

November 01, 2019

Bangalore International Airport Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	1813.74	1813.74	[ICRA]AA (Stable); reaffirmed
Fund-based - Working Capital Facilities	50.00	50.00	[ICRA]AA (Stable); reaffirmed
Total	1863.74	1863.74	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account the healthy financial performance of BIAL with robust cash accruals and conservative capital structure with low TOL/TNW of 0.9 times, strong debt coverage indicators with DSCR of 5.6 times and adequate liquidity position of the company as reflected by liquid surplus of Rs. 623.1 crore as on March 31, 2019. The rating continues to derive strength arising from the regulatory framework which allows efficient cost-recovery as part of the tariff from the users, which coupled with BIAL's monopolistic position significantly mitigates concerns on revenues. The variation in passenger traffic arising out of economic cycles, which could lead to temporary traffic de-growth and hence revenues are compensated by truing-up for the shortfall in the next regulatory period, albeit with a lag. This apart, financial support from the Government of Karnataka (GoK) in the form of interest free loans, modest revenue sharing terms with the GoI are also comforting factors. The rating also factors in strong cashflow ring-fencing and the restrictive debt covenants for making any dividend payments/ return on equity. Further, the joint ownership of BIAL by Airports Authority of India (AAI¹, rated [ICRA]AAA(Stable)/A1+) and GoK, presence of AAI and GoK nominees on BIAL's board and other covenants in the concession agreement, shareholders agreement lends comfort.

While reaffirming the rating, ICRA has taken note of the interim tariff order from the Airport Economic Regulatory Authority (AERA) as directed by Telecom Disputes Settlement and Appellate Tribunal (TDSAT) to collect higher user development fee (UDF)² (equivalent to UDF charges in FY2016) during April 16, 2019 – August 15, 2019. BIAL while challenging the tariff order dated August 31, 2018 for the second control period, requested the appellate tribunal to permit higher tariff to plug the shortfall in internal accrual generation towards ongoing capex; subsequently the tribunal permitted higher UDF as a one-time measure which will be factored in at the time of arriving at the tariff for the next control period's net revenue requirement. As a result, as on date BIAL has received Rs. 75 crore of additional UDF which is being set aside in a separate escrow account and deployed towards ongoing capex. The rating continues to take comfort from the

¹ AAI is a Government of India enterprise, occupies a strategic position because of owning and controlling a significant portion of the aviation infrastructure in the country. It is an autonomous body under the purview of the Ministry of Civil Aviation (MoCA) and it is guided in its operations and functions by the AAI Act, 1994.

² UDF rates during interim order: domestic passenger - Rs. 306 and international passenger – Rs. 1226
UDF rates post interim order: domestic passenger - Rs. 139 and international passenger – Rs. 558

implementation of final tariff order by AERA for second control period (FY2017-FY2021) from September 16, 2018. AERA has adopted hybrid till methodology for tariff determination in line with national civil aviation policy-2016 and has also approved capital expenditure of Rs. 10,342.4 crore pertaining to terminal – 2 construction and other expansion works.

The rating, however, remains constrained by the large ongoing capex programme of doubling its existing capacity at a total estimated cost of Rs. 13,352³ crore over FY2017-FY2023 which is being funded through a mix of debt and internal accruals in the ratio of 4:1. BIAL is exposed to moderate execution risks as the debt has been tied up for the entire capex, 70% of equity required for capex has been infused till March 2019 and contracts for approximately 65% of the total hard cost have been awarded so far on fixed cost and time basis. The company's ability to execute the large capex programme within the budgeted costs and timelines would remain critical. The debt repayment pertaining to terminal – 2 expansion is expected to start from FY2024 thereby resulting in substantial moderation in projected debt coverage indicators as compared to current levels. With the addition of sizeable part of the ongoing capex to the regulatory asset base by end of FY2021, the tariff for next control period is expected to witness significant increase. Timely determination of tariff for third control period (FY2022-FY2026) remains important given the expected moderation in debt coverage metrics; any delay could exert pressure on the cash flows. Further, there is a difference of Rs. 1,616.8 crore between AERA approved capex for second control period including 10% allowance and estimated capex as per BIAL. This is expected to be reviewed by AERA based on actual cost incurred along with the justification for incurring the same. Therefore, the ability of the company to get approval for full quantum of capex with zero disallowance will remain critical.

After witnessing a robust traffic growth at a CAGR of 21% during FY2017-FY2019, the passenger traffic has witnessed moderation in current financial year. In 5M FY2020, the y-o-y traffic growth remained subdued at 2.9% and air traffic movement (ATMs) witnessed de-growth of 1.8%. However, in terms of net revenue requirement for the second control period, ICRA does not expect any cashflow mismatch for BIAL on account of slowdown in traffic growth. While the debtors position remain comfortable with debtor days of 16 as on March 31, 2019, any deterioration in credit profile of airlines resulting in elongation of receivable cycle for BIAL would remain a monitorable.

BIAL has undertaken various de-bottlenecking measures undertaken over last three years viz. increased self-check-in kiosks, distribution of flights from peak hour to non – peak hour and automated tray retrieval systems (ATRS) resulting in increase in passenger handling capacity to 26.5 mn. Against this, the throughput in FY2019 stood at 33.3 mn. Despite higher throughput, the airport service quality remained high at 4.91⁴ times as on June 2019. Notwithstanding the further increase in throughput over next few years till the new terminal becomes operational, ICRA expects BIAL to maintain the service quality given its demonstrated track record.

³Out of total estimated capex for T2 and second runway by BIAL, Rs. 2368 crore was incurred during FY2017-FY2019 and remaining Rs. 10,984 crore is expected to be incurred during FY2020-FY2023

⁴ on a scale of 1 to 5 with 5 being the highest

Key rating drivers and their description

Credit strengths

Final tariff order with hybrid till and approved capex programme: AERA has adopted hybrid till methodology for tariff determination with effect from first control period in line with national civil aviation policy-2016 and has also approved capital expenditure of Rs. 10,342.4 crore pertaining to terminal – 2 construction and other expansion works. Further, interim AERA order to collect higher tariff during April 16, 2019 – Aug 15, 2019 has resulted in Rs. 75 crore of additional UDF revenues which is being set aside in a separate escrow account and deployed towards ongoing capex.

Healthy financial performance: BIAL's financial performance continues to remain healthy with robust cash accruals and conservative capital structure with low TOL/TNW of 0.9 times, strong debt coverage indicators with DSCR of 5.6 times and adequate liquidity position of the company as reflected by liquid surplus of Rs. 623.1 crore as on March 31, 2019.

Monopoly position: Being the only airport in Bangalore and major international airport in Karnataka.

Cash flow ring-fencing and support from GoK: The strong cashflow ring-fencing and the restrictive debt covenants for making any dividend payments/ return on equity. Further, the joint ownership of BIAL by AAI and GoK, presence of AAI and GoK nominees on BIAL's board and other covenants in the concession agreement, shareholders agreement lends comfort. BIAL has received financial support from Gok in the form of interest free loans with deferred payment terms. Further, BIAL has received 10-year deferment for the repayment (from 2018 to 2028) of state support loan (of Rs. 332.5 crore) by GoK which would provide additional cushion for debt servicing in second and third control periods.

Credit challenges

BIAL is exposed to moderate execution risks given the large ongoing capex programme: BIAL is in the process of more than doubling its existing capacity at a total estimated cost of Rs. 13,352 crore over FY2017-FY2023 which is being funded through a mix of debt and internal accruals in the ratio of 4:1. BIAL is exposed to moderate execution risks as the debt has been tied up for the entire capex, 70% of equity required for capex has been infused till March 2019 and contracts for approximately 65% of the hard cost have been awarded so far on fixed cost and time basis. The company's ability to execute the large capex programme within the budgeted costs and timelines would be critical.

Suppressed projected debt coverage metrics expected in third control period: Debt repayment pertaining to terminal – 2 construction and other expansion is expected to start from FY2024 thereby resulting in substantial moderation in projected debt coverage indicators as compared to current levels.

Exposure to regulatory risks: With the addition of sizeable part of the ongoing capex to the regulatory asset base by end of FY2021, the tariff for next control period is expected to witness significant increase. Timely determination of tariff for third control period (FY2022-FY2026) remains important given the modest debt coverage metrics; any delay could exert pressure on the cash flows. Further, there is a difference of Rs. 1,616.8 crore between AERA approved capex for second control period including 10% allowance and estimated capex as per BIAL. This is expected to be reviewed by AERA based on actual cost incurred along with the justification for incurring the same. Therefore, the ability of the company to get approval for full quantum of capex without any major disallowance will remain critical.

Revenue generation remains exposed to movements in aviation traffic: As per the tariff determination methodology, any shortfall in aeronautical revenue generation as compared to the levels estimated at the time of tariff fixation is compensated for by way of a true-up, though with a lag. Thus, any shortfall in aeronautical revenues in the medium term remains a credit risk. After witnessing a robust traffic growth at a CAGR of 21% during FY2017-FY2019, the passenger traffic has witnessed moderation in current financial year. In 5M FY2020, the y-o-y traffic growth remained subdued at 2.9% and air traffic movement (ATMs) witnessed de-growth of 1.8%. However, in terms of net revenue requirement for the second control period, ICRA does not expect any cashflow mismatch for BIAL on account of slowdown in traffic growth.

Liquidity position: Adequate

The liquidity position of the company is adequate with unencumbered cash balance of Rs. 583 crore as on March 31, 2019 and undrawn working capital limits of Rs. 50 crore. The repayment obligation for FY2020 is around Rs. 37 crore on long-term debt facilities which can be met through internal accruals. The pending capex to be incurred during FY2020-FY2023 of Rs. 10,984 crore will be funded through debt of Rs. 10,206 crore and internal accruals of Rs. 778 crore. The cash accruals are sufficient to meet the margin for capex and also the debt obligations.

Rating sensitivities

Positive triggers – The rating upgrade will be contingent upon timely completion of the terminal 2 expansion capex, timely implementation of tariff order for the third control period without any major disallowance of capex and significant increase in share of non-aero revenues.

Negative triggers - Negative pressure on BIAL’s rating could arise if any time overrun in achieving COD for the ongoing capex resulting in deferment of return generation on capex and/or disallowance of ongoing capex by more than 5% resulting in lower than expected tariff for third control period or delay in tariff order from the regulator for the third CP.

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 ratings, ICRA has considered the consolidated financials of BIAL. As on March 31, 2019, the company has one subsidiary, which is enlisted in Annexure-2.

About the company

BIAL is a Special Purpose Vehicle held by FIH Mauritius Investments Limited (a Fairfax Company⁵, 54% holding), Siemens Project Ventures GmbH, Germany (20%), Airports Authority of India (AAI) (13%), and Karnataka State Industrial and Infrastructure Development Corporation Limited (KSIIDC) (13%) which was formed to set up a greenfield international airport on a Build-Operate-Transfer (BOT) basis at Devanahalli, near Bangalore. The airport commenced operations on May

⁵ The ultimate parent Fairfax Financial Holdings Limited is rated by Moody’s at Baa3 (Stable).

24, 2008. BIAL has a 30-year concession for the maintenance and operation of the Devanahalli airport, extendable for a further 30 years at BIAL's option. The airport constructed at a total cost of Rs. 2471 crore had an initial handling capacity of 11.5 million passengers per annum in FY2011. In FY2014, BIAL also completed expansion of Terminal 1 with a total cost of Rs. 1547 crore to enhance the passenger handling capacity of the airport to 20 million passengers per annum. BIAL is in the process of increasing its capacity to 45 million passengers per annum by October 2022 at a total cost of Rs. 13,352 crore which will be funded through debt to equity of 4:1 during FY2017 – FY2023.

Key financial indicators (consolidated, audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1561.7	1493.0
PAT (Rs. crore)	800.0	626.4
OPBDIT/OI (%)	70.3%	65.3%
RoCE (%)	24.9%	23.2%
Total Debt/TNW (times)	1.0	0.9
Total Debt/OPBDIT (times)	2.3	2.7
Interest Coverage (times)	6.0	5.8

Source: BIAL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2019	FY2018		FY2017	
					01-November 2019	26-November 2018	28-August 2017	16-June 2017	09-August 2016	12-July 2016
1	Fund-based Term Loan	Long Term	1813.74	1813.74	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based Cash Credit	Long Term	50.00	50.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	November 2016	9.05%	September 2033	1813.74	[ICRA]AA (Stable)
NA	Cash Credit	NA	9.50%	NA	50.00	[ICRA]AA (Stable)

Source: BIAL

Annexure-2: List of companies considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bangalore Airport Hotel Limited	100%	Full Consolidation

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