**January 03, 2024**

# GMR Hyderabad International Airport Limited: Rating upgraded to [ICRA]AA+ (Stable); Outlook revised to Stable from Positive

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long Term – Working capital facilities** | 175.00 | 225.00 | [ICRA]AA+; Upgraded from [ICRA]AA; Outlook revised to Stable from Positive |
| **Non-Convertible Debentures (NCDs)** | 1,150.00 | 1,150.00 | [ICRA]AA+; Upgraded from [ICRA]AA; Outlook revised to Stable from Positive |
| **Non-Convertible Debentures (NCDs)** | 100.00 | 840.00 | [ICRA]AA+; Upgraded from [ICRA]AA; Outlook revised to Stable from Positive |
| **Proposed NCDs** | 10.00 | 0.00 | [ICRA]AA+; Upgraded from [ICRA]AA; Outlook revised to Stable from Positive and Ratings Withdrawn |
| **Proposed NCDs** | 740.00 | 0.00 | - |
| **Long Term – Unallocated limits** | 75.00 | 0.00 | - |
| **Total** | **2,250.00** | **2,215.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating upgrade for GMR Hyderabad International Airport Limited (GHIAL) factors in the healthy growth in passenger traffic, with traffic reaching 111% of pre-Covid level during 8M FY2024 and the alleviation of project execution risk for the ongoing capex with the company achieving a physical progress of 97% as of December 2023. The consolidated operating income is expected to experience a robust growth of more than 30%, reaching to around Rs. 2,500 crore in FY2024. This growth is attributed to increases in both aeronautical and non-aeronautical revenues amid higher aeronautical tariffs, improved spend per passenger and healthy growth in passenger traffic. The full-year passenger traffic for FY2024 is expected to reach around 25 million (~ 18-19% YoY growth over FY2023), surpassing pre-Covid levels of 21.7 million. Further, ICRA expects a significant increase in non-aero revenues in FY2025 owing to the increase in leasable area amid opening up of new terminal, development of additional non-aero revenue generating assets, increase in passenger traffic and higher spend per passenger. This, coupled with the increase in the aero revenues on the back of higher yield per passenger in FY2025, will strengthen the debt coverage metrics. The tariff order for the third control period (CP 3 – 01.04.2021 to 31.03.2026) was implemented from October 01, 2021 and the user development fee (UDF) will increase by an average of around 63% in FY2024 and 8% in FY2025.

GHIAL's rating continues to derive strength from the regulatory framework, which allows an efficient cost recovery from the user tariff. Additionally, GHIAL's monopolistic position in its region of operations significantly mitigates the revenue concerns. However, GHIAL remains exposed to asset concentration risk. The variations in passenger traffic resulting from economic cycles, which often lead to a temporary decline in traffic, are offset by truing up the shortfall along with returns in the subsequent 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 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 entities on the company's board lend comfort.

GHIAL received a confirmation letter 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 until March 22, 2068. The long residual concession life has improved the company's financial flexibility and its refinancing ability.

The planned capex for new terminal expansion, with a total outlay of around Rs. 6,600 crore (including cost overrun of around Rs. 150 – 200 crore), is at an advanced stage. The company is likely to complete the capex by January 2024, alleviating the project execution risk. GHIAL has started opening the new terminal in a phased manner from Q4 FY2023. Additionally, the opening of the new terminal has resulted in a higher leasable area, which is expected to support growth in non-aero revenues going forward. As part of the CP3 tariff order, around Rs. 669.3 crore of aeronautical revenues have been deferred to the next control period, and another Rs. 775 crore of the expansion capex has been deferred to the next control period based on the actual incurrence. Notwithstanding this, the projected cash flows and debt service metrics are expected to remain comfortable.

