

September 07, 2021

Cochin International Airport Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	400.00	776.68	[ICRA]A+ (Stable); reaffirmed/assigned
Fund-based working capital limit	0.00	125.00	[ICRA]A+ (Stable); assigned
Total	400.00	901.68	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation of Cochin International Airport Limited (CIAL/ the company) factors in the conservative capital structure and the healthy liquidity position of the company. CIAL enjoys high financial flexibility on account of low leverage levels—TOL/TNW was 0.9 times and gearing at 0.6 times as on March 31, 2021. The liquidity position of CIAL is adequate, with unencumbered liquid surplus of Rs. 80 crore as on Mar 31, 2021, cushion in working capital facilities of Rs. 30 crore and undrawn limit of Rs. 60 crore capex reimbursement loan. Further, the liquidity will be supported by an expected sanction of Rs. 200 crore term loan under the Emergency Credit Line Guarantee Scheme (ECLGS) 3.0 in September 2021, which is expected to provide additional cushion. The rating takes into account CIAL's strong operational track record of over two decades with the lowest capital cost¹ per sqm and the low burden on passengers (no user development fee (UDF) till FY2022) amongst all major airports, which reduces regulatory risk to a significant extent. The under-recovery of revenues in previous control period (CP2 – FY2017 to FY2021) because of the Covid-19 pandemic along with the proposed capex programme of Rs. 1500 crore for CP3 has been factored in the tariff determination for CP3 (FY2022-FY2026), resulting in an increase in applicable tariffs for CIAL starting April 1, 2022. This is expected to result in an improvement in revenues and profitability for CIAL starting FY2023. The user acceptability of increase in tariffs from FY2023 and its impact of the same on traffic remains to be seen.

The ratings, however, remain constrained by the delayed recovery of passenger traffic at CIAL due to the second wave of the pandemic and the consequent weak cash flow generation expected in FY2022. The impact of the Covid-19 pandemic is expected to be higher in case of CIAL when compared to other airports because of higher mix of international operations (48.5% of the total passenger throughput at CIAL in FY2020), which continue to face a ban (barring flights under Vande Bharat mission and air bubble arrangement) since March 22, 2020. Further, in the domestic segment, the airport has a high proportion of leisure travelers, which faced the worst brunt of the second Covid wave with Kerala being the worst affected state in the country. ICRA expects 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 the ongoing vaccination programme for Covid-19 and the 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.

The rating also remains constrained by the high competition from four international airports situated within 270 km radius from CIAL viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. Any shift in traffic is expected to result in lower revenues and profitability. However, CIAL is well positioned in terms of cost competitiveness (least burden on passengers), advantageous geographical location in proximity to major tourist destinations and Cochin being the major business hub in Kerala. Unlike the other private airports which are either

¹ CIAL has been used as benchmark for normative approach for capex as per AERA

governed by the Operations, Maintenance and Development Agreement (OMDA) or Concession Agreement (CA), there is no concession awarded by the GoI in the case of CIAL. In the absence of a CA, the rights, obligations and the concession period are not defined for CIAL. Further, the GoI is not bound by any non-compete/ right of first refusal clauses, should there be any proposal to develop new international airports in the region. However, comfort can be taken from the Government of Kerala's shareholding of around 32.4%, along with the long operational track record – there was no objection raised by the GoI/the Airport Authority of India (AAI) even at the time of inviting bids for other major private airports.

The Stable outlook on the rating reflects ICRA's opinion that CIAL's credit profile will be supported by healthy liquidity position, conservative capital structure and increase in tariffs from April 1, 2022.

Key rating drivers and their description

Credit strengths

Long operational track record with low burden on passengers - The company has a strong operational track record of over two decades with the lowest capital cost per sqm and the least burden on passengers (no UDF till FY2022) amongst all the major airports, which reduce regulatory risk to some extent.

Increase in tariff to support revenues and profitability - The under-recovery of revenues in CP2 because of the Covid-19 pandemic along with the proposed capex programme of Rs. 1500 crore for CP3 has been factored in the tariff determination for CP3, resulting in an increase in applicable tariffs for CIAL starting April 1, 2022. This is expected to improve revenues and profitability for CIAL from FY2023. The user acceptability of increase in tariffs from FY2023 and the impact of the same on traffic remains to be seen.

Conservative capital structure and adequate liquidity - The financial profile of CIAL is healthy, characterised by a conservative capital structure. CIAL enjoys high financial flexibility because of low leverage levels with TOL/TNW at 0.9 times and gearing at 0.6 times as on March 31, 2021. The liquidity position of CIAL is adequate with unencumbered liquid surplus of Rs. 80 crore as on Mar 31, 2021, cushion in working capital facilities of Rs. 30 crore and undrawn limit of Rs. 60 crore capex reimbursement loan. Further, the liquidity will be supported by an expected sanction of Rs. 200 crore term loan under ECLGS 3.0 in September 2021, which would provide additional cushion

Credit challenges

After a weak FY2021; second wave of pandemic further delayed the traffic recovery: In FY2021, CIAL reported a 66% decline in revenues to Rs. 267.6 crore and cash losses of Rs. 86.2 crore. Further, the second wave of the pandemic has impacted traffic in Q1FY2022, resulting in delayed recovery in passenger traffic of CIAL; consequently, the cash flow generation expected in FY2022 is weak. The impact of the Covid-19 pandemic is expected to be higher in case of CIAL, when compared to other airports, because of higher mix of international passengers (accounting for 48.5% of the total passenger throughput at CIAL in FY2020) and the continued ban on international commercial operations (barring flights under Vande Bharat mission and air bubble arrangement) since March 22, 2020. Further, in the domestic segment, the airport has a high proportion of leisure travelers, which faced the worst brunt of the second Covid wave with Kerala being the worst affected state in the country. ICRA expects 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 the ongoing vaccination programme for Covid-19 and the 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.

High competition from other international airports in the vicinity: CIAL has four international airports situated within 270 km radius from CIAL viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. Any shift in traffic is expected to result in lower revenues and profitability. However, CIAL is well

positioned in terms of cost competitiveness (least burden on passengers), advantageous geographical location in proximity to major tourist destinations and Cochin being the major business hub in Kerala.

Lack of Concession Agreement: Unlike the other private airports that are either governed by the OMDA or Concession CA, there is no concession awarded by the GoI in the case of CIAL. In the absence of a CA, the rights, obligations and the concession period are not defined for CIAL. Further, the GoI is not bound by any non-compete/ right of first refusal clauses should there be any proposal to develop new international airports in the region. However, comfort can be taken from the Government of Kerala's shareholding of around 32.4% along with the long operational track record – there was no objection raised by the GoI/AAI even at the time of inviting bids for other major private airports.

Liquidity position: Adequate

The liquidity position of the company is adequate, with unencumbered cash of Rs. 80.7 crore as on March 31, 2021 and cushion in working capital facilities with undrawn limit of around Rs. 30 crore. The debt repayment obligation in FY2022 is Rs. 85.4 crore, which can be met through estimated cash flow from operations. Further, the company is expected to receive Rs. 200 crore term loan under ECLGS 3.0 in September 2021, which is expected to provide additional cushion. The capex for FY2022 and FY2023 is estimated at Rs. 325.0 crore, which would be funded by undrawn term loans of Rs. 225.0 crore and internal accruals.

Rating sensitivities

Positive factors – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. However, significant growth in traffic along with improvement in non-aero revenues and profitability on a sustained basis could be a scenario for rating upgrade. Specific credit metrics include DSCR of greater than 2.5x on a sustained basis.

Negative factors – Negative pressure on CIAL's rating could arise if the ramp up in traffic is lower than ICRA's base case assumptions, which adversely impacts the cash flows. The rating may also be downgraded if there is loss of market share to competing airports in the region on a sustained basis and/or larger-than-anticipated debt-funded capex. Any deterioration in credit profile of airlines, resulting in elongation of receivable cycle for CIAL, would remain a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Airports
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CIAL. As on March 31, 2021, the company had five subsidiaries, which are enlisted in Annexure-2.

About the company

Cochin International Airport Limited (CIAL) was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from the airport users as well as the public, Non-Resident Indians (NRIs), the Government of Kerala (GoK) and the airport service providers. Chief Minister (CM) of Kerala is the chairman of the company. CIAL was incorporated on March 30, 1994 as a public limited company and achieved commercial operations in June 1999. To cater to the high traffic demand, CIAL constructed a new international terminal, which was inaugurated in March 2017 and total passenger handling capacity per annum increased to 20 million. The Government of Kerala (GoK) is the major shareholder in CIAL with 32.4% stake.

Key financial indicators (audited)

CIAL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	781.3	267.6
PAT (Rs. crore)	237.7	-92.9
OPBDIT/OI (%)	57.1%	16.9%
PAT/OI (%)	30.4%	-34.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	1.4	16.6
Interest Coverage (times)	8.2	0.8

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 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
						Sep-7-2021	Sep-4-2020		Sep-3-2018	Aug-13-2018
1	Fund based - Term Loans	Long-term	776.68	576.7	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA-@, placed on watch with negative implications	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund based- Working Capital	Long-term	125.00	-	[ICRA]A+ (Stable)	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based - Term Loans	Simple
Fund based- Working capital limit	Simple

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

Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Federal Bank	Fund based - Term Loans	March 2015	7.8%	March 2028	776.68	[ICRA]A+ (Stable)
Federal Bank	Fund based – Working capital limit	-	7.5%	-	125.00	[ICRA]A+ (Stable)

Source: CIAL

Annexure-2: List of entities considered for consolidated analysis

Company Name	HIL Ownership	Consolidation Approach
Cochin International Aviation Services Limited	99.99%	Full Consolidation
Air Kerala International Services Limited	99.99%	Full Consolidation
CIAL Infrastructures Limited	99.99%	Full Consolidation
CIAL Duty free and Retail Services Limited	99.90%	Full Consolidation
Kerala Waterways and Infrastructure Limited	99.99%	Full Consolidation

Source: CIAL

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