August 12, 2021

Delhi International Airport Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Working Capital	335.0	335.0	[ICRA]A+; reaffirmed and outlook revised to Negative from Stable
Long-term Non-fund Based Limits	49.0	49.0	[ICRA]A+; reaffirmed and outlook revised to Negative from Stable
Long-term/ Short -term Unallocated Limits	5,616.0	5,616.0	[ICRA]A+/[ICRA]A1; reaffirmed and outlook revised to Negative from Stable
Total	**6,000.0**	**6,000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The revision of outlook to negative factors in the delayed recovery in passenger traffic of Delhi International Airport Limited (DIAL) due to the second wave of pandemic and the consequent weak cash flow generation expected in FY2022, resulting in increased dependence on debt to fund the current airport expansion. While the revenues and operating margins are expected to improve in FY2022 (compared to FY2021) driven by recovery in traffic YoY (majorly domestic), the high indebtedness is likely to constrain the debt coverage metrics at moderate levels. In FY2021, DIAL reported a decline in revenues by 38% to Rs. 2,423 crore, cash profit of Rs. 86 crore (PY: Rs. 626 crore) and weak debt coverage metrics due to the Covid-19 disruption, given the company's revenue exposure to aviation traffic. ICRA expects the domestic traffic to recover to pre-Covid levels by end of FY2023 and international traffic by end of FY2024; however, the recovery critically hinges on the pace of ongoing vaccination programme for Covid-19 with no major impact of future covid waves. Further, DIAL is currently undertaking a large capex programme to increase the capacity from 66 million (mn) to 100 mn by September 2023. The capex timeline has been revised from June 2022 to June 2023 because of the Covid-19 pandemic and further extended to September 2023 due to the second wave of the pandemic. Given the significant decline in the internal accruals owing to the Covid-19 disruption, the company has raised additional debt through issuance of NCDs in March 2021. The pending hard cost for ongoing capex is expected to be funded through bond proceeds earmarked for capex, undrawn lease financing limits, expected real estate security deposits in instalments during FY2022-FY2023 and internal accruals. The increase in interest during construction (IDC) due to revision in capex timelines and one-time drawdown of bond proceeds in March 2021 is estimated at Rs. 750-800 crore and is expected to be funded through additional debt due to modest internal accruals. Given the large bullets falling due in FY2026 (Rs. 3257 crore), FY2027 (Rs. 3820 crore) and FY2030 (Rs. 3596 crore), DIAL remains exposed to high refinancing risks. Further, the ratio of the net present value of future cash flows from operations to the debt outstanding remains weak for the residual concession period (till 2036). In the event of slower-than-expected ramp up in non-aero revenue streams in the next control period (CP4) or delay in further real estate monetisation, part of the existing debt may remain unamortised at the end of 2036. In such a situation, the ability of the company to get the extension of CP for another 30 years till 2066 remains key, for which DIAL has the first right of refusal to be opted by FY2031 as per the current concession agreement.

The ratings continue to derive strength from the significant competitive advantage derived by DIAL, given the dominant position of the Indira Gandhi International Airport (IGIA) as the largest Indian airport. The Delhi airport benefits from its position as the key regional provider of domestic and international air service, as Delhi is the national capital and an important political and commercial centre in the country. Noida International Airport which is at 72 km aerial distance from DIAL is expected to commence in FY2025, with a capacity of 12 million, and is likely to have an impact on the passenger traffic at DIAL (more on domestic sector). However, DIAL's large catchment area and the regulated business model that assures return and provides cushion against any decline in traffic could mitigate the risk to some extent. Further, the joint ownership of DIAL by Airports Authority of India (AAI), the presence of AAI's nominees on DIAL's board and other covenants in the concession agreement, shareholders agreement and the presence of Groupe ADP (49% equity shareholder in DIAL's holding company, GMR Airports Limited) ring-fence the cash flows of DIAL and restrict free movement of funds within group companies.

ICRA is given to understand that DIAL is not making revenue share (45.99%) payments to AAI since January 2021 on account of invocation of force majeure clause and interim stay order from Delhi High court. DIAL is contesting for waiver of revenue share payments to AAI till the operations reaches to pre-Covid levels. The matter is currently with arbitration tribunal and outcome is expected by the end of FY2022. Any unfavourable outcome from arbitration tribunal on revenue sharing with AAI could adversely impact DIAL's liquidity position.

Key rating drivers and their description

Credit strengths

Strong market position – DIAL derives significant competitive advantage, given the dominant position of the Indira Gandhi International Airport (IGIA) as the largest Indian airport. The Delhi airport benefits from its position as the key regional provider of domestic and international air service, as Delhi is the national capital and an important political and commercial centre in the country. Noida International Airport, which is at 72 km aerial distance from DIAL is expected to commence in FY2025 with a capacity of 12 million, and is likely to have an impact on the passenger traffic at DIAL (more on domestic sector). However, DIAL's large catchment area and the regulated business model that assures return and provides cushion against any decline in traffic could mitigate the risk to an extent.

Cash flow ring-fencing - The joint ownership of DIAL by Airports Authority of India (AAI), the presence of AAI's nominees on DIAL's board and other covenants in the concession agreement, shareholders agreement and presence of Groupe ADP (49% equity shareholder in DIAL's holding company, GMR Airports Limited) ring-fence the cash flows of DIAL and restrict free movement of funds within group companies.

