

June 17, 2024

Menzies Aviation (Bengaluru) Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	125.00	86.00	[ICRA]A (Stable); reaffirmed
Unallocated limits	-	39.00	[ICRA]A (Stable); reaffirmed
Total	125.00	125.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Menzies Aviation (Bengaluru) Private Limited (MABPL) favourably factors in its strong position in cargo handling operations at Bangalore International Airport Limited (BIAL), along with the established track record of the sponsor, Menzies Aviation Limited (MAL), in undertaking cargo operations with global presence across 255 airports in 61 countries. MABPL is promoted by MAL, which holds 74% of the shareholding with the remaining 26% held by BIAL. MABPL has successfully taken over the cargo terminal operations from May 24, 2023 at Bangalore International Airport, which was earlier operated by Menzies Aviation Bobba (Bangalore) Private Limited (Menzies Bobba). At present, MABPL is the sole operator of domestic cargo services and one of the two operators of international cargo operations at BIAL. The company has recorded cargo volumes of around 2.2 lakh MT in FY2024 (May 24, 2023 - March 31, 2024) and has registered a healthy growth of around 8.2% YoY compared to cargo volumes of around 2.0 lakh MT during the similar period in FY2023 under the earlier operator. The cargo volumes are projected to grow by around 8-9% in FY2025, majorly on the back of addition of new clients. Further, the rating derives comfort from the presence of BIAL as a joint venture partner, which is expected to result in operational synergies.

The rating favourably factors in the receipt of the tariff order for the first control period (CP1, FY2024-FY2028, effective from November 20, 2023 to March 31, 2028) with 28-30% tariff hike on terminal, storage and processing (TSP) charges and 12-15% hike on airline fee in each of FY2024 and FY2025. The regulator has approved a capex of Rs. 228.1 crore for CP1. The same is largely in line with the capex proposed by MABPL. Given the healthy tariff hikes and improved volumes, the operating income (OI) is expected to increase to around Rs. 215 crore in FY2025 from Rs. 155 crore in FY2024 (May 24, 2023 – March 31, 2024) and the operating margins are likely to improve to above 11% compared to 10.4% in FY2024.

MABPL will be operating the cargo terminal for a period of 15 years and is currently constructing a new cargo terminal for domestic cargo operations. Majority of the civil construction work for the new cargo terminal is complete and it is expected to start commercial operations from October 2024 as envisaged earlier. In the interim, the existing terminal is used for both domestic and international cargo handling. The company shall undertake refurbishment of the existing terminal from Q4 FY2025 and the refurbishment works are likely to be completed by FY2026. It is incurring a total capex of around Rs. 265-270 crore including refundable security deposit and business transfer payments, construction of new domestic cargo terminal, and refurbishment of the existing terminal. The total cost is expected to be funded by equity of Rs. 38 crore, external term loan of Rs. 86 crore, promoter loan from Menzies Aviation PLC of Rs. 93 crore, and the balance from internal accruals. Going forward, successful completion of capex within the budgeted costs and timelines remains a key monitorable.

The rating is, however, constrained by the inherent vulnerability of MABPL's business operations to the cargo traffic at the Bangalore International Airport, which is susceptible to the adverse developments in the Indian or global economy. Additionally, the company faces competition from the other cargo operator at the Bangalore International Airport. Further, stiff competition from the other operator may impact the tariffs charged by MABPL from its customers. Any significant migration of customers or loss of market share, going forward, will be a credit negative.

The Stable outlook on the rating reflects ICRA's opinion that MABPL's credit profile will be supported by healthy growth in cargo volumes and tariff resulting in healthy debt coverage metrics.

Key rating drivers and their description

Credit strengths

Established track record of sponsor in undertaking cargo operations and presence of BIAL as a sponsor – MABPL is promoted by MAL and holds 74% of the shareholding with the remaining 26% held by BIAL. MAL has an established track record in undertaking cargo operations, fuel, and ground handling services with global presence across 255 airports in 61 countries. MAL had earlier held 49% shareholding in Menzies Bobba and its concession period ended in May 2023. The presence of MAL as the sponsor in the earlier entity has helped MABPL in the smooth takeover of operations from Menzies Bobba from May 24, 2023, and the continuity in the operations has helped it in retaining majority of the customers. Further, the presence of BIAL as a joint venture partner is expected to result in operational synergies.

Healthy growth in volumes and tariffs to result in improvement in earnings – The company has recorded cargo volumes of around 2.2 lakh MT in FY2024 (May 24, 2023 - March 31, 2024) and has registered a healthy growth of around 8.2% YoY compared to cargo volumes of around 2.0 lakh MT during the similar period in FY2023 under the earlier operator. The cargo volumes are expected to grow by around 8-9% in FY2025, majorly on the back of addition of new clients. This coupled with healthy tariff hikes, the OI is projected to increase to around Rs. 215 crore in FY2025 from Rs. 155 crore in FY2024 (tariff hike was effective from November 20, 2023) and the operating margins are likely to improve to above 11% compared to 10.4% in FY2024.

Comfortable coverage metrics – The company is incurring total capex of around Rs. 265-270 crore including refundable security deposit and business transfer payments, construction of new domestic cargo terminal, and refurbishment of the existing terminal. The total cost is expected to be funded by equity of Rs. 38 crore, external term loan of Rs. 86 crore, promoter loan from Menzies Aviation PLC of Rs. 93 crore, and the balance from internal accruals. The proportion of external loan to total capex remains low, which provides comfort. Further, the leverage and coverage metrics of MABPL are comfortable with TOL/TNW at 3.8 times and interest cover of 2.4 times in FY2025.

Credit challenges

Exposed to project completion risk – The company is currently in the process of completing the construction of new domestic cargo terminal and is likely to undertake refurbishment of the existing cargo terminal in FY2025 and FY2026. The balance capex for the construction of new cargo terminal and refurbishment of the existing terminal is around Rs. 120 crore and is expected to be funded through term loan drawdown of Rs. 41 crore, equity infusion of Rs. 13 crore, existing cash balances of around Rs. 56 crore and internal cash accruals. Going forward, successful completion of capex within the budgeted costs and timelines remains a key monitorable.

Potential risk of client loss and pricing pressure due to competition – MABPL faces competition from the other cargo operator at the Bangalore International Airport. Any significant migration of customers or loss of market share going forward will be a credit negative. Further, the competition from the other operator may impact the tariffs charged by MABPL from its customers, notwithstanding the tariff hikes approved by the AERA.

Vulnerability of revenues to fluctuations in cargo volumes at Bangalore International airport – MABPL's cargo operations remain inherently vulnerable to the cargo traffic at the Bangalore International Airport, which is susceptible to the adverse developments in the Indian or global economy.

Liquidity position: Adequate

MABPL's liquidity position is adequate. The company has cash balances of around Rs. 56 crore as of May 2024. The balance capex of around Rs. 120 crore is expected to be funded through term loan drawdown of Rs. 41 crore, equity infusion of Rs. 13 crore, existing cash balances of around Rs. 56 crore and internal cash accruals. Moreover, MAL is likely to provide timely support in case of any cost overrun or funding requirement, if any.

Rating sensitivities

Positive factors – ICRA may upgrade MABPL's rating upon sustained improvement in cargo volumes resulting in improvement in operating profits, debt coverage metrics and liquidity position on a sustained basis. Specific triggers for a rating upgrade include improvement in DSCR to more than 2 times on a sustained basis.

Negative factors – The rating could be downgraded if there is a material decline in earnings, thereby adversely impacting its debt coverage metrics and liquidity position on a sustained basis.

Analytical approach

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

About the company

Menzies Aviation (Bengaluru) Private Limited (MABPL) was incorporated in August 2022, and has won the service provider rights for the cargo operations at Bangalore International Airport for 15 years. MABPL is a joint venture between Menzies Aviation Limited (MAL) holding 76% and Bangalore International Airport Limited (BIAL) holding 26% of equity in the company.

MABPL will operate, maintain and upgrade the cargo terminal at the Bangalore International Airport. It will provide domestic and international cargo handling and warehousing services to various airlines as well as carrying and forwarding (C&F) agents at the airport. The new concession period shall be for a period of 15 years and has commenced from May 2023.

Key financial indicators

As per IGAAP accounting	FY2023*	FY2024
Operating income	-	155.1
PAT	-1.3	8.9
OPBDIT/OI	NA	10.4%
PAT/OI	NA	5.7%
Total outside liabilities/Tangible net worth (times)	0.0	4.2
Total debt/OPBDIT (times)	0.0	5.1
Interest coverage (times)	NA	3.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs crore; NA: Not applicable

*Not meaningful as the company has started operations from May 24, 2023

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 17, 2024	-	Mar 07, 2023	-
1	Term loans	Long term	86.00	0.0	[ICRA]A (Stable)	-	[ICRA]A (Stable)	-
2	Unallocated limits	Long term	39.00	0.0	[ICRA]A (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Unallocated limits	NA

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*	NA	NA	NA	86.00	[ICRA]A (Stable)
NA	Unallocated limits	NA	NA	NA	39.00	[ICRA]A (Stable)

Source: Company

* yet to be sanctioned

[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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