October 07, 2022

Delhi International Airport Limited: Ratings reaffirmed; outlook revised to Positive; [ICRA]A+ (Positive) assigned for proposed NCDs

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Working capital facilities	335.0	335.0	[ICRA]A+; reaffirmed and outlook revised to Positive from Stable
Non-fund based limits	49.0	49.0	
Working capital term loan	100.0	100.0	
Non-convertible debenture (NCD)	1,000.0	1,000.0	
Proposed Non-convertible debenture (NCD)	0.0	1,600.0	[ICRA]A+ (Positive); assigned
Unallocated limit	5,516.0	5,516.0	[ICRA]A+/[ICRA]A1; reaffirmed and outlook revised to Positive from Stable for long-term rating
Total	**7,000.0**	**8,600.0**	

**Instrument details are provided in Annexure I*

Rationale

The outlook revision to Positive on the long-term rating reflects ICRA's expectation that the credit profile of Delhi International Airport Limited (DIAL) is likely to witness improvement in the near to medium term in the backdrop of ramp-up in traffic. ICRA notes the recent Supreme Court ruling in favour of DIAL regarding calculation of tax pertaining to aeronautical services. At present, while calculating tax pass through, the Airports Economic Regulatory Authority of India (AERA) considers annual fee related to aero revenue as a part of expenses. However, the Supreme Court has ruled that annual fee related to aero revenue should not be a part of expenses to calculate aeronautical profit in line with the terms of Operation, Management and Development Agreement (OMDA). This ruling is expected to result in significant additional cash inflows to DIAL in the next control period (CP4 – April 2024 to March 2029) leading to improved cash flow from operations. ICRA expects ramp-up in the overall passenger traffic to 93-94% of the pre-Covid level, and non-aeronautical (non-aero) revenues to pre-Covid level in FY2023 for DIAL. During 5M FY2023, the company's passenger traffic recovery stood at 92% of the pre-Covid level (similar period in 5M FY2020) on the back of resilient domestic passenger traffic and healthy ramp-up in international passenger traffic post resumption of international commercial operations from March 27, 2022 after a two-year ban. The improvement in traffic, non-aero revenues, and favourable ruling on aeronautical tax pass through, will result in significant improvement in its debt coverage metrics for the residual concession period.

The ratings continue to derive strength from the significant competitive advantage enjoyed by DIAL, given the dominant position of the Indira Gandhi International Airport (IGIA) as the largest Indian airport in terms of passenger traffic. 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 a 72-km aerial distance from DIAL, is expected to commence operations in FY2025, with a capacity of 12 million. This is likely to affect the passenger traffic at DIAL from FY2026. However, DIAL's large catchment area and the regulated business model of its operations will provide cushion against any decline in traffic. The joint ownership of DIAL by the Airports Authority of India (AAI), the presence of the AAI's nominees on DIAL's board, other covenants in the concession agreement, the shareholders' agreement, the presence of Groupe ADP (49% equity shareholder in DIAL's holding company – GMR Airports Limited), and DIAL's ring-fenced cash flows restrict the free movement of funds within the Group companies.

DIAL is currently undertaking a large capital expenditure (capex) programme to increase the passenger capacity to 100 million (mn) by September 2023. The capex timeline has been revised to September 2023 from June 2022 because of the pandemic. Given the significant decline in internal accruals owing to the Covid-19 disruptions in FY2021 and FY2022, the company raised additional debt through the issuance of bonds in March 2021 and June 2022. As on August 31, 2022, it had incurred Rs. 7,765 crore of the project cost. The pending project cost of Rs. 3,785 crore is expected to be funded through the proposed NCDs (alternative to lease financing loan), real estate security deposits (RSDs) from the Bharti Realty Ltd (BRL) deal, and cash in hand earmarked for project. Any significant cost overruns in the ongoing capex or a material disallowance of capex cost by the AERA will be a credit negative.

With large bullet repayments falling due in FY2026 (Rs. 3,257 crore), FY2027 (Rs. 3,494 crore), FY2028 (Rs. 1,000 crore) and FY2030 (Rs. 3,500 crore), DIAL remains exposed to high refinancing risks. In the event of a slower-than-expected ramp-up in non-aero revenue streams in the next control period (CP4) or a delay in further real estate monetisation, a part of the existing debt may remain unamortised at the end of the concession period (2036). In such a situation, the company's ability to get the CP extended by another 30 years till 2066 remains key, for which it has the first right of refusal (to be opted after FY2031) as per the current concession agreement.

ICRA is given to understand that DIAL has resumed making revenue share (45.99%) payments to the AAI from April 2022 under a mutual consent and settlement agreement between both parties. It did not make any revenue share payments to the AAI during January 2021 to March 2022 on account of the invocation of the force majeure clause due to the pandemic and an interim stay order from the Delhi High Court. DIAL is contesting for a waiver of the revenue share payments to the AAI (for FY2021 and FY2022) due to impact of the pandemic on its operations, which is pending at an arbitration tribunal. The arbitration outcome is expected in H2 FY2023. Aany unfavourable outcome from the arbitration tribunal resulting in lumpy liability affecting DIAL's liquidity position would be a credit negative.

Key rating drivers and their description

Credit strengths

Strong market position – DIAL derives significant competitive advantage, given the dominant position of the IGIA as the largest Indian airport in terms of passenger traffic. 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 a 72-km aerial distance from DIAL, is expected to commence operations in FY2025 with a capacity of 12 million. This is likely to affect passenger traffic at DIAL from FY2026. However, DIAL's large catchment area and the regulated business model of its operations provide cushion against a decline in traffic.