Credit challenges

Weak cash accrual due to the second wave of pandemic and consequent delay in traffic recovery - In FY2021, DIAL reported a decline in revenues by 38% to Rs. 2,423 crore and cash profit of Rs. 86 crore (PY: Rs. 626 crore) and weak debt coverage metrics due to the Covid-19 disruption, given the company's revenue exposure to aviation traffic. Further, the second wave of pandemic resulting in delayed recovery in passenger traffic of DIAL and the consequent weak cash flow generation expected in FY2022, resulting in increased dependence on debt to fund the current airport expansion. ICRA expects domestic traffic to recover to pre-Covid levels by end of FY2023 and international traffic by end of FY2024 and it critically hinges on the pace of ongoing vaccination programme for Covid-19 with no major impact of future covid waves. However, the loss of revenue due to lower traffic is compensated for any shortfall in aero revenues by way of true-up in the next regulatory period.

Large ongoing capex programme; exposure to moderate execution risks and higher indebtedness – DIAL is currently undertaking large capex programme to increase the capacity from 66 million (mn) to 100 mn by September 2023. The capex timeline has been revised from June 2022 to June 2023 because of the Covid-19 pandemic and further extended to September 2023 due to the second wave of the pandemic. Given the significant decline in the internal accruals owing to the Covid-19 disruption, the company has raised additional debt through bond market in March 2021. The pending hard cost for ongoing capex is expected to be funded through bond proceeds earmarked for capex, undrawn lease financing limits, expected real estate security deposits (from Bharti Realty Limited - BRL) deal in installments during FY2022-FY2023 and internal accruals. The increase in interest during construction (IDC) due to revision in capex timelines and one-time drawdown of bond proceeds in March 2021 is estimated at Rs. 750-800 crore and is expected to be funded through additional debt due to modest internal accruals.

Exposure to refinancing risks – Given the large bullets falling due in FY2026 (Rs. 3257 crore), FY2027 (Rs. 3820 crore) and FY2030 (Rs. 3596 crore), DIAL remains exposed to high refinancing risks. Further, the ratio of the net present value of future cash flows from operations to the debt outstanding remains weak for the residual concession period (till 2036). In the event of slower-than-expected ramp up in non-aero revenue streams in the next control period (CP4) or delay in further real estate monetisation, part of the existing debt may remain unamortised at the end of the 2036. In such a situation, the ability of the company to get the extension of CP for another 30 years till 2066 remains key, for which DIAL has the first right of refusal to be opted by FY2031 as per current concession agreement.

Liquidity position: Adequate

The liquidity position of the company is adequate, with assignable cash balance of Rs. 1353.6 crore (excludes bond proceeds earmarked for capex of Rs. 1575.1 crore and refinance of USD notes of Rs. 2061.2 crore) as on March 31, 2021. There are no principal repayment obligations of the company in FY2022 (except USD notes in February 2022 for which funds are earmarked from recent NCD's raised). The company is expected to incur capex of around Rs. 1900 crore in FY2022, which will be funded through funds earmarked for capex, lease financing undrawn limit, security deposits from Bharti Realty deal and internal accruals.

Rating sensitivities

Positive factors – The crystallisation of scenarios for a rating upgrade is unlikely over the medium term. Stable outlook may be restored if the traffic and non-aero revenues reverts to pre-Covid levels, resulting in higher revenues and cash accruals on a sustained basis. Further, ramp up in real estate monetisation remains a key rating monitorable.

Negative factors – Negative pressure on DIAL's rating could arise if the ramp up in traffic is lower than ICRA's base case assumptions, which adversely impacts the cash flows. Moreover, a delay in the receipts from BRL monetisation or any unfavourable outcome from arbitration tribunal on revenue sharing with AAI that adversely impacts the liquidity position could result in a rating downgrade. Any significant delay or cost over runs in ongoing capex or material disallowance by AERA will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Airports
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

DIAL is a joint venture company (JVC) promoted by GMR Consortia and AAI, which has been awarded a 30-year concession for the operation, modernisation and phased expansion of IGIA in Delhi. The GMR Group, through GMR Airports Limited, is the largest shareholder in DIAL (64%); the other shareholders include Fraport AG Frankfurt Airport Services Worldwide (Fraport) (10%) and AAI (26%). IGIA is the busiest airport in the country. In September 2010, DIAL completed the first phase of expansion and modernisation, enhancing its capacity to 66 million passengers. At present, it is undertaking an expansion project to increase airport capacity to 100 million.

Key financial indicators (audited)

HIL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	3,909	2,423
PAT (Rs. crore)	13	-317
OPBDIT/OI (%)	24.9%	28.2%
PAT/OI (%)	0.3%	-13.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.3	2.9
Total Debt/OPBDIT (times)	10.2	19.1
Interest Coverage (times)	1.4	1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 21, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Aug 12, 2021	Feb 26, 2021	Apr 3, 2020	Aug 9, 2019	Oct 26, 2018
1	Fund Based Working Capital	Long-term	335.0	--	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)
2	Non-Fund Based Limits	Long-term	49.0	--	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA-(Negative)	[ICRA]AA-(Negative)	[ICRA]AA-(Stable)
3	Unallocated Limits	Long-term and short term	5,616.0	--	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Negative)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Working Capital	Simple
Non-Fund Based Limits	Very simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-term Fund Based Working Capital	NA	NA	NA	335.0	[ICRA]A+ (Negative)
NA	Long-term – Non-Fund Based Limits	NA	NA	NA	49.0	[ICRA]A+ (Negative)
NA	Long-term/ Short - term – Unallocated Limits	NA	NA	NA	5,616.0	[ICRA]A+ (Negative)/ [ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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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. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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