November 15, 2023

Cochin International Airport Limited: Rating upgraded and outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loans	639.69	639.69	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ and outlook revised to Stable from Positive
Fund-based working capital limit	185.00	185.00	[ICRA]AA- (Stable); Upgraded from [ICRA]A+ and outlook revised to Stable from Positive
Total	**824.69**	**824.69**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Cochin International Airport Limited (CIAL) factors in the healthy recovery in passenger traffic at CIAL to pre-Covid levels in H1 FY2024, which is likely to improve further going forward. This along with the levy of user development fee (UDF) from April 1, 2022 and recovery in non-aeronautical revenues resulted in a robust 87% growth in revenue to Rs. 940 crore in FY2023. The aeronautical revenues have improved by 114% to Rs. 478 crore in FY2023 on the back of levy of UDF from April 1, 2022 and healthy growth in other aeronautical revenues, amid higher tariff as part of the third control period (CP3, FY2021-FY2026) tariff order, and 87% growth in passenger traffic. The non-aeronautical revenues (including duty-free income) have improved significantly by 65%, with 82% growth in duty free income and 88% growth in rental income. The revenues are expected to increase by more than 15% in FY2024 due to increase in UDF from April 1, 2023, aeronautical tariffs, growth in overall passenger traffic and higher non-aeronautical revenues.

Following the Covid-19 pandemic-led under-recovery in the second control period (CP2 – FY2017 to FY2021), and the proposed capex programme, AERA approved levy of UDF of Rs. 180 and Rs. 400 for domestic and international passengers, respectively, in FY2023. The same was further increased by 25-28% to Rs. 230 and Rs. 500 for domestic and international passengers, respectively, in FY2024. CIAL started levying UDF pertaining to the third control period (CP3, FY2022-FY2026) from April 1, 2022. The rating is supported by the favourable passenger mix of CIAL, which has high share of international passengers among all the airports in the country. International passengers offer higher revenue per passenger both in terms of aeronautical and non-aeronautical revenues compared to domestic passengers.

The capital structure and coverage metrics remains robust, with gearing of 0.32 times as of March 2023. With the recent equity infusion and improvement in earnings, the gearing is expected to improve to less than 0.30 times by March 2024. The DSCR is likely to be robust at above 3.50 times in FY2024. CIAL is currently undertaking expansion of T3 terminal (apron and pier), cargo complex, construction of airport hotels, revamping of IT systems and scanning equipment and construction of commercial complex, among others. The estimated capital expenditure over the next three years (FY2024-FY2026) is around Rs. 1,500 – 1,600 crore, which is proposed to be funded through a mix of freshly raised equity of around Rs. 478.2 crore, internal accruals and debt. Despite its debt-funded capex, the improved scale of operations and healthy profitability levels are expected to result in strong debt coverage metrics. While CIAL is yet to tie-up debt for the same, the company is adequately placed to fund the capex. CIAL's ability to execute the sizeable capex programme within the budgeted costs and timelines would be a key rating monitorable. AERA has considered capex of Rs. 1,754 crore (Aero capex of Rs. 1,275 crore) in CP3 tariff order. Given that the actual capex is likely to be higher, any major disallowance of capex for the determination of tariff will be a credit negative.

The rating is constrained by the stiff competition from four international airports situated within 300 km radius from CIAL, viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. Any material shift in traffic to competing airports could adversely affect the earnings profile. Nevertheless, CIAL is well positioned in terms of cost competitiveness (least burden on passengers despite levy of UDF w.e.f. April 2022), advantageous geographical location with close proximity to major tourist destinations and Cochin being the major business hub in Kerala. This is reflected in the highest recovery in passenger traffic to around 92% of the pre-Covid level at CIAL in FY2023, among all the five competing airports, despite the levy of UDF in FY2023.

