62% decline in domestic passenger traffic to 105.2 million and ~85% decline in international traffic to 10.1 million) on account of the Covid-19 pandemic. The second wave of covid-19 infections has impacted the recovery in domestic passenger traffic significantly in last two months and international air passenger traffic till May 31, 2021 remains limited to countries with special flights under the Vande Bharat Mission (VBM) rescue operation flights and bilateral 'Air Transport Bubble (ATB)' agreements. Many countries like the US, the UK, Singapore, Kuwait, France, Canada, Australia, Iran, Indonesia and the UAE, which had ATB arrangements or under the VBM, have temporarily banned flights from India, citing the increasing coronavirus infections.

As per ICRA estimates, the overall passenger traffic is expected to witness growth of 80%-85% YoY in FY2021 due to second wave of covid-19, lower as compared to our earlier estimates of 130%-135% YoY. This is factoring in assumption that majority of population (above 18+ years) will be vaccinated by December 2021, in line with the Central Government's vaccination policy targets, and impact of future waves (if any) of Covid to be minimal due to mass vaccination. ICRA expects domestic air travel to recover to pre-Covid levels by FY2023 and the international sector by FY2024.

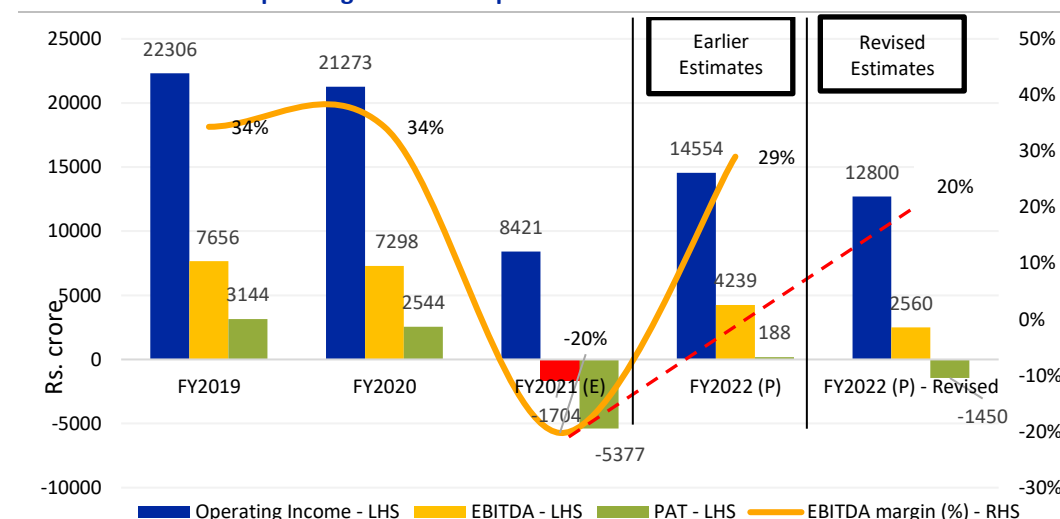
The major growth drivers for the sectors in the near term will critically hinge on the success of mass vaccination, lifting of lockdown restrictions, resumption of business travel, improvement in leisure travel. With revised YoY traffic growth, the sector is expected to witness improvement in the OI by 50% to Rs. 12,800 crore (as compared to our earlier growth of 73% to Rs. 14,550 crore). The operating profit is expected to improve to Rs. 2,560 crore with operating margins of around 20% (our earlier estimate of 29%), which are lower compared to historic levels of around 35%-40%. The sector is expected to witness net loss of Rs. 1450 crore (-11%) in FY2022 (compared to our earlier estimate of Rs. 188 crore).

EXHIBIT 3: YoY growth trends in overall passenger traffic



Source: ICRA research; X axis: traffic in million; Data for four major private airports and 126 public funded airports

EXHIBIT 4: Trends in operating income and profits in sector



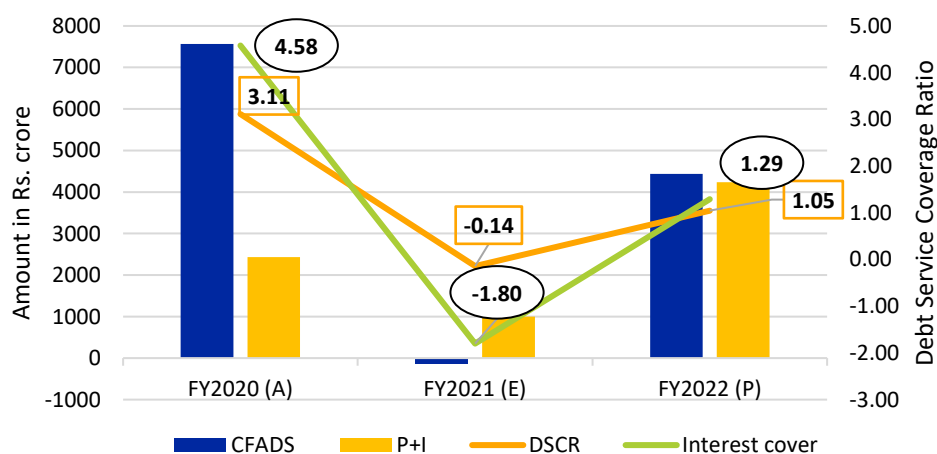
Source: ICRA research; Aggregate data for four major private airports and 126 public funded airports

LOWER THAN EXPECTED IMPROVEMENT IN DEBT COVERAGE METRICS IN FY2022 DUE TO IMPACT OF SECOND WAVE; STRONG LIQUIDITY OF THE AIRPORT OPERATORS TO SUPPORT THE SECTOR

With a sharp contraction in cash flows and the estimated operating losses in FY2021 of around Rs. 1,700 crore, the debt coverage metrics remained weak in FY2021. Due to unmortgaging debt for some airports, the principal repayment plus interest obligations for FY2021 was relatively low. This, along with the operational expenses and capex requirements (if any), were met through strong on balance sheet liquidity of Rs. 8,100 crore as on March 31, 2020, thus resulting in liquidity depletion. The closing cash balance for the airport operators is estimated at Rs. 9,000 crore by March 31, 2021 (includes cash earmarked for capex and refinanced amount for debt repayments in FY2022) as some of major airports raised funds for capex and future debt repayments in FY2021.

Slow ramp up in traffic would affect the cash flows available for debt servicing for airport operators adversely. This, along with large bullet repayments, is expected to result in a modest DSCR cover in FY2022. However, some of the major operators have refinanced the repayment obligations due in FY2022 and the on-balance sheet liquidity for the airports is strong to meet the debt obligations and will support the sector. In FY2022, the interest coverage and DSCR are expected to be at 1.3x and 1.05x respectively, weaker when compared to our earlier estimates of 2.4x and 1.5x respectively. These indicators also remain much lower than the interest cover and the DSCR of 3.1x and 4.6x respectively in FY2020.

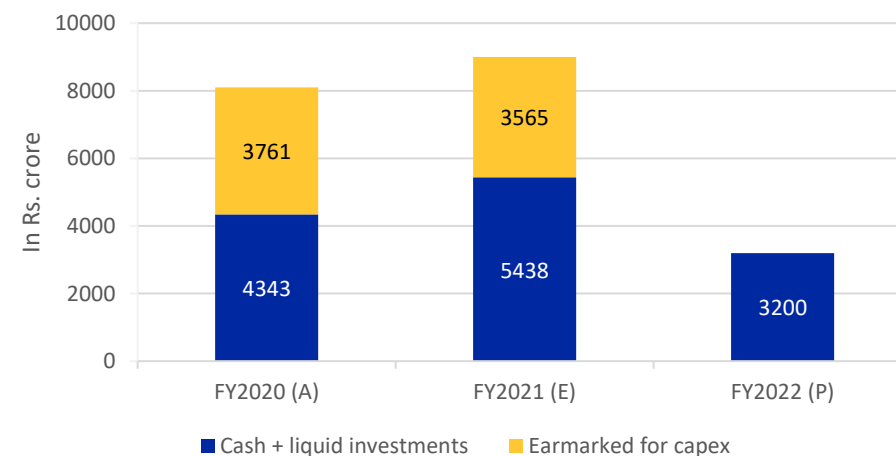
Exhibit 5: Projected debt service coverage metrics for the airport operators



CFADS: Cashflows available for debt servicing; P+I: Principal repayment plus interest obligation

Source: ICRA research; Aggregate data for four major private airports and 126 public funded airports

Exhibit 6: Projected cash and liquid investments for the airport operators



Source: ICRA research; Aggregate data for four major private airports and 126 public funded airports
*Cash + liquid investments for FY2021 (E) includes refinanced amount of debt obligation and for FY2022 (P) includes amount earmarked for capex

ICRA-RATED AIRPORT COMPANIES

Exhibit 7: ICRA-rated issuers in airport infrastructure

Company Name	Rating Outstanding
Airports Authority of India	[ICRA]AAA @/[ICRA] A1+
GMR Hyderabad International Airport Limited	[ICRA]AA (Negative)
GMR Hyderabad Aviation SEZ Limited	[ICRA]AA(CE) (Negative)
GMR Hyderabad Aerotropolis Limited	[ICRA]AA(CE) (Negative)
GMR Air Cargo and Aerospace Engineering Limited	[ICRA]AA(CE) (Negative)
GMR Hospitality and Retail Limited	[ICRA]AA(CE) (Negative)
Delhi International Airport Limited	[ICRA]A+ (Stable)/[ICRA] A1
Delhi Aviation Fuel Facility Private Limited	[ICRA]A+ (Negative)/ [ICRA] A1
Delhi Airport Parking Services Private Limited	[ICRA]A (Negative)/ [ICRA] A1
Celebi Delhi Cargo Terminal Management India Private Limited	[ICRA]A (Stable)
Cochin International Airport Limited	[ICRA]A+ (Stable)

Source: ICRA research



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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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