GHIAL has partially refinanced the $ 300 million 5.375% 2024 senior secured notes and $ 300 million 4.75% 2026 senior secured notes, which are due for repayment in April 2024 and February 2026, by securing domestic non-convertible debentures (NCD) of Rs. 1,990 crore at a reduced interest of 9.0% – 9.1% (compared to average interest rate of around 10% for foreign bonds) with a tenor of 10 years. The company is likely to raise around Rs. 525 crore of NCDs in the current financial year, with terms similar to the previous one. The proceeds from the new funds shall be used for the repayment of the remaining senior secured notes of around $74 million, which is due in April 2024. Post the repayment of April 2024 notes, GHIAL has no immediate foreign debt repayments, and the next bullet repayments are due in February 2026 of around USD 287 Mn and October 2027 of USD 350 Mn. Owing to this, the debt structure remains moderate and exposes GHIAL to refinancing risk. However, 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. Further, GHIAL has repayments of around Rs. 740 crore (consolidated) during FY2024-FY2029 (excluding the bullet repayments). Hence, the consolidated debt levels are likely to remain elevated in the medium term.

The performance of subsidiaries has been healthy, as the operating income growth was around 40% in FY2023, and the same is likely to be sustained in FY2024, with a YoY revenue growth of around 28-30%. In FY2023, the duty-free and hotel divisions witnessed a significant growth in revenues by around 128%, which corresponded to the increased international passenger traffic. In FY2024, the duty-free division is likely to report a revenue growth of more than 20% while cargo revenues are likely to be higher by around 30% due to increase in cargo tariffs. The subsidiaries are likely to incur a capex of around Rs. 700-800 crore over the next three years (FY2024-FY2026), majorly for the construction of a new hotel, interchange facility (retail mall) and the expansion of the cargo terminal. The same is expected to be funded by a mix of debt and internal accruals. Further, all the subsidiaries are self-sufficient and no major support from GHIAL is envisaged for the capex program. However, in case any support is required, GHIAL would be infusing the requisite funds.

The rating is constrained by the funding support provided by GHIAL to various Group companies. In the past, the company extended a total of Rs. 240-crore in inter-corporate deposits (ICDs) to support the group entities. Out of these, Rs. 40 crore have been recovered in FY2023, and ICRA is given to understand that the remaining ICDs of Rs. 200 crore are likely to be recovered by FY2026. GHIAL has parked surplus funds amounting to Rs. 477.2 crore as on September 30, 2023, in commercial papers (CPs) of various corporates. Any significant incremental loans and advances or financial assistance to the Group companies will be a key rating sensitivity. Moreover, any material incremental exposure to weaker credits as treasury investments will be a credit negative.

The Stable outlook on the rating reflects ICRA's opinion that GHIAL's credit profile will be supported by an improved cash flow position driven by healthy growth in passenger traffic, robust growth in operating income and improved operating margins.

## Key rating drivers and their description

### Credit strengths

**Monopoly position –** Rajiv Gandhi International Airport, operated by GHIAL, is the only airport in the Hyderabad city and is the major international airport for the states of Telangana and Andhra Pradesh. Its strong position and regulatory framework allow efficient cost recovery from user tariff, mitigating the revenue concerns. The variation in passenger traffic resulting from economic cycles, which often lead to a temporary decline in traffic, is offset by truing up the shortfall along with returns in the subsequent regulatory period, albeit with a lag.

**Non-aero revenues crossed pre-Covid level in FY2023, which is expected to sustain in the medium term; Increase in tariffs and healthy traffic growth is likely to result in improved cash flow position –** Non-aero revenues crossed the pre-Covid level in FY2023 owing to increased spend per passenger with higher focus on improving the retail area and addition of new tenants amid the terminal expansion. The non-aero revenues (including Commercial Property Development [CPD] income) increased by 52% YoY to Rs. 1,056.5 crore in FY2023 from Rs. 696.1 crore in FY2022. Further, non-aero revenues are likely to increase by around 20% each in FY2024 and FY2025, driven by the expansion of leasable area with the opening of the new terminal, development of additional non-aero revenue generating assets, ramp-up in passenger traffic and higher spend per passenger. Additionally, aeronautical tariffs were increased from April 1, 2022 by taking into cognisance the increase in regulatory asset base (RAB) due to the ongoing capex programme. The UDF, which is a majority contributor to the aeronautical revenues, has increased by an average of 63% and 8% YoY for FY2024 and FY2025, respectively, as per CP3 tariff order. The aeronautical revenues for FY2024 and FY2025 are likely to witness strong growth of around 45-50% and 20-25%, respectively. This along with the traffic surpassing the pre-Covid levels, resulted in improved cash flow position and debt protection metrics.

