

December 31, 2021

## GMR Hyderabad International Airport Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	2100.0	0.0	-
Working capital facilities	0.0	125.0	[ICRA]AA (Negative); reaffirmed
Unallocated limit	0.0	875.0	[ICRA]AA (Negative); reaffirmed
<b>Total</b>	<b>2100.0</b>	<b>1000.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation of GMR Hyderabad International Airport Limited (GHIAL/the company) factors in the implementation of third control period tariff order from October 1, 2021 wherein the tariffs are set to increase from FY2023 onwards, and the healthy recovery of domestic passenger traffic during June 2021–November 2021. The domestic passenger traffic reached ~80% of the pre-Covid levels in November 2021, the highest since the start of pandemic.

The rating continues to derive strength from the regulatory framework, which allows an efficient cost-recovery from user tariff, which coupled with GHIAL's monopolistic position, significantly mitigates the revenue concerns. The variation in passenger traffic due to economic cycles that often lead to temporary traffic decline are offset by truing-up the shortfall in the next regulatory period, albeit with a lag. Financial support from the Government of Telangana (GoT) in the form of interest-free loans and the modest revenue sharing terms with the Gol are the other comforting factors.

The rating factors in the strong cashflow ring-fencing and the restrictive debt covenants for making any dividend payments. Further, the joint ownership of GHIAL by the Airports Authority of India (AAI) and the Government of Telangana (GoT) and the presence of AAI and GoT nominees on GHIAL's board lend comfort. The liquidity of the company is adequate with cash and liquid investments of Rs. 2,846.4 crore as on September 30, 2021 and is expected to remain sufficient to take care of the low debt repayment obligation of Rs. 33.6 crore in FY2022 and Rs. 41.9 crore in FY2023 and equity contribution towards the ongoing terminal expansion.

The Negative outlook on the rating reflects the slower-than-expected recovery in passenger traffic, delay in the commencement of international commercial operations and slower-than-expected ramp-up in the non-aero revenues due to the Covid-19 pandemic.

The rating, however, remains constrained by GHIAL's large capex programme to double its existing capacity at a total estimated cost of Rs. 6525.0<sup>1</sup> crore (against Rs. 6,037.0 crore earlier) during FY2018-FY2024, which is being funded through a mix of debt and internal accruals in the ratio of 70:30. The cost escalation is largely because of an increase in IDC cost due to a change in the capitalisation schedule. The total outlay, including general maintenance capex over FY2018-FY2024, is estimated to be Rs. 7,961 crore. The company's ability to execute the large capex programme within the budgeted cost and timelines would be important. The pending capex planned to be incurred during FY2022-FY2024 can be met through existing bond proceeds, the current liquidity and expected cash accruals. The company is exposed to refinancing risk as some of the USD-denominated bonds raised to fund the ongoing capex have a bullet repayment structure falling due in April 2024. Given the strong business risk profile and healthy projected cashflow, ICRA believes that the company will refinance the loan in a timely manner.

<sup>1</sup> Out of total estimated capex for terminal expansion and general capex by GHIAL, Rs. 4657.0 crore was incurred during FY2018-H1 FY2022 and remaining Rs. 3304.0 crore is expected to be incurred during H2 FY2022-FY2024

The regulator released a tariff order for third control period (April 1, 2021 to March 31, 2026) in August 2021 with tariffs set to increase from April 1, 2022 by taking into cognizance the increase in the regulatory asset base (RAB) due to the ongoing capex programme. However, around Rs. 669.3 crore of the aeronautical revenues have been deferred to the next control period and around Rs. 775 crore of expansion capex has been disallowed in the current control period. The company has approached the tribunal against the disallowance of capex. Notwithstanding these, the projected cashflow remains comfortable.

The rating is also constrained by the funding support provided by GHIAL to the group companies and the treasury investments in credits weaker than that of GHIAL. In November 2019, the company extended Rs. 200 crore in the form ICDs to a weaker group entity, GMR Infrastructure Limited, to support the temporary cashflow mismatch at the group level. While these deposits were expected to be recovered by August 2021, ICRA is given to understand that the tenure of these ICDs is extended by another year and are now expected to be recovered by August 2022. Further, the company has extended Rs. 40 crore ICDs to a weaker group entity in FY2021, which is expected to be recovered by March 2022, and has outstanding CPs of Rs. 579 crore as on September 30, 2021. Failure to liquidate the treasury investments in a timely manner and any substantial increase in investments in the weaker entities will be credit negatives.