Further, unlike the other private airports, which are either governed by the Operations, Maintenance and Development Agreement (OMDA) or concession agreement (CA), there is no concession awarded by the Government of India (GoI) in the case of CIAL. In absence of a CA, the rights, obligations, and the concession period are not defined for CIAL. Additionally, the GoI is not bound by any non-compete/right of first refusal clauses, should there be any proposal to develop new international airports in the region. Nonetheless, long operational track record and competitive tariff at CIAL provides comfort.

The Stable outlook on the rating reflects ICRA's opinion that CIAL's credit profile will be supported by the strong operating track record of CIAL with good catchment area, healthy revenue growth, aided by improvement in passenger traffic, comfortable capital structure and healthy margins resulting in strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

Long operational track record – The company has started commercial operations from June 1999 and has a strong operational track record of over two decades. Following the Covid-19 pandemic-led under-recovery of Rs. 286 crore in CP2, and the proposed capex programme, AERA approved levy of UDF of Rs. 180 and Rs. 400 for domestic and international passengers, respectively, in FY2023. The same was further increased by 25-28% to Rs. 230 and Rs. 500 for domestic and international passengers in FY2024. CIAL started levying UDF pertaining to CP3 from April 1, 2022. Nevertheless, compared to the other airports within the vicinity, CIAL is well positioned in terms of cost competitiveness (least UDF charges on passengers). The rating is also supported by the favourable passenger mix of CIAL, which has high share of international passengers among all the airports in the country. International passengers offer higher revenue per passenger both in terms of aeronautical and non-aeronautical revenues against domestic passengers.

Healthy revenue and profitability growth likely to sustain in FY2024 – CIAL has seen passenger traffic recover to 92% and 100% of the pre-Covid levels in FY2023 and H1 FY2024, respectively, and is likely to surpass the pre-Covid level in FY2024. The revenues in FY2023 increased by 87% to Rs. 940 crore and is higher by 20% compared to the pre-Covid level. The aeronautical revenues improved by 114% to Rs. 478 crore in FY2023, with levy of UDF from April 1, 2022 and healthy growth in other aeronautical revenues amid higher tariff as a part of CP3 tariff order and 87% growth in passenger traffic. Further, the non-aeronautical revenues (including duty-free income) improved significantly by 65% on the back of 82% growth in duty free income and 88% growth in rental income. The revenues are expected to increase by more than 15% in FY2024, driven by the rise in UDF from April 1, 2023, aeronautical tariffs, growth in overall passenger traffic and higher non-aeronautical revenues.

Strong debt coverage metrics – The capital structure and coverage metrics remain robust, with gearing of 0.32 times as of March 2023. With the recent equity infusion and improvement in earnings, the gearing is expected to improve to less than 0.30 times by March 2024 and the DSCR is estimated to be robust at above 3.50 times in FY2024. Low leverage and healthy profitability margins are likely to result in strong debt coverage metrics. Further, the liquidity position is strong with cash balances of Rs. 975 crore as on March 31, 2023 and are expected to sustain, driven by healthy cash flow from operations.

Credit challenges

Stiff competition from other international airports in the vicinity – CIAL has four international airports situated within 300 km radius from CIAL, viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and

Kannur International Airport. Any material shift in traffic to competing airports could adversely affect the earnings profile. Nevertheless, CIAL is well positioned in terms of cost competitiveness (least burden on passengers despite levy of UDF w.e.f. April 2022), advantageous geographical location with close proximity to major tourist destinations and Cochin being the major business hub in Kerala. This is reflected in the highest recovery in passenger traffic to around 92% of the pre-Covid level at CIAL in FY2023, among all the five competing airports, despite the levy of UDF in FY2023.

Lack of concession agreement – In absence of a concession agreement, the rights, obligations, and the concession period are not defined for CIAL. Additionally, the GoI is not bound by any non-compete/right of first refusal clauses, should there be any proposal to develop new international airports in the region. Nonetheless, the long operational track record and competitive tariff at CIAL provides comfort.

Sizeable capex plans; exposed to moderate execution risks – CIAL is currently undertaking expansion of T3 terminal (apron and pier), cargo complex, construction of airport hotels, revamping of IT systems and scanning equipment and construction of commercial complex, among others. The estimated capital expenditure over the next three years (FY2024-FY2026) is around Rs. 1,500 – 1,600 crore, which is proposed to be funded through a mix of freshly raised equity of around Rs. 478.2 crore, internal accruals and debt. Despite its debt-funded capex, the improved scale of operations and healthy profitability levels are expected to result in strong debt coverage metrics. While CIAL is yet to tie-up debt for the same, the company is adequately placed to fund the capex. CIAL's ability to execute the sizeable capex programme within the budgeted costs and timelines would be the key rating monitorable. AERA has considered capex of Rs. 1,754 crore (Aero capex of Rs. 1,275 crore) in CP3 tariff order. Given that the actual capex is likely to be higher, any major disallowance of capex for the determination of tariff will be a credit negative.

Liquidity position: Strong

The company's liquidity position is strong, with unencumbered cash of Rs. 974.7 crore and undrawn overdraft facility of Rs. 30 crore as on March 31, 2023. It has debt repayment obligation of Rs. 109.3 crore in FY2024 and Rs. 122.0 crore in FY2025, which can be met through its estimated cash flow from operations. The capex for FY2024 is likely to be around Rs. 500 crore, which would be funded from the available liquidity and internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade CIAL's rating if there is a significant growth in passenger traffic, along with improvement in non-aero revenues and profitability resulting in improvement in debt coverage metrics while maintaining the strong liquidity position.

Negative factors – Pressure on CIAL's rating could arise if the growth in traffic and/or non-aero revenues are lower than ICRA's base case assumptions, adversely impacting the cash flows. The rating may be downgraded if there is material loss of market share to competing airports in the region, on a sustained basis. Further, disallowance of capex for tariff determination and/or larger-than-anticipated debt-funded capex adversely impacting the liquidity position would also put pressure on the rating.

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 CIAL. As on March 31, 2023, the company had four subsidiaries, which are enlisted in Annexure II

About the company

Cochin International Airport Limited (CIAL) was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from the airport users as well as the public, non-resident Indians (NRIs), the Government of Kerala (GoK) and the airport service providers. The Chief Minister (CM) of Kerala is the chairman of the company. CIAL was incorporated on March 30, 1994 as a public limited company and achieved commercial operations in June 1999. To cater to the high traffic demand, CIAL constructed a new international terminal, which was inaugurated in March 2017. Government of Kerala is the major shareholder in CIAL with 33.4% stake as of September 2023.

Key financial indicators (audited)

CIAL Consolidated	FY2022	FY2023
Operating income	502.3	939.6
PAT	35.0	292.7
OPBDIT/OI	45.2%	59.9%
PAT/OI	7.0%	31.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	3.0	1.2
Interest coverage (times)	4.1	12.6

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 of Mar 31,2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
					November 15, 2023	October 10,2022	September 7,2021	September 4,2020	April 2,2020
1	Fund-based - Term loans	Long Term	639.69	590.79	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA-@
2	Fund-based Working capital limit	Long Term	185.00	0.00	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-

@ placed on Rating Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Term loans	Simple
Fund-based - Working capital limit	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	Long-term – Fund-based – Term loan	March 2015	7.68%	March 2032	639.69	[ICRA]AA- (Stable)
NA	Long-term – Fund-based – Working capital	-	7.68%	-	185.00	[ICRA]AA- (Stable)

Source: CIAL

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
Cochin International Aviation Services Limited	99.99%	Full Consolidation
Air Kerala International Services Limited	99.99%	Full Consolidation
CIAL Infrastructures Limited	99.99%	Full Consolidation
CIAL Duty free and Retail Services Limited	99.99%	Full Consolidation

Source: CIAL

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4547 4829
vinay.g@icraindia.com

M Rajashekar Reddy
+91 40 4547 4829
m.rajashekarreddy@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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:

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches