

October 05, 2020

## **Celebi Delhi Cargo Terminal Management India Private Limited: Rating reaffirmed; removed from rating watch with negative implications and Stable outlook assigned**

### **Summary of rating action**

<b>Instrument*</b>	<b>Previous Rated Amount (Rs. crore)</b>	<b>Current Rated Amount (Rs. crore)</b>	<b>Rating Action</b>
Fund based - Working Capital Facilities	10.00	10.00	[ICRA]A (stable); reaffirmed and removed from rating watch with negative implications; Stable outlook assigned
Fund based- Term Loans	120.00	120.00	[ICRA]A (stable); reaffirmed and removed from rating watch with negative implications; Stable outlook assigned
<b>Total</b>	<b>130.00</b>	<b>130.00</b>	

*\*Instrument details are provided in Annexure-1*

### **Rationale**

The rating action factors in the healthy financial performance of Celebi Delhi Cargo Terminal Management India Private Limited (Celebi) in FY2020 and Q1 FY2021 and expectations of sustained stable performance in FY2021. ICRA expects the company to maintain comfortable profitability and credit metrics, supported by the steady ramp up in cargo traffic at Delhi International Airport Limited (DIAL; rated [ICRA] AA-/ Negative/ [ICRA] A1+).

The ratings were placed under watch with negative implications, factoring in the expectation of a decline in cargo volumes in the backdrop of the pan-India lockdown and suspension of commercial air traffic on March 24, 2020. While the domestic and international cargo volumes contracted sharply in April 2020, there was a gradual recovery in cargo traffic in the subsequent months with increased operations of international freighter aircraft for import of cargo, even though domestic cargo volumes remained sluggish. Moreover, the company's revenues and profits, especially in Q1 FY2021, were supported by higher demurrage income on account of restrictions on cargo movement through road network, besides the impact of a scheduled tariff hike. Additionally, the management has taken various cost-control measures that would support Celebi's operating profits and cash accruals in FY2021.

The rating reaffirmation continues to factor in the established position of Celebi as a cargo handling service provider at Delhi Airport, the busiest airport in terms of cargo handled in the country (29% of the total cargo tonnage handled in FY2019 and FY2020). Notwithstanding the headwinds faced by the aviation industry because of subdued aircraft traffic amid ongoing pandemic, the company has been able to maintain its market position by attracting international freighters even as it maintains a healthy market position in domestic operations. Celebi's financial profile is characterised by the steady improvement in its operating margins to 18% in FY2020 from 13.6% in FY2019, supported by tariff hikes as well as operational efficiencies, even though cargo volumes contracted. Moreover, stable profit, cash generation and limited borrowings have allowed the company to maintain strong credit metrics, as reflected in total debt/OPBITDA of 0.8x and interest cover of 9x in FY2020 against 1.4x and 5.6x times, respectively in the previous fiscal year. Further, the rating continues to draw comfort from the long track record of Celebi Hava Servisi AS (CHS)—the primary shareholder in Celebi with a 74% stake—in providing air cargo handling services at many airports across different countries, besides 26% equity participation by DIAL.

The ratings are, however, constrained by the inherent vulnerability of Celebi's business operations to cargo traffic at the Delhi airport, which in turn, remains susceptible to adverse developments in the Indian or global economy. The company's cargo volumes declined in FY2019 due to the halt in Jet Airways' operations and geopolitical issues with Pakistan, resulting in route diversion. The company's cargo volumes further moderated in FY2020 due to muted global trade coupled with lockdown in March 2020. The cargo volumes remained subdued in Q1 FY2021 with commercial traffic suspended till May 25, 2020, even as increased freighter traffic catering to international trade supported volumes. The cargo volumes are expected to gradually pick up in FY2022–FY2023. ICRA notes that any prolonged slowdown in cargo traffic at the Delhi airport that impacts Celebi's business operations can materially impact revenues, profits and cash generation and hence, would be a key rating sensitivity. ICRA has also considered the loans and advances to the GMR Group companies in FY2020 and any further increase in such exposures would remain a key monitorable.

ICRA further notes that the company had sought tranche I moratorium under the RBI circular, with deferment in principal payment. However, Celebi has paid interest during the moratorium period in June 2020 and does not intend to seek any further moratorium/restructuring.

## Key rating drivers

### Credit strengths

**Established position as cargo management operator at Delhi airport since 2009** – Celebi has been providing cargo-handling services at the Delhi airport under a 25-year concession agreement with DIAL since November 2009. Air cargo at DIAL is largely handled by two players—Celebi, and Delhi Cargo Service Center Private Limited (DCSC). The Delhi airport is the busiest airport in the country in terms of cargo volumes, accounting for around 29% of the overall cargo tonnage, followed by Mumbai Airport at 26% and Bangalore at 11% of overall cargo tonnage in FY2020.

**Long track record of promoters in cargo handling industry** – Celebi's primary shareholder, CHS, has an established track record of operations in the industry. The company has been providing cargo handling and ground handling services at various airports in Turkey since 1958 and is also present through joint ventures (JVs) at airports in other countries, including Hungary and Germany.

**Comfortable financial risk profile** – Celebi has displayed steady improvement in its financial risk profile over the last three years, with consistent growth in revenues and accruals, improvement in capital structure and strengthening of debt coverage metrics. Notwithstanding the decline in cargo handled in the last two years, tariff hikes approved by Airport Economic Regulatory Authority (AERA) as well as stable market position has driven steady expansion in operating profits and cash accruals as well as allowed strengthening of credit metrics. Further, the company has been able to maintain its market position by attracting international freighters alongside continuing to maintain its market share in domestic operations. It has also taken various cost-control measures to support its operating profits and cash accruals in FY2021.

### Credit challenges

**Vulnerability of operations to fluctuations in cargo volumes at Delhi airport** – Celebi's operations remain susceptible to fluctuations in cargo volumes at the Delhi airport as it derives ~90% of its revenues by providing cargo handling services at the airport and ~80% of its revenues from international cargo handling. The cargo volumes are in turn largely dependent on global economic conditions and any slowdown in global trade may adversely impact the operations of the company. The Covid-19 pandemic resulted in sharp contraction of domestic and international cargo volumes during April–May 2020 with commercial traffic suspended till May 25, 2020. However, there has been a gradual recovery in cargo traffic in the subsequent months with increased operations of international freighter flights for import cargo even as domestic cargo volumes remain low. The cargo volumes are expected to gradually pick up in FY2022–FY2023.

**Potential risk of client loss and pricing pressure due to competition** – Celebi faces direct competition from DCSC, the other cargo-management facility operator at the Delhi airport. This exposes it to the risk of migration of some of its clients to DCSC, although the company has been able to retain a substantial volume share in cargo handling till date. Further, competitive pressures may impact the tariffs charged by Celebi from its customers, notwithstanding the tariff hikes approved by AERA.

**Extension of loans and advances, dividends moderate liquidity; though it remains comfortable** – In FY2020, Celebi advanced Rs. 59 crore to the GMR Group companies; the same is expected to be extended even in FY2021, given the Group's funding requirements. Further, the company has proposed an interim dividend of Rs. 28 crore to its shareholders in FY2021. Notwithstanding this, Celebi continues to maintain Rs. 113.3 crore as cash and liquid investments as of June 30, 2020 and unutilised drawing power of Rs. 10.0 crore.

### Liquidity position: Adequate

Celebi's liquidity remains **adequate**. Notwithstanding the Rs. 59-crore loan advances to the GMR Group in FY2020 and proposed interim dividend of Rs. 28 crore in FY2021, the company continues to maintain Rs. 113.3 crore as cash and liquid investments as of June 30, 2020 and unutilised drawing power of Rs. 10.0 crore, indicating robust liquidity position. Further, with capex plans limited to Rs. 10 crore in FY2021 and moderate repayments of Rs. 10.8 crore and interim dividends of Rs. 28 crore in FY2021, Celebi is expected to maintain an adequate liquidity position despite the challenging business environment.

### Rating sensitivities

**Positive triggers:** Significant and sustained ramp up in cargo traffic that aids in sustained strong growth in operating profits and cash accruals, allowing the company to maintain sustained healthy debt coverage metrics.

**Negative triggers:** The ratings could be downgraded if the recovery in cargo volumes is slower than expected, adversely impacting Celebi's revenues and profitability metrics such that its coverage metrics deteriorate sharply or the liquidity buffers deplete. Further, significant upstreaming of cash flows to the parent group (through dividends and/or loans and advances) that moderate Celebi's liquidity position could create negative pressure on the rating. Moreover, any unanticipated large debt-funded capex that impacts the coverage metrics of Celebi could lead to a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

### About the company

Celebi, incorporated in June 2009, is a JV between CHS (Turkey) and DIAL. CHS holds a 74% stake in the JV, while DIAL holds the remaining 26%. Celebi was incorporated by CHS as a special purpose vehicle (SPV) for implementing a 25-year concession agreement with DIAL (dated August 24, 2009) to operate, maintain and upgrade the cargo terminal at the Delhi airport. Celebi provides domestic and international cargo handling and warehousing services to various airlines as well as to carrying and forwarding (C&F) agents at the airport.

For FY2020, Celebi reported profit after tax (PAT) of Rs. 39.6 crore on an operating income (OI) of Rs. 508.7 crore against PAT of Rs. 24.7 crore on an OI of Rs. 469.0 crore in FY2019.

### Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	469.0	508.7
PAT (Rs. crore)	24.7	39.6
OPBDIT/ OI (%)	13.6%	18.0%
RoCE (%)	17.0%	26.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.87	0.76
Total Debt/OPBDITA (times)	1.41	0.82
Interest Coverage (times)	5.56	8.99
DSCR	2.49	3.53

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020	FY2019	FY2018
					05 Oct 2020	14 Apr 2020	30 Aug 2019	20 Jul 2018	04 Oct 2017
1	Fund based-Working Capital Facilities	Long Term	10.0	-	[ICRA]A (Stable)	[ICRA]A@	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)
2	Fund based-Term Loans	Long Term	120.0	65.96	[ICRA]A(Stable)	[ICRA]A@	[ICRA]A (Stable)	[ICRA]A (Positive)	[ICRA]A- (Stable)

\*As on March 31, 2020

### 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](http://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	Fund based- Working Capital Facilities	-	-	-	10.00	[ICRA]A (Stable)
NA	Fund based- Term Loans	May 2017	-	March 2026	120.00	[ICRA]A (Stable)

Source: Celebi

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