Expected improvement in cash flow from the operations and debt metrics – ICRA expects ramp-up in the overall passenger traffic to 93-94% of the pre-Covid level, and non-aero revenues to the pre-Covid level in FY2023 for DIAL. The improvement in traffic, non-aero revenues, and favourable ruling on aeronautical tax pass through, will result in significant improvement in debt coverage metrics for the residual concession period.

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

Credit challenges

Large ongoing capex programme, exposure to moderate execution risks – At present, DIAL is undertaking a large capital expenditure (capex) programme to increase the passenger capacity to 100 million (mn) by September 2023. The capex timeline has been revised to September 2023 from June 2022 because of the pandemic. Given the significant decline in internal accruals owing to pandemic-related disruptions in FY2021 and FY2022, the company raised additional debt through the issuance of bonds in March 2021 and June 2022. As on August 31, 2022, it has incurred Rs. 7,765 crore of project cost. The pending project cost of Rs. 3,785 crore is expected to be funded through the proposed NCDs (alternative to lease financing loan) RSDs from the BRL deal, and cash in hand earmarked for project. Any significant cost overruns in the ongoing capex or a material disallowance of capex cost by the AERA will be a credit negative.

Exposure to refinancing risks – With large bullet repayments falling due in FY2026 (Rs. 3,257 crore), FY2027 (Rs. 3,494 crore), FY2028 (Rs. 1,000 crore) and FY2030 (Rs. 3,500 crore), DIAL remains exposed to high refinancing risks. In the event of a slower-than-expected ramp-up in non-aero revenue streams in the next control period (CP4) or a delay in further real estate monetisation, a part of the existing debt may remain unamortised at the end of the concession period (2036). In such a situation, the company's ability to get the CP extended by another 30 years till 2066 remains key, for which it has the first right of refusal (to be opted after FY2031) as per the current concession agreement.

Liquidity position: Adequate

DIAL's liquidity position is adequate, with a free cash balance of ~Rs. 625 crore (excluding funds earmarked for capex) as on March 31, 2022. There are no principal repayment obligations in FY2023. The company is expected to incur capex of ~Rs. 3,200 crore in FY2023 and ~Rs. 1,550 crore in FY2024, which will be funded through security deposits from the BRL deal, the proposed NCDs, existing earmarked cash balances and internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade DIAL's rating if the passenger traffic crosses the pre-Covid level, along with significant ramp-up of non-aero revenues resulting in improvement in debt coverage metrics and liquidity position.

Negative factors – Pressure on DIAL's ratings could arise if the ramp-up in traffic and/or non-aero revenues is lower than ICRA's base case assumptions, adversely impacting the cash flows. Moreover, any unfavourable outcome from the arbitration tribunal on the payment of the revenue share to the AAI (related to FY2021 and FY2022) that affects the liquidity position could result in a rating downgrade. Any significant delay or cost overruns in the ongoing capex or a material disallowance by the 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 the 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%); other shareholders include Fraport AG Frankfurt Airport Services Worldwide (Fraport) (10%) and the AAI (26%). IGIA is the busiest airport in the country. In September 2010, DIAL completed the first phase of expansion and modernisation, enhancing the passenger capacity to 66 mn passengers. At present, it is undertaking an expansion project to increase the airport capacity to 100 mn.

Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	2,423.5	2,914.1
PAT (Rs. crore)	-317.4	17.7
OPBDIT/OI (%)	28.2%	58.8%
PAT/OI (%)	-13.1%	0.6%
Total outside liabilities/Tangible net worth (times)	2.9	2.9
Total debt/OPBDIT (times)	19.1	6.4
Interest coverage (times)	1.0	2.0

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

Source: DIAL, 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 August 31, 2022 (Rs. crore)	Date & Rating		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Oct 7, 2022	May 27, 2022	Aug 12, 2021	Feb 26, 2021	Apr 3, 2020	Aug 9, 2019
1	Working capital facilities	Long Term	335.0	0.0	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**
2	Non-fund based limits	Long Term	49.0	-	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Negative)**
3	Working capital term loan	Long Term	100.0	0.0	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	-	-	-	-
4	NCD	Long Term	1,000.0	1,000.0	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**				
5	Proposed NCD	Long Term	1,600.0	-	**[ICRA]A+ (Positive)**	-	-	-	-	-
6	Unallocated limit	Long Term/Short Term	5,516.0	-	**[ICRA]A+ (Positive)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]A+ (Negative)/ [ICRA]A1**	**[ICRA]A+ (Stable)/ [ICRA]A1**	**[ICRA]AA- (Negative)/ [ICRA]A1+**	**[ICRA]AA- (Negative)/ [ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Non-fund based limits	Very Simple
Working capital term loan	Simple
NCD	Simple
Proposed NCD	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	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Working capital facilities	-	-	-	335.0	[ICRA]A+ (Positive)
NA	Non-fund based limits	-	-	-	49.0	[ICRA]A+ (Positive)
NA	Working capital term loan	Mar-2022	-	Feb-2023	100.0	[ICRA]A+ (Positive)
INE657H08019	NCD	Jun-2022	9.52% - 9.98%	June-2027	1,000.0	[ICRA]A+ (Positive)
NA	Proposed NCD^	-	-	-	1,600.0	[ICRA]A+ (Positive)
NA	Unallocated limit	-	-	-	5,516.0	[ICRA]A+ (Positive)/[ICRA]A1

Source: DIAL; ^Yet to be placed

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Not applicable

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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.

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