December 02, 2022

GMR Hyderabad International Airport Limited: Rating reaffirmed; outlook revised to Positive; rating assigned to proposed NCDs

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 Positive from Stable
Unallocated limit	125.0	125.0	
Proposed non-convertible debentures (NCD)	-	1250.0	[ICRA]AA (Positive); Assigned
Total	**250.0**	**1500.0**	

**Instrument details are provided in Annexure I*

Rationale

The revision in outlook to Positive factors in the expected improvement in GMR Hyderabad International Airport Limited's (GHIAL) credit profile, supported by ramp-up in non-aeronautical (non-aero) revenues to the pre-Covid level in FY2023 and substantial reduction in project execution risk with the commercial operations likely to start in Q4 FY2023 for the new terminal. The domestic passenger traffic at GHIAL is expected to reach the pre-Covid level in FY2023, while international traffic is estimated to recover to the pre-Covid level in FY2024. ICRA expects a significant increase in non-aero revenues in FY2024 on the back of ramp-up in traffic and increase in leasable area with the terminal expansion. This along with the increase in the aero revenues on the back of higher yield per passenger will strengthen the debt coverage metrics.

GHIAL is in the process of partially refinancing the USD 300 Mn 5.375% senior secured notes, which are due for repayment in April 2024, with domestic non-convertible debentures (NCD) of Rs. 1,250 crore at a lower rate of interest with a tenor of 10 years resulting in an improvement in the debt maturity profile.

The rating continues to derive strength from the regulatory framework, which allows an efficient cost recovery from user tariff. Additionally, GHIAL's monopolistic position in its region of operations significantly mitigates the revenue concerns. GHIAL, nevertheless, remains exposed to asset concentration risk. The variation in passenger traffic due to economic cycles that often lead to a temporary decline in traffic are offset by truing-up the shortfall in the next regulatory period, albeit with a lag. The 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. 6600.0[1] 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

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

estimated to be around Rs. 8000 crore. The commercial operations for the new terminal are likely to start in Q4 FY2023, thereby reducing the project execution risk substantially.

The rating is constrained by the funding support provided by GHIAL to the Group companies. In November 2019 and in FY2021, the company extended a total of Rs. 240-crore inter-corporate deposits (ICDs) to support the group entities. ICRA is given to understand that these investments will be recovered by August 2023. GHIAL has parked surplus funds amounting to Rs. 554.5 crore as on September 30, 2022 in commercial papers (CPs) of various corporates. Any significant incremental loans and advances or financial assistance to the Group companies will be key rating sensitivity.

The tariff order for the 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 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 and is expected to be trued up in the next control period based on the actual incurrence. Notwithstanding the disallowance in capex, the projected cash flows and debt service metrics 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 is the major international airport of Telangana and Andhra Pradesh. Its strong position and regulatory framework allows efficient cost recovery from user tariff, which mitigates the revenue concerns. The variation in passenger traffic due to economic cycles that often lead to a temporary decline in traffic are offset by truing-up the shortfall in the next regulatory period, albeit with a lag.

Ramp-up in non-aero revenues to the pre-Covid level in FY2023 - Non-aero revenues are expected to cross the pre-Covid level in FY2023 owing to increased spend per passenger with higher focus on improving the retail area, addition of new tenants and terminal expansion, with the company achieving Rs. 199.8 crore in H1 FY2023. Further, the non-aero revenues are likely to increase significantly in FY2024 on the back of ramp-up in passenger traffic and increase in leasable area with the terminal expansion.

Increase in tariff from April 1, 2022 and recovery of traffic to pre-Covid level 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 its 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 residual execution for ongoing capex programme - GHIAL is increasing its capacity from 12 million to 34 million pax at a total estimated cost of Rs. 6,600 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 around Rs. 8,000 crore. The commercial operations for the new terminal are likely to start in Q4 FY2023, thereby reducing the project execution risk substantially.

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. At present, GHIAL is in the process of partially refinancing the USD 300 Mn bonds due in April 2024, with domestic NCDs of Rs. 1,250 crore at a lower rate of interest with a tenor of 10 years resulting in an improvement in the debt maturity profile. ICRA believes that GHIAL will be able to refinance these bonds, in a timely manner, given its strong business risk profile, exceptional financial flexibility on account of long residual concession life and healthy projected cash flows.

Funding support by GHIAL to Group companies - In November 2019 and in FY2021, the company extended a total of Rs. 240-crore inter-corporate deposits (ICDs) to support the group entities. ICRA is given to understand that these investments will be recovered by August 2023. GHIAL has parked surplus funds amounting to Rs. 554.5 crore as on September 30, 2022 in commercial papers (CPs) of various corporates. Any significant incremental loans and advances or financial assistance 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. 791.2 crore[2] as on September 30, 2022. It has low debt repayment obligations Rs. 38.3 crore in FY2023. 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 ratings may be upgraded upon traffic and non-aero revenues crossing the pre-Covid level and resulting in an improvement in debt metrics and liquidity position on a sustained basis.

Negative factors - 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.

[2] As on September 30, 2022, bond proceeds (parked for capex) amount to Rs. 476.2 crore, Rs. 554.5 crore is invested in CPs, Rs. 240.0 crore is extended as ICDs to Group entities and Rs. 26.1 crore is restricted cash; remaining Rs. 791.2 crore is assignable.

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, and is extended for another 30 years till March 22, 2068 in May 2022. The concession period can be extended post 2068 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 a capex to increase the capacity to 34 million by March 2023.

Key financial indicators (consolidated)

	FY2021 Audited	FY2022 Audited
Operating income (Rs. crore)	872.0	1170.0
PAT (Rs. crore)	-175.8	-103.6
OPBDIT/OI (%)	12.4%	27.1%
PAT/OI (%)	-20.2%	-8.8%
Total outside liabilities/Tangible net worth (times)	5.5	7.1
Total debt/OPBDIT (times)	77.2	27.3
Interest coverage (times)	0.4	1.0

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 in FY2023		Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					December 02, 2022	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 (Positive)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	-	-	-
2	Unallocated limit	Long Term	125.0	-	**[ICRA]AA (Positive)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Negative)**	-	-	-
3	Proposed NCDs	Long Term	1250.0	-	**[ICRA]AA (Positive)**	-	-	-	-	-
4	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	Not Applicable
Proposed NCDs	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 are available on ICRA's website: Click Here

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 (Positive)
-	Unallocated limit	-	-	-	125.00	[ICRA]AA (Positive)
-	Proposed NCDs	-	-	-	1250.00	[ICRA]AA (Positive)

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

M Rajashekar Reddy
+91 40 4067 6500
m.rajashekarreddy@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:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches