March 12, 2024

Delhi International Airport Limited: Ratings reaffirmed; Rating assigned for Proposed Non-convertible debentures (NCDs)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Working capital facilities	335.00	335.00	[ICRA]AA- (Stable); Reaffirmed
Long-term – Non-fund based limits	49.00	49.00	[ICRA]AA- (Stable); Reaffirmed
Long-term – Working capital term loan	100.00	100.00	[ICRA]AA- (Stable); Reaffirmed
Long term – Non -fund based – Standby letter of credit (SBLC)	200.00	200.00	[ICRA]AA- (Stable); Reaffirmed
Non-convertible debenture (NCD)	1,000.00	1,000.00	[ICRA]AA- (Stable); Reaffirmed
NCD	1,200.00	1,200.00	[ICRA]AA- (Stable); Reaffirmed
NCD	744.00	744.00	[ICRA]AA- (Stable); Reaffirmed
Proposed NCD@	0.00	800.00	[ICRA]AA- (Stable); Assigned
Long-term/Short-term – Unallocated limits	5,316.00	5,316.00	[ICRA]AA- (Stable)/[ICRA]A1+; Reaffirmed
Total	**8,944.00**	**9,744.00**	

**Instrument details are provided in Annexure-I*
@ yet to be placed

Rationale

The assigned rating for Delhi International Airport Limited (DIAL) factors in the healthy growth in passenger traffic, reaching 105% of pre-Covid level during 10M 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 operating income is expected to increase by more than 20% to around Rs. 4,300-4,400 crore in FY2024 from Rs. 3,584 crore in FY2023, driven by increase in both aeronautical and non-aeronautical (non-aero) revenues, supported by healthy growth in passenger traffic and improved spend per passenger. The full-year passenger traffic for FY2024 is expected to reach around 73-74 million (~ 12-13% YoY growth over FY2023), surpassing pre-Covid levels of 67.3 million (FY2020). Further, ICRA expects the increase in non-aero revenues to be sustained in FY2025 owing to the increase in the leasable area amid opening of expanded terminal, increase in passenger traffic and higher spend per passenger. DIAL is currently in the process of filing multi-year tariff proposal with the regulator[1] for the fourth control period (CP4, period between April 1, 2024, and March 31, 2029). DIAL is likely to witness a substantial increase in tariffs for the CP4, considering the capitalisation of Phase 3A capex. The tariff application is likely to be filed by April 2024, and the tariff implementation is expected to be delayed by around 9-12 months against earlier expectations of April 2024. ICRA notes that the CP4 tariff could further get pushed upwards should the regulator factor in the full impact of the favourable order from the Supreme Court regarding calculation of tax pertaining to aeronautical services. The improvement in passenger traffic, non-aero revenues, and steep increase in tariff will significantly increase DIAL's cash flows available for debt servicing.

The ratings continue to derive strength from the significant competitive advantage enjoyed by DIAL, given the dominant position of the Indira Gandhi International Airport (IGIA) as the largest Indian airport in terms of passenger traffic with New Delhi being the national capital and an important political and commercial centre in the country. Noida International Airport (NIA), which is at a 72-km aerial distance from DIAL, is expected to commence operations in FY2025, with a capacity of 12 million. NIA, once operational, is likely to affect the passenger traffic at DIAL. However, DIAL's large catchment area, healthy growth in overall passenger traffic and the regulated business model of its operations will provide cushion against any decline in traffic.

[1] Airports Economic Regulatory Authority (AERA)

The joint ownership of DIAL by the Airports Authority of India (AAI), the presence of AAI's nominees on DIAL's board, the presence of Groupe ADP (49% equity shareholder in DIAL's holding company – GMR Airports Limited), and DIAL's ring-fenced cash flows restrict free movement of funds within the Group companies.

