June 30, 2023

Airports Authority of India: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan 1	1000.00	1000.00	[ICRA]AAA (Stable); reaffirmed
Long-term Fund-based – Term loan 2	2100.00	0.00	[ICRA]AAA (Stable); reaffirmed and withdrawn
Short-term – Working capital facilities	1500.00	1500.00	[ICRA]A1+; reaffirmed
Long-term/Short-term – Working capital facilities	215.00	215.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Total	**4815.00**	**2715.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation in ratings factors in Airports Authority of India's (AAI) strategic importance to the Government of India (GoI) for managing the air traffic control (ATC) and the aviation infrastructure in the country. AAI owns and controls a significant portion of India's aviation infrastructure and manages the entire airspace in India and the adjoining oceanic areas. AAI is the sole entity providing communication, navigation and surveillance (CNS) services for air traffic management in the country. The ratings take into account AAI's diversified revenue streams, which include the revenues from aeronautical services it provides at its owned/managed airports, the CNS services provided for all airports, non-aeronautical services provided for its owned/managed airports and the revenue share from the privatised airports. Its financial risk profile has substantially improved in FY2023, supported by steady recovery in traffic and resumption of revenue sharing payments from Mumbai International Airport Limited (MIAL) in Q4 FY2022 and from Delhi International Airport Limited (DIAL) with effect from April 2022. AAI's operating income (OI) improved by 80% to Rs. 11,425 crore in FY2023 from Rs. 6,334 crore in FY2022 and is likely to surpass the pre-Covid levels in FY2024. The company's operating margins stood at 45.5% in FY2023, which is expected to sustain going forward on the back of healthy traffic growth across airports. The liquidity position remains strong as reflected by free cash of Rs. 4,451 crore and undrawn working capital limits of Rs. 2,000 crore as on March 31, 2023 against limited debt repayments for FY2024. The company enjoys strong financial flexibility, given the high strategic importance to the GoI.

The rating strengths are offset by the exposure to volatility in aviation traffic. AAI's revenues remain vulnerable to fluctuations in aviation traffic in the country as witnessed during the past three years. Moreover, limited number of airports are profitable, which exposes its profitability to underlying performance of the select profitable airports. AAI is involved in developing greenfield airports and reviving non-operational airports under the Regional Connectivity Scheme (RCS), which may have relatively low revenue potential and/or long gestation period. Thus, it may impact AAI's profitability and return indicators. Further, the privatisation of the existing revenue generating airports under AAI can lead to lower revenues and profitability. However, the same is mitigated to an extent owing to the compensation received in form of revenue sharing payments from them. AAI is likely to incur a capex of Rs. 4,000 crore for FY2024, which is expected to be funded through its existing cash balances, grants from GoI, debt and internal accruals.

ICRA has reaffirmed and withdrawn the rating on the Rs. 2,100-crore term loan of AAI as the same was repaid by the company, and there is no amount outstanding against the rated instrument. The ratings have been withdrawn in accordance with ICRA's policy on the withdrawal of credit ratings.

The Stable outlook reflects ICRA's opinion that AAI will continue to benefit from its strategic importance to GoI, healthy financial risk profile and strong financial flexibility.

Key rating drivers and their description

Credit strengths

Strategic importance to GoI; monopoly in providing CNS services – AAI occupies a strategic position because of owning and controlling a significant portion of the aviation infrastructure in the country. The company manages the entire airspace in India and the adjoining ocean areas. It is an autonomous body under the purview of the Ministry of Civil Aviation (MoCA) and is guided in its operations and functions by the AAI Act, 1994. The Act, among other functions, allows it to manage airports and aeronautical communication stations in the country, provide air traffic service (CNS and ATS) and develop infrastructure at the airports. AAI is the sole entity providing communication, navigation and surveillance (CNS) services for air traffic management in India.

Healthy growth in revenue and profitability in FY2023 – The company's operations and profitability were impacted significantly by the Covid-19 pandemic and invocation of force majeure clause by DIAL and MIAL, leading to operating losses in FY2021. The steady recovery in traffic, coupled with resumption of revenue sharing payments by MIAL in Q4 FY2022 and by DIAL from April 2022 resulted in improved revenues and profitability. The OI improved by 80% to Rs. 11,425 crore in FY2023 from Rs. 6,334 crore in FY2022 and is expected to surpass the pre-Covid levels in FY2024. AAI's operating margins stood at 45.5% in FY2023, which is likely to sustain going forward on the back of healthy traffic growth across the airports.

Strong liquidity and debt coverage indicators – The liquidity position remains strong as reflected by free cash of Rs. 4,451 crore and undrawn working capital limits of Rs. 2,000 crore as on March 31, 2023 against limited debt repayments for FY2024. Further, healthy cash flows resulted in net debt reduction by ~Rs. 1,000 crore and improvement in leverage metrics.

Credit challenges

Development of greenfield/RCS airports and privatisation likely to impact revenues and profitability – AAI is involved in developing greenfield airports and reviving non-operational airports under RCS, which may have relatively low revenue potential and/or long gestation period. Thus, it may impact AAI's profitability and return indicators. Further, the privatisation of the existing airports under AAI can lead to lower revenues and profitability.

Exposed to volatility in aviation traffic – AAI's revenues are exposed to fluctuations in the aviation traffic in the country as witnessed during the past three years. The limited number of profitable airports in its portfolio further intensifies the vulnerability.

Liquidity position: Strong

The company's liquidity position is strong, with unencumbered cash balance of around Rs. 4,451 crore and cushion in working capital limits of Rs. 2,000 crore as on March 31, 2023. It has low debt repayment obligations of Rs. 2.9 crore in FY2024 and Rs. 145.3 crore in FY2025. AAI is likely to incur a capex of Rs. 4,000 crore for FY2024, which is expected to be funded through its existing cash balances, grants from GoI, debt and internal accruals.

Rating sensitivities

Positive factors – NA

Negative factors – Negative pressure on the ratings could arise if there is a dilution of AAI's strategic importance to the Government. A significant increase in debt along with sustained pressure on earnings could also trigger a downgrade in the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Airports Policy on Withdrawal of Credit Ratings
Parent/Group Support	Parent Company: Government of India The assigned rating factors in the strategic importance of AAI to the GoI and access to need-based support from the GoI in a timely manner.
Consolidation/Standalone	Standalone

About the company

AAI is a Government organisation responsible for creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and air space in the country. It was constituted by an Act of the Parliament and came into being on April 1, 1995 by the merger of the erstwhile National Airports Authority (NAA) and International Airports Authority of India (IAAI) to create a centralised organisation that could effectively manage both the international and domestic airports.

AAI owns and maintains 133 airports in the country, which include 100 domestic airports, 23 international airports, 10 customs airports. It provides air traffic management services over the entire Indian air space and the adjoining oceanic areas, with ground installations at all airports and various other locations to ensure safety of aircraft operations. AAI continues to perform the navigational functions at all the airports (including privatised) and collects the RNFC and TNLC[1] charges for the same.

Key financial indicators (audited)

	FY2021	FY2022	FY2023*
Operating income	4,335	6,334	11,425
PAT	-1,962	9	2,972
OPBDIT/OI	-42.5%	10.5%	45.5%
PAT/OI	-45.3%	0.1%	26.0%
Total outside liabilities/Tangible net worth (times)	1.5	1.8	1.4
Total debt/OPBDIT (times)	-1.7	5.1	0.5
Interest coverage (times)	-40.9	9.5	50.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * provisional financials*

Source: AAI, ICRA Research

[1] *Route Navigation Facilitation Charge (RNFC) and Terminal Navigation and Landing Charges (TNLC)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				June 30, 2023	-	March 09, 2022	February 02, 2021	September 21, 2020
Term loan-1	Long term	1000.00	1000.00	[ICRA]AAA (Stable)	-	[ICRA]AAA (Stable)*		
Term loan-2	Long term	2100.00	-	[ICRA]AAA (Stable) reaffirmed and withdrawn	-	[ICRA]AAA (Stable)*	[ICRA]AAA@	[ICRA]AAA (Stable)
Short-term – Working capital facilities	Short term	1500.00	-	[ICRA]A1+	-	[ICRA]A1+*	[ICRA]A1+@	[ICRA]A1+
Working capital facilities	Long term/ Short term	215.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	-	[ICRA]AAA (Stable)/ [ICRA]A1+*	[ICRA]AAA@ / [ICRA]A1+@	[ICRA]AAA (Stable) / [ICRA]A1+

*@on Watch with Negative Implications, *removed from Watch with Negative Implications*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Short-term – Working capital facilities	Simple
Working capital facilities	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-1	December 2021	-	November 2031	1000.00	[ICRA]AAA (Stable)
NA	Term loan-2	November 2020	-	-*	2100.00	[ICRA]AAA (Stable) reaffirmed and withdrawn
NA	Short-term – Working capital facilities	-	-	-	1500.00	[ICRA]A1+
NA	Working capital facilities	-	-	-	215.00	[ICRA]AAA (Stable)/ [ICRA]A1+

*Source: Company *the company has prepaid the term loan-2*

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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