

December 31, 2021 ^(Revised)

GMR Air Cargo and Aerospace Engineering Limited (formerly GMR Aerospace Engineering Limited): Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	300.00	[ICRA]AA (CE) (Negative); assigned
Total	300.00	

Rating Without Explicit Credit Enhancement	[ICRA]A
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*Instrument details are provided in Annexure-1

Note: The letters CE, in parenthesis, suffixed to the rating symbol stand for 'credit enhancement'. The CE suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The assigned rating of [ICRA]AA (CE) for the term loan programme of GMR Air Cargo and Aerospace Engineering Limited (GACAEL) rating is based on the strength of the corporate guarantee provided by GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA (Negative)), the parent of GACAEL. The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor GHIAL.

For arriving at the ratings of GHIAL, ICRA has consolidated the financials of GHIAL and its subsidiaries, namely GMR Hyderabad Aerotropolis Limited, GMR Hyderabad Aviation SEZ Limited, GMR Air Cargo and Aerospace Engineering Limited, GMR Hospitality and Retail Limited, GMR Hyderabad Airport Assets Limited and GMR Aero Technic Limited.

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by GHIAL is strong to result in an enhancement in the rating of the said instrument to **[ICRA]AA (CE)** against the rating of [ICRA]A without explicit credit enhancement. In case the rating of the guarantor or the unsupported rating of GACAEL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » Debt service reserve (DSR) of six months (principal + interest) to be created from 15 days from date of first disbursement
- » Minimum DSCR ≥ 1.15 times and Long-term Debt/EBITDA ≤ 7.0 times
- » During the currency of the loan, the guarantors will not, without banks permission formulate any scheme of amalgamation/reconstitution or change in management control
- » Investments in debt mutual funds schemes with a minimum rating of AA/A1+ or an equivalent rating by rating agency or fixed deposits with a bank with a minimum rating of AA or an equivalent rating by rating agency
- » Restricted payments clause for payment of dividends, extension of loans etc.

Key rating drivers and their description

Credit strengths

Corporate guarantee from GHIAL – The rating takes support from the strong profile of the sponsor – GMR Hyderabad International Airport Limited (rated [ICRA]AA (Negative)). The rating for the bank facilities of Rs. 300.0 crore is based on the strength of unconditional and irrevocable corporate guarantee provided by GHIAL.

Bullet repayment NCDs refinanced with long-term amortising loan – The company has refinanced Rs. 275-crore NCDs which had bullet repayment in October 2024 with an amortising term loan of 10 years having a ballooning repayment schedule. This has eased the high debt repayments earlier due in FY2025. This along with the healthy growth prospects for MRO and cargo division in the medium term is expected to improve the debt protection metrics going forward.

Credit challenges

Vulnerability to fluctuations in cargo volumes at Hyderabad airport - GACAEL's cargo operations remain susceptible to the fluctuations in cargo volumes at the Hyderabad airport. The cargo volumes in turn depend on global economic conditions and any slowdown in global trade may adversely impact the operations of the company. While the Covid-19 pandemic contracted domestic and international cargo volumes with a total decline of 23% for GACAEL in FY2021, they are expected to ramp up during FY2022-FY2023. Further, the cargo business is expected to face competition going forward with a second cargo operator to be onboarded in FY2024.

Liquidity position: Adequate

For the [ICRA]AA (CE) (Negative) rating: Adequate

The liquidity position of the guarantee provider (GHIAL) is adequate, with assignable cash balance (excluding bond proceeds earmarked for capex, ICDs and investments in commercial papers) of Rs. 307.6 crore¹ as on September 30, 2021. At consolidated level, GHIAL has low debt repayment obligations of Rs. 33.6 crore and Rs. 41.9 crore in FY2022 and FY2023, respectively. The pending capacity expansion capex for FY2022 and FY2023 will be funded through the encumbered cash balance earmarked for capex and the current available liquidity.

For the [ICRA]A rating: Adequate

The liquidity position of GACAEL is adequate with unencumbered cash balance of Rs. 25.8 crore and unutilised working capital limits of Rs. 15 crore as on September 30, 2021. The company has repayment obligation of Rs. 4.5 crore in FY2022 and Rs. 9 crore in FY2023 which can be comfortably serviced through estimated cash flow from operations. The company is expected to incur a capex of around Rs. 120 crore towards EASA 147 engineering school, MRO facility and expansion of existing cargo terminal in FY2022-FY2023 which is expected to be funded through a debt of Rs. 60 crore and the balance through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the credit profile of the guarantor improves.

Negative factors – The rating could be downgraded if the credit profile of the guarantor deteriorates or the linkage with the parent company GHIAL weakens. A significant decline in GACAEL's revenues and profitability, deteriorating the debt coverage metrics and liquidity on a sustained basis, would also affect the rating.

¹ As on September 30, 2021, bond proceeds (parked for capex) amount to Rs. 1710.0 crore, Rs. 582.0 crore is invested in commercial papers, Rs. 240.0 crore is extended as ICDs to group entities and Rs. 59.5 is restricted cash; remaining Rs. 314.5 crore is assignable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Support – GHIAL. The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company, GHIAL.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

GMR Air Cargo and Aerospace Engineering Limited (GACAEL) is a wholly-owned subsidiary of GMR Hyderabad International Airport Limited (GHIAL). GACAEL is formed from the merger of GMR Aero Technic Limited and GMR Hyderabad Air Cargo and Logistics Private Limited into GMR Aerospace Engineering Limited. The company is into the maintenance, repair and overhaul (MRO) and the cargo handling business at Rajiv Gandhi International Airport in Hyderabad. The company has received merger approval from National Company Law Tribunal (NCLT) on July 26, 2019 with the effective date of implementation from April 1, 2018. The company was renamed as GACAEL on September 25, 2019.

Key financial indicators (GACAEL)

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	299.2	325.8
PAT (Rs. crore)	16.4	5.4
OPBDIT/OI (%)	21.4%	17.4%
PAT/OI (%)	5.5%	1.6%
Total Outside Liabilities/Tangible Net Worth (times)	-124.8	225.8
Total Debt/OPBDIT (times)	5.0	5.9
Interest Coverage (times)	1.9	1.8

Source: GACAEL

Status of non-cooperation with previous CRA: None

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 on September 30, 2021 (Rs. Crore)	Date & Rating on	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019		
				Dec-31-2021	Oct-18-2021	Oct-09-2020	Apr-09-2020	Nov-06-2019	31-Dec-2018	19-Apr-2018	
1 Term Loans	Long term	300.00	300.00	[ICRA]AA (CE) (Negative)	-	-	-	-	-	-	-
2 NCD	Long term	-	-		[ICRA]AA (CE) (Negative); Withdrawn	[ICRA]AA(CE) (Negative)	[ICRA]AA(CE)@	[ICRA]AA(CE) (Stable)	-	-	-
3 NCD	Long term	-	-		-	-	-	[ICRA]AA(SO) (Stable); withdrawn	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)
4 Term Loan – Fund Based	Long term	-	-		-	-	-	-	-	-	[ICRA]AA (SO) (Stable); Withdrawn
5 Unallocated	Long term	-	-		-	-	-	-	-	-	[ICRA]AA (SO) (Stable); Withdrawn

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	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 analysing 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/ Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NIIF Infrastructure Finance Limited	Term Loans	August 2021	-	September 2031	300.00	[ICRA]AA(CE) (Negative)

Source: GCAEL

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

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

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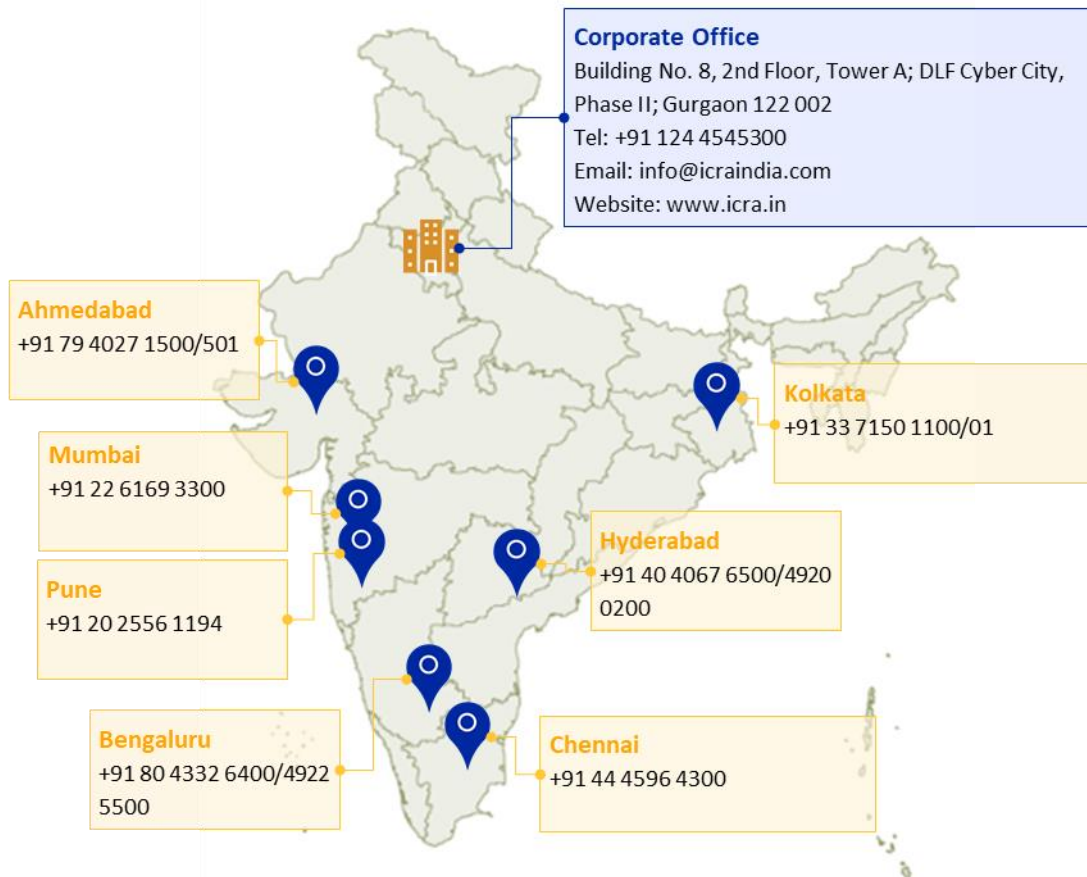
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