

July 29, 2022

GMR Hyderabad International Airport Limited: Rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working capital facilities	125.0	125.0	[ICRA]AA; reaffirmed and outlook revised to Stable from Negative
Unallocated limit	875.0	125.0	
Total	1000.0	250.0	

*Instrument details are provided in Annexure I

Rationale

The outlook revision to Stable on the long-term rating of GMR Hyderabad International Airport Limited (GHIAL) factors in the expected ramp up in the overall passenger traffic to 95%-97% of the pre-Covid-19 level in FY2023 on the back of healthy rebound in the domestic passenger traffic to near pre-Covid levels and significant recovery in international passenger traffic post the resumption of international commercial operations from March 27, 2022, after a two-year ban. The Domestic passenger traffic at GHIAL is expected to reach the pre-Covid level by the end of FY2023, while international traffic is estimated to recover to the pre-Covid level by the end of FY2024. With likely improvement in traffic, increase in tariffs from April 1, 2022, and ramp up of non-aeronautical (non-aero) revenues, the company is anticipated to witness a healthy improvement in the cash flows available for debt servicing in FY2023 after two years of subdued performance.

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 decline in traffic 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 Government of India (GoI) are other comforting factors.

The rating factors in the strong cash flow 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 GoT, and the presence of nominees from both these entities on the company's board lend comfort.

At present, GHIAL is undertaking a large-scale capital expenditure (capex) programme to increase the passenger capacity to 34 million at a total estimated cost of Rs. 6,538.0¹ crore during FY2018-FY2024, which is being funded through a mix of debt and internal accruals in the ratio of 70:30. The total outlay, including general maintenance capex over FY2018-FY2024, is estimated to be Rs. 8,140 crore. The company's ability to execute the large capex programme within the budgeted cost and timelines would be important. The pending ongoing terminal expansion works will be funded through the encumbered cash balance earmarked for capex and the current available liquidity.

The company is exposed to refinancing risk as the USD-denominated bonds raised to fund the ongoing capex have a bullet repayment structure falling due in April 2024 and February 2026. ICRA believes that GHIAL will be able to refinance the loan in a timely manner, given its strong business risk profile and healthy projected cash flows.

¹ Out of total estimated capex for terminal expansion by GHIAL, Rs. 4,210 crore was incurred during FY2018-FY2022 and the remaining Rs. 2,328 crore is expected to be incurred during FY2023-FY2024

The rating is constrained by the funding support provided by GHIAL to the Group companies. In November 2019, the company extended Rs. 200-crore inter-corporate deposits (ICDs) to a Group entity, to support the temporary cash flow mismatch at the Group level. ICRA is given to understand that these investments will be recovered by August 2023. Further, the company has extended Rs. 40-crore ICDs to a Group entity in FY2021, which is expected to be recovered by December 2022. GHIAL has parked surplus funds amounting to Rs. 456.8 crore as on March 31, 2022 in commercial papers (CPs) of various corporates. Any significant incremental ICDs to the group companies will be key rating sensitivity.

The tariff order for third control period (April 1, 2021 to March 31, 2026) was finalised in August 2021 with tariff hikes from April 1, 2022, which takes into account 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 cash flow remains comfortable.

GHIAL, has received a letter of confirmation from the Ministry of Civil Aviation (MoCA) extending the term of the concession agreement for operating Rajiv Gandhi International Airport (RGIA) in Hyderabad for a further period of 30 years. The MoCA has extended the concession agreement until March 22, 2068 from March 23, 2038. The increased concession period has improved its financial flexibility and refinancing capability.

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 decline in traffic are offset by true-up the shortfall in the next regulatory period, albeit with a lag.

Increase in tariff from April 1, 2022, to improve cash flows - The regulator has released a tariff order for the third control period (April 1, 2021 to March 31, 2026) in August 2021 with tariffs increased from April 1, 2022 by taking into cognisance the increase in RAB due to the ongoing capex programme. This, along with a likely recovery in traffic in the near term, is expected to improve the company's cash flow from operations and the debt protection metrics going forward.

Cash flow ring-fencing - The strong cash flow 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 nominees from both these entities on the company's board lend comfort. It 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 also offer comfort.

