April 02, 2020

GMR Hyderabad International Airport Limited: Rating placed on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	4200.00	4200.00	[ICRA]AA@; placed on watch with negative implications
Total	**4200.00**	**4200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating has been placed on watch with negative implications following the closure of all airport operations (excluding cargo) in the country because of nationwide lockdown due to Covid-2019. Both domestic and international passenger traffic witnessed substantial de-growth in the run up to the lockdown on account of various visa and travel restrictions imposed by Government of India. Further, due to labor unavailability, the ongoing terminal expansion works are also likely to witness delays. The equity contribution (through internal accruals) for the capex program has been largely met and the pending cost will be met through draw down of debt part of which is sanctioned by Yes Bank. As on date, the documentation for this line of credit is still pending and it remains uncertain thereby exposing the project to funding risk. However, ICRA notes that the capex planned to be incurred in FY2021 can be met through existing bond proceeds[1] and through liquidation of other investments[2] (commercial papers and ICDs). As per the unaudited financials, GHIAL's operating income and EBITDA stood at Rs. 1542.4 crore and Rs. 1070.6 crore respectively in 11MFY2020. GHIAL's liquidity is comfortable with assignable cash balance (excluding bond proceeds, ICDs and investments in commercial papers) of Rs. 628.71 crore as on March 18, 2020 which is adequate to meet its fixed expenses and debt servicing obligations till end of Q1FY2021 with high factor of safety. Further, GHIAL has withdrawn the stay granted by High Court of Hyderabad on the second control period consultation paper paving the way for airports economic regulatory authority of India (AERA) to implement tariff order for residual tenure of second control period. Consequently, AERA has notified the tariff for the balance period of second control period on March 27, 2020 (to be effective from 01-04-2020) wherein the yield per passenger is revised to Rs. 217[3] from Rs. 425 earlier. While ICRA has considered the possibility of tariff implementation in one of the sensitivity scenarios while reaffirming the rating in December 2019, the timing of the tariff order coinciding with a period of sharp decline in traffic is likely to stress GHIAL's cash flows adversely.

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[1] Amounting to Rs. 835 crore as on March 18, 2020.

[2] Mutual Funds, fixed deposits, commercial papers and ICDs given to group entity amounting to Rs. 1549.04 crore as on March 18, 2020.

[3] User development fee for departing domestic passenger is revised to Rs.281 from Rs. 430 earlier and for international departing passenger is revised to Rs. 393 from Rs. 1700 earlier.

ICRA believes that even after restoration of air travel, the ramp-up in traffic would be gradual in case of domestic segment while international segment may take even more time to resume fully. Overall, the revenues for H1FY2021 are likely to witness sharp decline on YoY basis. Also, deterioration in credit profile of airlines is expected to result in elongation of receivable cycle for GHIAL. While ICRA has revised its base case for FY2021; given the dynamic developments and prevailing high level of uncertainty, we will assess the cashflow impact and test the assumptions by end of Q1FY2021 and keep the investors updated.

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 GHIAL'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 Telangana (GoT) 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 GHIAL by Airports Authority of India (AAI[4], rated [ICRA]AAA(Stable)/A1+) and GoT, presence of AAI and GoT nominees on GHIAL's board and other covenants in the concession agreement, shareholders agreement lends comfort.

The rating, however, remains constrained by the large capex programme of GHIAL for more than doubling its existing capacity at a total estimated cost of Rs. 5,830.4[5] crore over FY2018-FY2023 which is being funded through a mix of debt and internal accruals in the ratio of 70:30. The total outlay including contribution towards metro project (Rs. 534.3 crore) and general maintenance capex (Rs. 703 crore) over FY2018-FY2023 is estimated to be Rs. 7067.7 crore. GHIAL is exposed to moderate execution risks. The company's ability to execute the large capex programme within the budgeted costs and timelines would be important. In the light of AERA's normative approach for capex, uncertainty in terms of allowable capex exists; therefore, GHIAL's ability to get the capex approved by AERA will remain critical. Given the significant delays in tariff orders in the past, timely tariff orders from the regulator which adequately compensates for the forex, CGF and prior period entitlement is important.

After witnessing a robust traffic growth at a CAGR of 19% during FY2017-FY2019, the passenger traffic witnessed moderation in growth to 6% in 11MFY2020. The traffic in FY2021 is expected to witness substantial de-growth due to outbreak of COVID-19 and travel restrictions imposed by the Government. Any deterioration in credit profile of airlines resulting in elongation of receivable cycle for GHIAL would remain a monitorable.

The rating is also constrained by funding support to subsidiaries/group companies and treasury investments in credits weaker than that of GHIAL. During November 2019, the company has extended Rs. 200 crore in form of inter-corporate deposits (ICDs) to a weaker group entity GMR Infrastructure Limited to support the temporary cashflow mismatch at the group level. These ICDs are expected to be recovered by May 2020. Also, as on March 18, 2020, Rs. 652.83 crore has

[4] 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.

[5] Out of total estimated capex for terminal expansion by GHIAL, Rs. 929.2 crore was incurred during FY2018-FY2019 and remaining Rs. 4,901.2 crore is expected to be incurred during FY2020-FY2023

been invested in commercial papers (CPs) of weaker credits. Failure to liquidate the treasury investments in a timely manner will be a credit negative. Further, continuous investments in weaker credits (in relation to credit profile of GHIAL) would also be a credit negative.

The passenger traffic at GHIAL has surpassed the existing capacity of 12 mn passengers with reported passenger traffic of 21.4 mn in FY2019 and expected to cross 22 mn in FY2020. GHIAL has undertaken various de-bottlenecking measures over last three years like construction of interim international departure terminal building to carry pre-checks for international departures which will cater to 3 mn passengers, increased self-check-in kiosks, re-orientation of security checks etc., resulting in increase in passenger handling capacity to 18 mn. Despite higher throughput, the airport service quality remained high at 4.9[6] times as on September 2019. Notwithstanding the further increase in throughput over next few years till the new terminal becomes operational, ICRA expects GHIAL to maintain the service quality given its demonstrated track record.

Key rating drivers and their description

Credit strengths

Healthy financial performance: GHIAL's financial performance continued to remain healthy with adequate debt coverage indicators and healthy liquidity position as reflected by assignable cash balance (excluding bond proceeds, ICDs and investments in commercial papers) of Rs. 628.71 crore as on March 18, 2020.

Monopoly position: Being the only airport in Hyderabad city and major international airport for the states of Telangana & Andhra Pradesh.

C**ash flow ring-fencing and support from GoTS:** The strong cashflow ring-fencing and the restrictive debt covenants for making any dividend payments/ return on equity. Further, the joint ownership of GHIAL by AAI and GoT, presence of AAI and GoT nominees on GHIAL's board and other covenants in the concession agreement, shareholders agreement lends comfort. GHIAL has received financial support from the GoTS in the form of development grant and interest free loans with deferred payment terms, modest revenue-sharing terms with the GoI are also comforting factors.

Credit challenges

GHIAL is exposed to moderate execution risks given the large ongoing capex programme: GHIAL is in the process of more than doubling its existing capacity at a total estimated cost of Rs. 6,364.7 crore over FY2018-FY2023 (including contribution towards metro project) which is proposed to be funded through a mix of debt and internal accruals in the ratio of 70:30. The company's ability to execute the large capex programme within the budgeted costs and timelines would be critical.

Exposure to regulatory risks: Timely determination of tariff for third control period (FY2022-FY2026) remains important given the low applicable tariffs for FY2021; any delay would exert pressure on the cash flows. Further, the ability of the company to get approval for full quantum of capex without any major disallowance will remain critical.

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[6] on a scale of 1 to 5 with 5 being the highest

Funding support to group companies and investments in weaker credits: During November 2019, the company has extended Rs. 200 crore in form of inter-corporate deposits (ICDs) to a weaker group entity GMR Infrastructure Limited to support the temporary cashflow mismatch at the group level. These ICDs are expected to be recovered by May 2020. Also, as on March 18, 2020, Rs. 652.83 crore has been invested in commercial papers (CPs) of weaker credits. Failure to liquidate the treasury investments in a timely manner will be a credit negative. Further, continuous investments in weaker credits (in relation to credit profile of GHIAL) would also be a credit negative.

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.

Liquidity position: Adequate

The liquidity position of the company is adequate with assignable cash balance (excluding bond proceeds, ICDs and investments in commercial papers) of Rs. 628.71 crore[7] as on March 18, 2020. The company does not have any external principal repayment obligations in FY2021. The pending capex to be incurred will be funded through undrawn portion of project debt and encumbered balances cash earmarked for capex.

Rating sensitivities

Positive triggers – Stable outlook may be restored if the traffic normalises post the lockdown at a faster pace and the overall impact of Covid-2019 on cashflows is not significant. Further, timely completion of the 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 will remain key monitorable.

Negative triggers - Negative pressure on GHIAL's rating could arise if lockdown gets significantly extended or the ramp up in traffic post lockdown is significantly lower than ICRA's revised base case thereby adversely impacting the cash flows of GHIAL. The rating may also be downgraded if there is any time/cost overrun in achieving COD for the ongoing capex resulting in deferment of return generation on capex and/or higher than expected support to subsidiaries. Also, any incremental support to group entities will be a credit negative.

[7] As on March 18, 2020, bond proceeds (parked for capex) amount to Rs. 835 crore, Rs. 652.83 crore is invested in commercial papers, Rs. 200 crore is extended as ICDs to a group entity and Rs. 67.50 is restricted cash; remaining Rs. 628.71 crore is assignable.

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 GHIAL. As on March 31, 2019, the company has six subsidiaries, which is 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 Government of Telangana State (13%). GHIAL has a 30-year concession for the development, maintenance and operation of the Shamshabad airport, which is extendable for 30 years at its option and another 30 years on mutual agreement. The airport was constructed at a total cost of Rs. 2920 crore with an initial handling capacity of 12 million passengers per annum. The master plan envisages a terminal capacity of 40 million passengers per annum, by the end of the 30-year term of the concession agreement.

Key financial indicators (consolidated, audited)

	FY2018 Audited	FY2019 Audited
Operating Income (Rs. crore)	1593.5	1876.1
PAT (Rs. crore)	576.4	726.6
OPBDIT/OI (%)	59.8%	57.5%
RoCE (%)	26.4%	27.1%
Total Outside Liabilities/Tangible Net Worth (times)	5.3	3.4
Total Debt/OPBDIT (times)	3.5	3.3
Interest Coverage (times)	3.7	4.3
DSCR	2.6	3.7

Source: GHIAL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					April 2, 2020	December 20, 2019	February 4, 2019	December 28, 2018	July 5, 2017
1	Term Loan	Long Term	4200.0	4200.0	[ICRA]AA@	[ICRA]AA(Stable)	[ICRA]AA (Stable); Assigned	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)
2	Cash Credit	Long Term	0.0	0.0	-	-		[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)
3	Non-fund Based Limits	Short Term	0.0	0.0	-	-		[ICRA]A1+; Withdrawn	[ICRA]A1+
4	Unallocated Limits	Long Term	0.0	0.0	-	-		[ICRA]AA (Stable); Withdrawn	[ICRA]AA (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	December 2018	9.8%	June 2035	4200.00	[ICRA]AA@; placed on watch with negative implications

Source: GHIAL

Annexure-2: List of companies where limited consolidation has been used to arrive at the ratings

Company Name	Ownership	Consolidation Approach
GMR Hyderabad Aerotropolis Limited	100%	Full Consolidation
GMR Hyderabad Aviation SEZ Limited	100%	Full Consolidation
GMR Air Cargo and Aerospace Engineering Limited	100%	Full Consolidation
GMR Hospitality and Retail Limited	100%	Full Consolidation
GMR Logistics Park Private Limited	100%	Full Consolidation
GMR Hyderabad Airport Power Distribution Limited	100%	Full Consolidation

ANALYST CONTACTS

Shubham Jain
+91 124 4545306
shubhamj@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Shiffali Garg
+91 124 4545 868
shiffali.garg@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 3047 0005
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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999