**Extension in terms of concession resulted in improved financial flexibility –** GHIAL received a letter of confirmation from the Ministry of Civil Aviation (MoCA), extending the term of the concession agreement to operate Rajiv Gandhi International Airport (RGIA) in Hyderabad, for a further period of 30 years until March 22, 2068. The long residual concession life has improved the company's financial flexibility and its refinancing ability.

**Cash flow ring-fencing and modest revenue sharing –** The 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 entities are on the Board of GHIAL. It has received financial support from the GoT in the form of development grants and interest-free loans with deferred payment terms. The modest revenue share of 4% with the GoI also supports the cash flows and its credit profile.

## Credit challenges

**Moderate debt structure and refinancing risk –** GHIAL has partially refinanced the $ 300 million 5.375% 2024 senior secured notes and $ 300 million 4.75% 2026 senior secured notes, which are due for repayment in April 2024 and February 2026, by securing domestic non-convertible debentures (NCD) of Rs. 1,990 crore at a reduced interest of 9.0% – 9.1% (compared to average interest rate of around 10% for foreign bonds) with a tenor of 10 years. The company is likely to raise around Rs. 525 crore of NCDs in the current financial year, with terms similar to the previous one. The proceeds from the new funds shall be used for the repayment of the remaining senior secured notes of around $74 million, which is due in April 2024. Post the repayment of April 2024 notes, GHIAL has no immediate foreign debt repayments, and the next bullet repayments are due in February 2026 of around USD 287 Mn and October 2027 of USD 350 Mn. Owing to this, the debt structure remains moderate and exposes GHIAL to refinancing risk. However, 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. Further, GHIAL has repayments of around Rs. 740 crore (consolidated) during FY2024-FY2029 (excluding the bullet repayments). Hence, the consolidated debt levels are likely to remain elevated in the medium term.

**Exposure to risks associated with disallowance of capex -** The planned capex for new terminal expansion, with a total outlay of around Rs. 6,600 crore (including cost overrun of around Rs. 150 – 200 crore), is at an advanced stage. The company is likely to complete the capex by January 2024, alleviating the project execution risk. GHIAL has started opening the new terminal in a phased manner from Q4 FY2023. Additionally, the opening of the new terminal has resulted in a higher leasable area, which is expected to support growth in non-aero revenues going forward. As part of the CP3 tariff order, around Rs. 669.3 crore of aeronautical revenues have been deferred to the next control period, and another Rs. 775 crore of the expansion capex has been deferred to the next control period based on the actual incurrence. Notwithstanding this, the projected cash flows and debt service metrics are expected to remain comfortable.

**Funding support to Group companies –** In November 2019 and FY2021, the company extended a total of Rs. 240-crore inter-corporate deposits (ICDs) to support various group entities. Out of these, Rs. 40 crore have been recovered in FY2023, and ICRA is given to understand that the remaining ICDs of Rs. 200 crore are likely to be recovered by FY2026. GHIAL has invested surplus funds amounting to Rs. 477.2 crore as on September 30, 2023, in commercial papers (CPs) of various corporates. Any significant increase in loans and advances or financial assistance to the group companies will be a key rating sensitivity. Moreover, any material incremental exposure to weaker credits as treasury investments will be a credit negative.

## Liquidity position: Adequate

The liquidity position of the company is adequate, with an assignable cash balance of around Rs. 630 crore (excluding liquidity earmarked for capex of Rs. 1,256 crore, and restricted cash) as on September 30, 2023. Additionally, the company had a cushion of Rs. 150 crore of working capital limits as on September 30, 2023. Further, the cash flow from operations would be sufficient to service the repayment obligations of around Rs. 108 crore in FY2024 and Rs. 132 crore in FY2025.

## Rating sensitivities

**Positive factors –** Significant improvement in non-aero revenue share along with material reduction in debt levels while sustaining robust debt coverage metrics supports rating upgrade. Further, improvement in debt structure while improving the liquidity position remains crucial for rating upgrade.

**Negative factors –** Pressure on GHIAL's rating could arise if there is an increase in overall indebtedness of the company or if the traffic is significantly lower than ICRA's base case assumptions, adversely impacting its debt coverage metrics. Any significant decline in non-aero revenues, or incremental treasury investments in weaker credits, or incremental loans to group companies, adversely impacting its liquidity position will be credit negative.

## Analytical approach

| Analytical Approach | Comments |
| --- | --- |
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Airports<br>Policy on Withdrawal of Credit Ratings |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of GHIAL. As on September 30, 2023, the company had four subsidiaries, which are enlisted in Annexure-2. |

## 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%), Airports Authority of India (AAI) (13%), and the Government of Telangana State (13%). GHIAL has a 30-year concession for the development, maintenance, and operation of the Shamshabad airport, and is extended for another 30 years (received an extension in May 2022 from MoCA to operate until May 2068) at its option and another 30 years 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, which is likely to be completed by FY2024.

## Key financial indicators (audited) – Consolidated

| GHIAL Consolidated | FY2022 | FY2023 |
|---|---|---|
| Operating income | 1170.0 | 1910.8 |
| PAT | -106.5 | 101.8 |
| OPBDIT/OI | 27.2% | 39.9% |
| PAT/OI | -9.1% | 5.3% |
| Total outside liabilities/Tangible net worth (times) | 6.8 | 7.2 |
| Total debt/OPBDIT (times) | 26.1 | 11.6 |
| Interest coverage (times) | 1.0 | 1.9 |

*Source: ICRA Research, GHIAL; 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 on Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | | | | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | | Jan 03, 2024 | Mar 01, 2023 | Dec 16, 2022 | Dec 02, 2022 | Jul 29, 2022 | Dec 31, 2021 | Oct 08, 2020 | Apr 02, 2020 |
| 1 | Long term - working capital facilities | Long term | 225.0 | 150.0 | [ICRA]AA+ (Stable) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Stable) | [ICRA]AA (Negative) | - | - |
| 2 | NCDs | Long term | 1,150.0 | 1,150.0 | [ICRA]AA+ (Stable) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | - | - | - | - |
| 3 | NCDs | Long term | 840.0 | 840.0 | [ICRA]AA+ (Stable) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | - | - | - | - |
| 4 | Proposed NCDs | Long term | 10.0 | - | [ICRA]AA+ (Stable); Withdrawn | - | - | - | - | - | - | - |
| 5 | Unallocated limits | Long term | - | - | - | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Positive) | [ICRA]AA (Stable) | [ICRA]AA (Negative) | - | - |
| 6 | Proposed NCDs | Long term | - | - | - | [ICRA]AA (Positive) | - | - | - | - | - | - |
| 7 | Term loans | Long term | - | - | - | - | - | - | - | - | [ICRA]AA (Negative) | [ICRA] AA@ |

***@: Rating Watch with Negative Implications***

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long Term – working capital facilities | Simple |
| Non-Convertible Debentures | 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 – Working capital facilities | NA | NA | NA | 225.00 | [ICRA]AA+ (Stable) |
| INE802J07019 | NCDs | Dec 13, 2022 | 9.1% (p.a.) | Dec 13, 2032 | 1,150.00 | [ICRA]AA+ (Stable) |
| INE802J07027 | NCDs | Mar 13, 2023 | 9.0% (p.a.) | Mar 11, 2033 | 840.00 | [ICRA]AA+ (Stable) |
| Not placed | Proposed NCDs | NA | NA | NA | 10.00 | [ICRA]AA+ (Stable); Withdrawn |

*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 | GHIAL Ownership | Consolidation Approach |
|---|---|---|
| GMR Air Cargo and Aerospace Engineering Limited | 100.00% | Full Consolidation |
| GMR Hospitality and Retail Limited | 100.00% | Full Consolidation |
| GMR Hyderabad Aviation SEZ Limited | 100.00% | Full Consolidation |
| GMR Hyderabad Aerotropolis Limited | 100.00% | Full Consolidation |

*Source: GHIAL, ICRA Research*

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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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