Credit challenges

Exposure to moderate execution for ongoing capex programme - GHIAL is doubling its existing capacity at a total estimated cost of Rs. 6,538 crore over FY2018-FY2024, which is being funded through a mix of debt and internal accruals in the ratio of 70:30. The total outlay, including a general maintenance capex over FY2018-FY2024, is estimated to be Rs. 8,140 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 FY2023-FY2024 can be met through the existing bond proceeds and the current available liquidity.

Refinancing risk - The company is exposed to refinancing risk as the USD-denominated bonds raised to fund the ongoing capex have a bullet repayment structure falling due in April 2024 and February 2026. ICRA believes that GHIAL will be able to refinance the loan in a timely manner, given the strong business risk profile and healthy projected cash flows.

Funding support by GHIAL to Group companies - In November 2019, the company extended Rs. 200-crore inter-corporate deposits (ICDs) to a Group entity, to support the temporary cash flow mismatch at the Group level. ICRA is given to understand that these investments will be recovered by August 2023. Further, the company has extended Rs. 40-crore ICDs to a Group entity in FY2021, which is expected to be recovered by December 2022. GHIAL has parked surplus funds amounting to Rs. 456.8 crore as on March 31, 2022 in commercial papers (CPs) of various corporates in line with company's approved board policy. Any significant incremental ICDs to the group companies will be key rating sensitivity.

Liquidity position: Adequate

The company's liquidity position is adequate, with assignable cash balance (excluding bond proceeds earmarked for capex, ICDs and investments in CPs) of Rs. 738.0 crore² as on March 31, 2022. It has low debt repayment obligations of Rs. 38.3 crore in FY2023. The pending ongoing terminal expansion works will be funded by its encumbered cash balance earmarked for capex (~Rs. 965 crore) as on March 31, 2022 and the current available liquidity.

Rating sensitivities

Positive factors - Faster-than-expected ramp up in traffic and significant increase in the share of non-aero revenues, resulting in a material improvement in debt metrics and liquidity position, may result in a rating upgrade.

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, adversely impacting its cash flow. 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.

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 rating, ICRA has considered the consolidated financials of GHIAL. As on March 31, 2022, the company had five subsidiaries, which are enlisted in Annexure II.

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%), AAI (13%) and the GoT (13%). GHIAL has a 30-year concession for the development, maintenance and operation of the Shamshabad airport, which is extendable for 30 years (received extension in May 2022), 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. At present, the company is undertaking capex to increase the capacity to 34 million by 2023.

² As on March 31, 2022, bond proceeds (parked for capex) amount to Rs. 965.0 crore, Rs. 457 crore is invested in commercial papers, Rs. 240.0 crore is extended as ICDs to group entities and Rs. 41.6 is restricted cash; remaining Rs. 738 crore is assignable.

Key financial indicators (consolidated)

	FY2021	9M FY2022
	Audited	Provisional
Operating income (Rs. crore)	872.0	852.1
PAT (Rs. crore)	-175.8	-57.6
OPBDIT/OI (%)	12.4%	29.0%
PAT/OI (%)	-20.2%	-6.8%
Total outside liabilities/Tangible net worth (times)	5.5	6.0
Total debt/OPBDIT (times)	77.2	25.8
Interest coverage (times)	0.4	1.1

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

Source: GHIAL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020	
				July 29, 2022	December 31, 2021	October 8, 2020	April 2, 2020	December 20, 2019	
1 Working capital facilities	Long Term	125.0	-	[ICRA]AA (Stable)	[ICRA]AA (Negative)	-	-	-	
2 Unallocated limit	Long Term	125.0	-	[ICRA]AA (Stable)	[ICRA]AA (Negative)	-	-	-	
3 Term loans	Long Term	-	-	-	-	[ICRA]AA (Negative)	[ICRA]AA@	[ICRA]AA (Stable)	

@on watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Unallocated limit	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 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Working capital facilities	-	-	-	125.00	[ICRA]AA (Stable)
-	Unallocated limit	-	-	-	125.00	[ICRA]AA (Stable)

Source: GHIAL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: 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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6169 3304
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.