## Key rating drivers and their description

### Credit strengths

**Monopoly position** - GHIAL is the only airport in the Hyderabad city and the major international airport of Telangana and Andhra Pradesh. Its strong position and a regulatory framework that allows efficient cost-recovery from user tariff significantly mitigates the revenue concerns. The variation in passenger traffic due to economic cycles that often lead to temporary traffic decline are offset by true-up the shortfall in the next regulatory period, albeit with a lag.

**Tariff set to increase from FY2023** - The regulator has released a tariff order for the third control period (April 1, 2021 to March 31, 2026) in August 2021 with tariffs set to increase from April 1, 2022 by taking into cognizance the increase in the regulatory asset base (RAB) due to the ongoing capex programme. This, along with an expected recovery in traffic in the near term, is expected to improve the cashflow from operations and the debt protection metrics going forward.

**Low debt repayment and adequate liquidity** – The company has low debt repayment obligations—Rs. 33.6 crore and Rs. 41.9 crore in FY2022 and FY2023, respectively. The liquidity of the company is adequate with cash and liquid investments of Rs. 2,846.4 crore as on September 30, 2021 and is expected to remain sufficient to take care of the debt obligation and equity contribution for the ongoing terminal expansion.

**Cash flow ring-fencing and support from GoT** - The strong cashflow ring-fencing and the restrictive debt covenants to make any dividend payments/ return on equity work in favour of the company. Further, the joint ownership of GHIAL by the AAI and the GoT and the presence of AAI and GoT nominees on GHIAL's board lend comfort. GHIAL has received financial support from the GoT in the form of development grant and interest-free loans with deferred payment terms; the modest revenue-sharing terms with the GoI are also comforting.

### Credit challenges

**Exposure to moderate execution for ongoing capex programme and refinancing risks** - GHIAL is doubling its existing capacity at a total estimated cost of Rs. 6,525 crore (against Rs. 6,037 crore earlier) over FY2018-FY2024 which is being funded through a mix of debt and internal accruals in the ratio of 70:30. The cost escalation is largely because of an increase in the IDC cost due to a change in the capitalisation schedule. The total outlay, including a general maintenance capex over FY2018-FY2024, is estimated to be Rs. 7,961 crore. The company's ability to execute the large capex programme within the budgeted cost and timelines would be important. The pending capex to be incurred during FY2022-FY2024 can be met through existing bond

proceeds, the current liquidity and expected cash accruals. The company is also exposed to refinancing risk as the USD-denominated bonds, raised to fund the ongoing capex, have a bullet repayment structure due in April 2024. ICRA believes that the company will refinance the loan in a timely manner because of its strong business risk profile and healthy projected cashflow,

**Delay in traffic recovery due to second wave of pandemic and ban on international commercial operations** - In FY2021, GHIAL reported a decline in revenues by 57% to Rs. 872 crore, a cash loss of Rs. 12 crore and weak debt coverage metrics due to the Covid-19 disruption, given the company's exposure to aviation traffic. Further, the second wave of the pandemic has delayed the recovery in passenger traffic and weakened the cashflow generation. However, the company has adequate liquidity to take care of the debt obligation and equity contribution towards capex.

ICRA expects domestic traffic to recover to the pre-Covid levels by the end of FY2023 and international traffic by the end of FY2024 and it hinges on the pace of the ongoing vaccination programme for Covid-19 with no major impact of future Covid waves. Although domestic traffic has recovered at a healthy pace in the last six months post the second-wave impact, international commercial operations are restricted to flights under the Vande Bharat mission and air travel bubble arrangements. However, the loss of revenue due to lower traffic is compensated for any shortfall in aeronautical revenues by way of true-up in the next regulatory period.

**Funding support by GHIAL to group companies and treasury investments in weaker credits** - In November 2019, the company extended Rs. 200 crore in the form ICDs to a weaker group entity, GMR Infrastructure Limited, to support the temporary cashflow mismatch at the group level. While these deposits were expected to be recovered by August 2021, ICRA is given to understand that the tenure of these ICDs is extended by another year and are now expected to be recovered by August 2022. Further, the company has extended Rs. 40-crore ICDs to a weaker group entity in FY2021 which are expected to be recovered by March 2022 and has outstanding CPs of Rs. 582.0 crore as on September 30, 2021. Failure to liquidate the treasury investments in a timely manner and any substantial increase in investments in weaker entities will be credit negatives.

## Liquidity position: Adequate

The liquidity position of the company is adequate, with assignable cash balance (excluding bond proceeds earmarked for capex, ICDs and investments in commercial papers) of Rs. 314.5 crore<sup>2</sup> as on September 30, 2021. The company has low debt repayment obligations Rs. 33.6 crore and Rs. 41.9 crore in FY2022 and FY2023, respectively. The pending ongoing terminal expansion works will be funded through the encumbered cash balance earmarked for capex and the current available liquidity.

## Rating sensitivities

**Positive factors** – The Stable outlook may be restored if the passenger traffic and non-aero revenues reverts to the pre-Covid levels, resulting in higher revenues and cash accruals on a sustained basis.

**Negative factors** – Negative pressure on GHIAL's rating could arise if the ramp up in traffic is significantly lower than ICRA's base case assumptions, which adversely impacts the cashflow. Any significant delay or cost overruns in the ongoing capex, incremental treasury investments in weaker credits or any significant deterioration in the performance of subsidiaries will be credit negatives.

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<sup>2</sup> 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
<b>Applicable Rating Methodologies</b>	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Airports</a>
<b>Parent/Group Support</b>	Not applicable
<b>Consolidation/Standalone</b>	For arriving at the ratings, ICRA has considered the consolidated financials of GHIAL. As on September 30, 2021, the company had five subsidiaries, which are enlisted in Annexure-2.

## About the company

GHIAL operates the Rajiv Gandhi International Airport at Shamshabad in Hyderabad. It commenced commercial operations on March 23, 2008. The company's sponsors include GMR Airports Limited (63% holding), Malaysia Airport Holdings Berhad (MAHB) (11%), Airports Authority of India (AAI) (13%), and Government of Telangana State (13%). GHIAL has a 30-year concession for the development, maintenance and operation of the Shamshabad airport, which is extendable for 30 years at its option and another 30 years on mutual agreement. The airport was constructed at a total cost of Rs. 2,920 crore, with an initial handling capacity of 12 million passengers per annum. The company is currently in the capex phase to increase the capacity to 34 million by 2023.

## Key financial indicators (consolidated)

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	2012.5	872.0
PAT (Rs. crore)	656.7	-175.8
OPBDIT/OI (%)	54.5%	12.4%
PAT/OI (%)	32.6%	-20.2%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	5.5
Total Debt/OPBDIT (times)	5.6	77.2
Interest Coverage (times)	3.8	0.4

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 on Mar 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019
				Dec-31-2021	Oct-8-2020	Apr-2-2020	Dec-20-2019	Feb-4-2019	Dec-28-2018
1 Term Loans	Long-term	-	-	-	[ICRA]AA (Negative)	[ICRA]AA@	[ICRA]AA (Stable)	[ICRA]AA (Stable); Assigned	[ICRA]AA (Stable); Withdrawn
2 Working capital facilities	Long-term	125.00	-	[ICRA]AA (Negative)	-	-	-	-	[ICRA]AA (Stable); Withdrawn
3 Unallocated limit	Long-term	875.00	-	[ICRA]AA (Negative)	-	-	-	-	[ICRA]AA (Stable)

@on watch with negative implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Unallocated limit	-

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](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
ICICI Bank	Working capital facilities	-	-	-	125.00	[ICRA]AA (Negative)
ICICI Bank	Unallocated limit	-	-	-	875.00	[ICRA]AA (Negative)

Source: GHIAL

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
GMR Air Cargo and Aerospace Engineering Limited	100%	Full Consolidation
GMR Hospitality and Retail Limited	100%	Full Consolidation
GMR Hyderabad Aviation SEZ Limited	100%	Full Consolidation
GMR Hyderabad Airport Assets Limited	100%	Full Consolidation
GMR Hyderabad Aerotropolis Limited	100%	Full Consolidation

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