March 01, 2023

GMR Hyderabad International Airport Limited: Rating reaffirmed; 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	175.0	175.0	[ICRA]AA (Positive); Reaffirmed
Unallocated limits	75.0	75.0	[ICRA]AA (Positive); Reaffirmed
Non-convertible debentures (NCD)	1150.0	1150.0	[ICRA]AA (Positive); Reaffirmed
Proposed non-convertible debentures (NCD)	100.0	100.0	[ICRA]AA (Positive); Reaffirmed
Proposed non-convertible debentures (NCD)	-	750.0	[ICRA]AA (Positive); Assigned
Total	**1500.0**	**2250.0**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of ratings of GMR Hyderabad International Airport Limited's (GHIAL) factors in the expected improvement in 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 phase-wise opening of the new terminal from Q4 FY2023. The domestic passenger traffic at GHIAL has reached 14.4 million in 10MFY2023 and is expected to reach the pre-Covid level in FY2023. The 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 has partially refinanced 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. 1,150 crore at a lower rate of interest with a tenor of 10 years in December 2022. The company is currently in the process of raising another Rs. 850 crore of domestic NCD for refinancing the USD 300 Mn 5.375% senior secured notes, due in April 2024, with similar terms as the previous NCD raise. These domestic NCDs are expected to result in improvement in the debt maturity profile.

GHIAL's 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 along with returns 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

[1] Out of total estimated capex for terminal expansion by GHIAL, Rs. 4,940 crore was incurred during FY2018 - 9M FY2023, and the remaining is expected to be incurred during the remainder of FY2023 and FY2024

and internal accruals in the ratio of 70:30. The total outlay, including general maintenance capex over FY2018-FY2024, is estimated to be around Rs. 8000 crore. GHIAL has started opening the new terminal in a phase-wise manner from Q2 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. 537.7 crore as on December 31, 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 till March 22, 2068. 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 along with returns 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. 751.3 crore in 9M 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 work in favour of the company. Further there is a joint ownership of GHIAL along with AAI and GOT and Nominees from both these entities are on the Board of GHIAL. 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. GHIAL has started opening the new terminal in a phase-wise manner from Q2 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. However, GHIAL has partially refinanced the USD 300 Mn bonds due in April 2024, with domestic NCDs of Rs. 1,150 crore at a lower rate of interest with a tenor of 10 years in December 2022. The company is currently in the process of raising another Rs. 850 crore for refinancing these USD bonds due in April 2024, thereby lowering the refinancing risk and 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. 537.7 crore as on December 31, 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 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. 972.0[2] crore as on December 31, 2022. The pending ongoing terminal expansion works will be funded through the encumbered cash balance earmarked for capex and the current available liquidity. Further, the cash flow from operations would be sufficient to service the repayment obligations due in the near term. The company has debt repayment obligations of Rs. 38.3 crore in FY2023 and Rs. 119.4 crore in FY2024.

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.

[2] As on December 31, 2022, bond proceeds (parked for capex) amount to Rs. 214.2 crore, Rs. 537 crore is invested in commercial papers, Rs. 240.0 crore is extended as ICDs to group entities and Rs. 28.2 is restricted cash; remaining Rs. 972 crore is assignable.

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, 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

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="7">Current Rating (FY2023)</th><th colspan="4">Chronology of Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as on December 31, 2022 (Rs. crore)</th><th colspan="4">Date & Rating in FY2023</th><th>Date & Rating in FY2022</th><th colspan="2">Date & Rating in FY2021</th><th>Date & Rating in FY2020</th></tr>
<tr><th>Mar 01, 2023</th><th>Dec 16, 2022</th><th>Dec 02, 2022</th><th>Jul 29, 2022</th><th>Dec 31, 2021</th><th>Oct 8, 2020</th><th>Apr 2, 2020</th><th>Dec 20, 2019</th></tr>
<tr><td>1</td><td>Working capital facilities</td><td>Long Term</td><td>175.0</td><td>45.0</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Stable)</td><td>[ICRA]AA (Negative)</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>2</td><td>Unallocated limit</td><td>Long Term</td><td>75.0</td><td>-</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Positive)</td><td>[ICRA]AA (Stable)</td><td>[ICRA]AA (Negative)</td><td>-</td><td>-</td><td>-</td></tr>
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	Instrument	Current Rating (FY2023)							Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Mar 01, 2023	Dec 16, 2022	Dec 02, 2022	Jul 29, 2022	Dec 31, 2021	Oct 8, 2020	Apr 2, 2020	Dec 20, 2019
3	NCD	Long Term	1150.0	1150.0	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**	-	-	-	-	-
4	Proposed NCD	Long Term	100.0^	-	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**	**[ICRA]AA (Positive)**	-	-	-	-	-
5	Proposed NCD	Long Term	750.0^	-	**[ICRA]AA (Positive)**	-	-	-	-	-	-	-
6	Term loans	Long Term	-	-	-	-	-	-	-	**[ICRA]AA (Negative)**	**[ICRA]AA@**	**[ICRA]AA (Stable)**

@on watch with negative implications; ^ - yet to be placed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Unallocated limit	Not Applicable
NCD	Simple
Proposed NCD	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	-	-	-	175.00	[ICRA]AA (Positive)
-	Unallocated limits	-	-	-	75.00	[ICRA]AA (Positive)
INE802J07019	NCD	Dec 13, 2022	8.805%	Dec 13, 2032	1150.00	[ICRA]AA (Positive)
-	Proposed NCD	-	-	-	850.00	[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

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About ICRA Limited:

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