December 27, 2022

GMR Air Cargo and Aerospace Engineering Limited (formerly GMR Aerospace Engineering Limited): Rating reaffirmed for existing limits; fresh rating of [ICRA] AA- (Stable) assigned for working capital facilities and unallocated limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	293.25	293.25	[ICRA]AA (CE) (Positive); Reaffirmed
Working capital facilities	-	45.00	[ICRA] AA- (Stable); Assigned
Unallocated limits	-	30.00	[ICRA] AA- (Stable); Assigned
Total	**293.25**	**368.25**	

Rating Without Explicit Credit Enhancement	[ICRA]AA-

**Instrument details are provided in Annexure I*

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

For [ICRA]AA- (Stable) Rating

The assigned rating reflects the strength of GMR Air Cargo and Aerospace Engineering Limited (GACAEL) as the sole operator of MRO (maintenance, repair, and overhaul) and cargo business at the Hyderabad International Airport. The rating favorably factors in GACAEL's close operational and financial linkages with GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA (Positive)), given the common treasury team and track record of timely financial support from GHIAL. Moreover, GACAEL's MRO revenues account for around 28% of GHIAL's expected non-aero revenues and cargo revenues account for around 15% of GHIAL's expected aero revenues in FY2023, indicating its strategic importance for its parent entity. The MRO business contributes to more than 70% of GACAEL's revenues and had limited impact on its operations during the pandemic due to mandatory checks to be carried out by the aircrafts. Further, MRO revenues have improved from Rs. 153.5 crore in FY2019 to Rs. 256.1 crore in FY2022 due to addition of new clients. The MRO business is further expected to ramp-up on the back on higher aircraft movements and signing of new long-term deals. The cargo business is expected to recover to pre-covid levels in FY2023, with the domestic cargo volumes witnessing a growth of 11% and the overall cargo volumes reaching 98% of the pre-Covid level (7M FY2020) traffic, during the first 7 months of FY2023

The rating strengths are offset by the vulnerability to fluctuations in cargo volumes and lower than expected aircraft movements at the Hyderabad Airport, which exposes GACAEL's revenues to risks associated with global economic slowdown and exogenous shocks. Further, the cargo business is expected to face competition going forward with a second cargo operator to be onboarded in FY2024 and extent of impact on its operations remains to be seen. ICRA notes that the company's coverage indicators remain modest compared to other players at a similar rating level. Additionally, GACAEL has large capex plans, for both MRO and cargo divisions during FY2023-FY2026 of around Rs. 400-425 crore, which is expected to be funded by a debt Rs. 180-190 crore. Due to the large debt-funded capex, the financial risk profile is expected to remain modest in the medium term.

The Stable outlook reflects ICRA's expectation that GACAEL's credit profile will benefit from MRO division inherent advantage of mandatory checks to be carried out by the aircrafts, and steady growth in the domestic cargo business.

For the [ICRA]AA (CE) (Positive) Rating

The rating of [ICRA]AA (CE) for the term loan programme of GMR Air Cargo and Aerospace Engineering Limited (GACAEL) is based on the strength of the corporate guarantee provided by GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA (Positive)), the parent of GACAEL. The Positive 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 Air Cargo and Aerospace Engineering Limited, GMR Hyderabad Aviation SEZ Limited, GMR Hospitality and Retail Limited, GMR Hyderabad Airport Assets Limited and GMR Hyderabad Aerotropolis Limited. ICRA has considered the strong linkages of GHIAL and its subsidiaries through common management, operational linkages, track record of timely and need based financial support, and the strategic importance of GACAEL to GHIAL's operations. ICRA notes the presence of cross-default clauses in the loan agreements of GHIAL as well as GACAEL, which further strengthens the linkages.

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]AA- 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)*
- *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 – GHIAL (rated [ICRA]AA (Positive)). The rating for the bank facilities of Rs. 293.25 crore is based on the strength of the unconditional and irrevocable corporate guarantee provided by GHIAL.

Healthy growth in OI during FY2019-FY2022 and expected to sustain in the medium term – GACAEL's operating income (OI) increased at a CAGR of 11% to Rs. 349.1 crore in FY2022 from Rs. 252.1 crore in FY2019, primarily on the back of growth in revenues from maintenance, repair, and overhaul (MRO) division due to addition of new clients. The revenues for MRO division were not impacted during the pandemic due to mandatory checks to be carried out by the aircrafts during the period. With healthy growth prospects for MRO and cargo division in the medium term, the company's revenues are expected to witness 12-15% year-on-year (YoY) growth over the next three years.

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 company's operations. Further, the cargo business is expected to face competition going forward with a second cargo operator to be onboarded in FY2024. While the Covid-19 pandemic contracted domestic and international cargo volumes for GACAEL in FY2021, it has reached 93% of the pre-Covid level in FY2022. Domestic cargo volumes have witnessed a growth of 11% and the overall cargo volumes have reached 98% of the pre-Covid level (7M FY2020) traffic, during the first 7 months of FY2023. The cargo business is expected to recover to pre-covid levels in FY2023.

Large capex plans in medium term – GACAEL has large capex plans for both MRO and cargo divisions during FY2023-FY2026. The total capex is estimated to be around Rs. 400-425 crore, which will be funded by a debt Rs. 180-190 crore and the balance through internal accruals. The capital expenditure is towards installation of additional hangars, hanger doors, regulatory capex, increase in cargo handling capacity and operational capex. Due to the large debt-funded capex, the financial risk profile is expected to remain modest in the medium term.

Liquidity position: Adequate

For the [ICRA]AA (CE) (Positive) 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 CPs) of Rs. 791.2 crore[1] 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.

For the [ICRA]AA- rating: Adequate

GACAEL's liquidity position is adequate with unencumbered cash balance and liquid investments of Rs. 31.3 crore as on September 30, 2022 and cushion in working capital limits. The company has repayment obligation of Rs. 9.4 crore in FY2023, which can be comfortably serviced through its estimated cash flow from operations.

Rating sensitivities

Positive factors

For CE Ratings - ICRA could upgrade the rating if there is an improvement in the credit profile of the guarantor.

For non-CE Ratings - ICRA could upgrade the rating if there is significant improvement in the scale and earnings of GACAEL on a sustained basis or improvement in the credit profile of the parent.

Negative factors – The rating could be downgraded if the credit profile of the guarantor deteriorates or there is any weakening of the linkage with the parent company (GHIAL). A significant decline in GACAEL's revenues and profitability, deteriorating the debt coverage metrics and liquidity on a sustained basis, may exert pressure on the rating.

[1] *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.*

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 company's standalone financial profile

About the company

GMR Air Cargo and Aerospace Engineering Limited (GACAEL) is a wholly owned subsidiary of 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 looks after the maintenance, repair, and overhaul (MRO) and the cargo handling business at Rajiv Gandhi International Airport in Hyderabad. It has received merger approval from the 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)

	FY2021 Audited	FY2022 Audited
Operating income (Rs. crore)	325.7	349.1
PAT (Rs. crore)	5.7	11.9
OPBDIT/OI (%)	17.5%	17.2%
PAT/OI (%)	1.7%	3.4%
Total outside liabilities/Tangible net worth (times)	145.1	24.9
Total debt/OPBDIT (times)	5.9	5.9
Interest coverage (times)	1.8	1.7

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

Source: GACAEL, ICRA Research

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years				
					Date & Rating in FY2023			Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Dec 27, 2022	Dec 16, 2022	Jul 29, 2022	Dec 31, 2021	Oct 18, 2021	Oct 09, 2020	Apr 09, 2020	Nov 06, 2019
1	Term loans	Long term	293.25	293.25	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Negative)	-	-	-	-
2	Working capital facilities	Long term	45.00	-	[ICRA]AA- (Stable); Assigned							
3	Unallocated limits	Long term	30.00	-	[ICRA]AA- (Stable); Assigned							
4	NCD	Long term	-	-					[ICRA]AA (CE) (Negative); Withdrawn	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@	[ICRA]AA(CE) (Stable)
5	NCD	Long term	-	-						-	-	[ICRA]AA(SO) (Stable); withdrawn

@ = placed on watch with negative implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loans	Simple
Working capital facilities	Simple
Unallocated limits	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: 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
-	Term loans	August 2021	-	September 2031	293.25	[ICRA]AA(CE)(Positive)
-	Working Capital facilities	July 2022	-	-	45.00	[ICRA]AA- (Stable)
-	Unallocated limits	-	-	-	30.00	[ICRA]AA- (Stable)

Source: GACAEL

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.

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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