DIAL is currently undertaking a large capital expenditure (capex) programme of Rs. 12,616 crore (including cost overrun of Rs. 1,066 crore) to increase the passenger capacity by 34 million. As of February 2024, it had incurred around Rs. 10,900 crore of the project cost and has achieved a physical progress of 98.9% for the Phase 3A expansion, alleviating the project execution risk to a large extent. The entire project is likely to be put for commercial use before April 2024. Further, as per the management estimates, the Phase 3A expansion is likely to see a cost overrun of around Rs. 1066 crore, on account of few change of scope works, higher interest during construction (IDC) and lower Goods and Services Tax (GST) input tax credit, which is proposed to be funded through additional debt of Rs. 800 crore and the balance from internal accruals. DIAL is currently in the process of raising NCDs from the domestic market of Rs. 800 crore for funding the cost overrun.

AERA had provisionally approved majority (93%) of the hard cost submitted by DIAL as part of the third control period (CP3, from April 1, 2019, to March 31, 2024) tariff order and the company is expected to submit the CP4 tariff, including cost overrun and higher IDC incurred. Any major disallowance of capex or cost overrun or IDC for the determination of CP4 tariff will be credit negative.

With sizeable bullet repayments of Rs. 2,513.1 crore in October 2025 and Rs. 3,493.6 crore in October 2026, DIAL remains exposed to high refinancing risks. However, ICRA believes that DIAL will be able to refinance these bonds in a timely manner, given its strong business risk profile, financial flexibility from the residual concession life and healthy projected cash flows with the implementation of CP4 tariff.

DIAL has received a favourable order from arbitration tribunal in the matter of MAF (Monthly Annual Fee) payment for the Covid period in January 2024. Due to the impact of the Covid-19 pandemic, DIAL has invoked the force majeure clause as per the OMDA agreement seeking relief on the revenue sharing payments to Airports Authority of India (AAI, rated [ICRA] AAA (Stable)/[ICRA] A1+) in September 2020. Basis the directions of the Delhi High Court's interim order, DIAL has stopped the payment of revenue sharing to AAI from January 2021, and the matter was referred to the arbitration tribunal. As per the order, DIAL is entitled to receive a refund of around Rs. 465 crore along with interest from AAI pertaining to revenue sharing payments made by DIAL in March 2020 and December 2020, and is excused from making the revenue sharing payment to AAI from January 2021 to February 2022. Additionally, the tribunal has also ordered that the concession period to be extended by 23 months. Any adverse development on revenue sharing issue impacting the liquidity position of the company would be key rating monitorable. DIAL had parked certain surplus funds in commercial papers (CPs) of various corporates. Material weakening in the credit profile of the treasury investments, if any, will be a credit negative.

The Stable outlook on the long-term rating reflects ICRA's expectations that DIAL's credit profile is likely to improve in the near to medium term in the backdrop of healthy increase in tariff post-CP4 tariff implementation, passenger traffic, non-aero revenues.

Key rating drivers and their description

Credit strengths

Strong market position – DIAL derives significant competitive advantage, given the dominant position of the Indira Gandhi International Airport (IGIA) as the largest Indian airport in terms of passenger traffic with New Delhi being the national capital and an important political and commercial centre in the country. Noida International Airport (NIA), which is at a 72-km aerial distance from DIAL, is expected to commence operations in FY2025, with a capacity of 12 million. NIA, once becomes operational, is likely to affect the passenger traffic at DIAL. However, DIAL's large catchment area, healthy growth in overall passenger traffic and the regulated business model of its operations will provide cushion against any decline in traffic.

Non-aero revenues crossed pre-Covid level in FY2023, which is expected to sustain in the medium term – ICRA expects the overall passenger traffic to increase to around 73-74 million in FY2024 compared to 67.3 million of pre-Covid traffic (FY2020) and 65.3 million in FY2023. The non-aero revenues have surpassed the pre-Covid level in FY2023 to Rs. 2,301 crore and are expected to increase to around Rs. 2,700-2,800 crore in FY2024. Further, ICRA expects the increase in non-aero revenues to sustain in FY2025 owing to the increase in leasable area amid opening of expanded terminal increase in passenger traffic and higher spend per passenger.

Substantial increase in aeronautical tariffs expected for the fourth control period – DIAL is currently in the process of filing multi-year tariff proposal with the regulator for CP4. DIAL is likely to witness a substantial increase in tariffs for the CP4, considering the capitalisation of Phase 3A capex. The tariff application is likely to be filed by April 2024, and the tariff implementation is expected to be delayed by around 9-12 months against earlier expectations of April 2024. ICRA notes that the CP4 tariff could further get pushed upwards should the regulator factor in the full impact of the favourable order from the Supreme Court regarding calculation of tax pertaining to aeronautical services. The improvement in passenger traffic, non-aero revenues, and steep increase in tariff will significantly increase DIAL's cash flows available for debt servicing.

Cash flow ring-fencing – The joint ownership of DIAL by the AAI, the presence of the latter's nominees on the company's board, the presence of Groupe ADP (49% equity shareholder in DIAL's holding company – GMR Airports Limited), and DIAL's ring-fenced cash flows restrict free movement of funds within the Group companies.

Credit challenges

Exposure to risks associated with disallowance of capex – DIAL is currently undertaking a large capital expenditure (capex) programme of Rs. 12,616 crore (including cost overrun of Rs. 1,066 crore) to increase the passenger capacity by 34 million. As of February 2024, it had incurred around Rs. 10,900 crore of the project cost and has achieved a physical progress of 98.9% for the Phase 3A expansion, alleviating the project execution risks to a large extent. The entire project is likely to be put for commercial use before April 2024. Further, as per the management estimates, the Phase 3A expansion is likely to see a cost overrun of around Rs. 1066 crore, on account of few change of scope works, higher interest during construction (IDC) and lower Goods and Services Tax (GST) input tax credit, which is proposed to be funded through additional debt of Rs. 800 crore and the balance from internal accruals. DIAL is currently in the process of raising NCDs from the domestic market of Rs. 800 crore for funding the cost overrun.

AERA had provisionally approved majority (93%) of the hard cost submitted by DIAL as part of the CP3 tariff order and the company is expected to submit the CP4 tariff, including cost overrun and higher IDC incurred. Any major disallowance of capex or cost overrun or IDC for the determination of CP4 tariff will be credit negative.

Moderate debt structure and refinancing risk – DIAL has sizeable bullet repayments due in the medium term which exposes it to high refinancing risk. While DIAL has refinanced Rs. 744 crore of NCDs due in October 2025, it has sizeable bullet repayments of Rs. 2,513.1 crore in October 2025, and Rs. 3,493.6 crore in October 2026, and remains exposed to refinancing risk. However, ICRA believes that DIAL will be able to refinance these bonds in a timely manner, given its strong business risk profile, financial flexibility on account of long residual concession life and healthy projected cash flows with the implementation of CP4 tariff.

Liquidity position: Adequate

DIAL's liquidity position is adequate, with free cash balance of around Rs. 977 crore (excluding funds earmarked for capex of around Rs. 470 crore) as on December 31, 2023. It has principal repayment obligations of around Rs. 18 crore of lease financing in FY2024 and Rs. 40 crore in FY2025. The balance capex as of February 2024, of around Rs. 1716 crore will be funded through proposed NCDs, cash earmarked for capex, internal cash accruals, refundable security deposits (RSDs) to be received from Bharti Realty and lease financing proceeds.

Rating sensitivities

Positive factors – ICRA may upgrade DIAL's ratings if there is any significant improvement in passenger traffic, non-aero revenues along with material reduction in debt levels, resulting in improvement in debt coverage metrics. Further, improvement in debt structure and liquidity position will be credit positive.

Negative factors – Pressure on DIAL's ratings could arise if there is material weakening in coverage metrics on account of significant increase in indebtedness or substantial reduction in passenger traffic and/or non-aero revenues. Any incremental treasury investments in weaker credits, or incremental loans to group companies, adversely impacting its liquidity position will be credit negative. Further, any material crystallisation of contingent liabilities or material disallowance in the ongoing capex by the AERA will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Airports
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

DIAL is a joint venture company (JVC) promoted by GMR Consortia and AAI, which has been awarded a 30-year concession for the operation, modernisation and phased expansion of IGIA in Delhi. The GMR Group, through GMR Airports Limited, is the largest shareholder in DIAL (64%). The other shareholders include Fraport AG Frankfurt Airport Services Worldwide (Fraport) (10%) and AAI (26%). IGIA is the busiest airport in the country. At present, it is undertaking Phase 3A expansion project to increase the airport capacity to 100 million passengers per annum from 66 million passengers per annum.

Key financial indicators (audited)

As per IndAS accounting	FY2022	FY2023
Operating income	2,914.1	3,990.0
PAT	17.7	-284.9
OPBDIT/OI	58.8%	25.0%
PAT/OI	0.6%	-7.1%
Total outside liabilities/Tangible net worth (times)	2.9	3.7
Total debt/OPBDIT (times)	6.4	12.7
Interest coverage (times)	2.0	1.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

The company faces prepayment risk, given the possibility of debt acceleration upon exercise of put option by the debenture holders in the event the revised spread on the NCDs is not acceptable upon revision of spread post five years of issuance. Nevertheless, DIAL shall have 120 days to refinance the debt of the dissenting debenture holders and the strong financial flexibility of the company provides comfort.

Rating history for past three year

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on March 31 2023 (Rs. crore)	Current rating (FY2024)			Chronology of rating history for the past 3 years					
					Date & rating in FY2024			Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021	
					Mar 12 2024	Feb 20, 2024	Aug 02, 2023	Mar 22, 2023	Oct 7, 2022	May 27, 2022	Aug 12, 2021	Feb 26, 2021	Apr 3, 2020
1	Working capital facilities	Long term	335.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)
2	Non-fund based limits	Long term	49.0	31.3	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]AA- (Negative)
3	Working capital term loan	Long term	100.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-	-
4	Non-fund based – SBLC	Long term	200.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-	-	-
5	NCD	Long term	1,000.0	1,000.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-	-
6	NCD	Long term	1,200.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-	-	-	-
7	NCD	Long term	744.0	0.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	-	-	-	-	-	-
8	Proposed NCD*	Long term	800.0	0.0	[ICRA]AA- (Stable)	-	-	-	-	-	-	-	-
9	Unallocated limits	Long term/ short term	5,316.0	-	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]AA- (Stable) / [ICRA]A1+	[ICRA]A+ (Positive)/ [ICRA]A1	[ICRA]A+ (Positive)/[ICRA]A1	[ICRA]A+ (Positive)/[ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]AA- (Negative)/ [ICRA]A1+

	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 in FY2024			Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021	
					Mar 12 2024	Feb 20, 2024	Aug 02, 2023	Mar 22, 2023	Oct 7, 2022	May 27, 2022	Aug 12, 2021	Feb 26, 2021	Apr 3, 2020
10	NCD	Long term	-	-	-	-	[ICRA]A+ (Positive); Withdrawn	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	-	-	-	-
11	Proposed NCD	Long term	-	-	-	[ICRA]AA- (Stable); Withdrawn	[ICRA]A+ (Positive)	-	-	-	-	-	-
12	Proposed NCD	Long term	-	-	-	-	[ICRA]A+ (Positive)	-	-	-	-	-	-

** yet to be placed*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Non-fund based limits	Very Simple
Working capital term loan	Simple
Non-fund based – SBLC	Very Simple
NCD	Simple
Proposed NCD	Simple
Unallocated limits	Not Applicable

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	335.00	[ICRA]AA- (Stable)
NA	Long-term – Non-fund based limits	NA	NA		49.00	[ICRA]AA- (Stable)
NA	Long-term – Working capital term loan	NA	NA	NA	100.00	[ICRA]AA- (Stable)
NA	Long-term – Non-fund based – SBLC	NA	NA	NA	200.00	[ICRA]AA- (Stable)
INE657H08019	NCD	Jun-2022	9.52%-9.98%	Jun-2027	1,000.00	[ICRA]AA- (Stable)
INE657H08027	NCD	Apr-2023	9.75%	Apr-2030	1,200.00	[ICRA]AA- (Stable)
INE657H08035	NCD	Aug-2023	9.75%	Aug-2030	744.00	[ICRA]AA- (Stable)
NA	Proposed NCD*	NA	NA	NA	800.00	[ICRA]AA- (Stable)
NA	Unallocated limits	NA	NA	NA	5,316.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company
** yet to be placed*

[*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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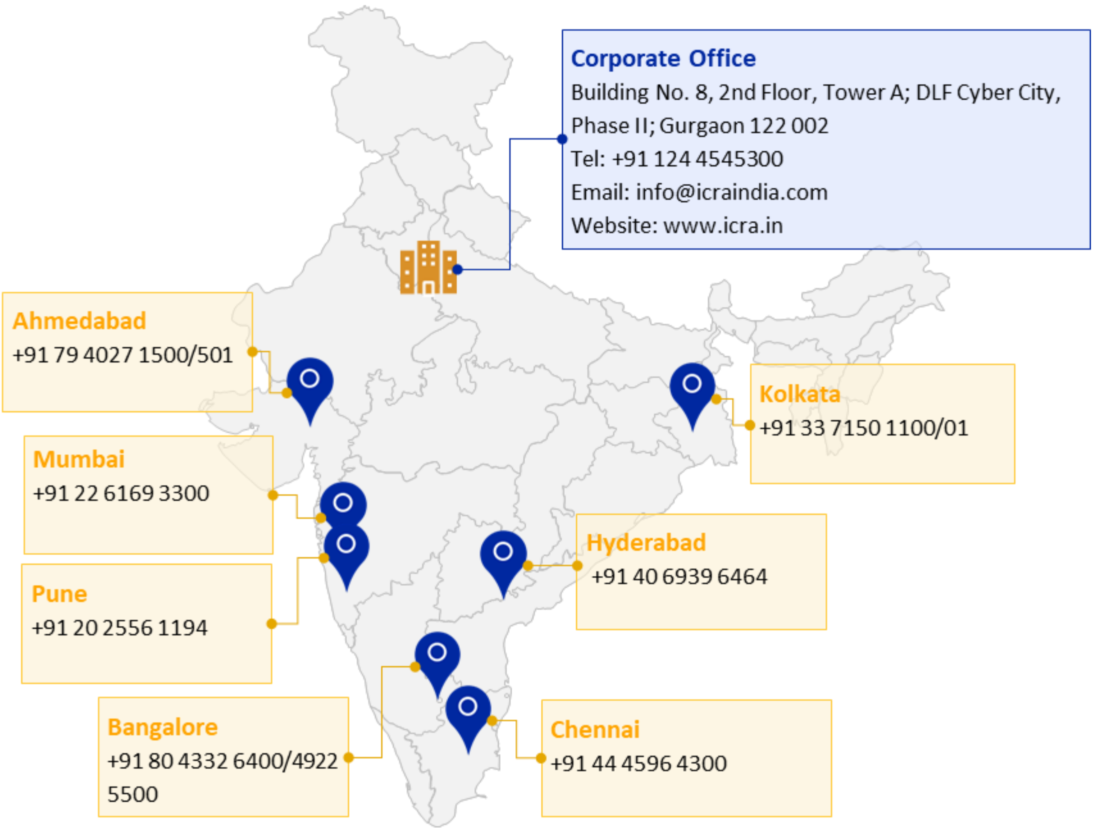

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