

October 10, 2022

Cochin International Airport Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based term loans	776.68	639.69	[ICRA]A+ reaffirmed; outlook revised to Positive from Stable
Fund-based working capital limit	125.00	185.00	[ICRA]A+ reaffirmed; outlook revised to Positive from Stable
Total	901.68	824.69	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation and revision in outlook to Positive factors in the healthy recovery in passenger traffic at Cochin International Airport Limited (CIAL) in 5M FY2023. The passenger traffic is expected to recover to 92% of the pre-Covid level in FY2023. Further, the revenues in FY2023 are likely to surpass the pre-Covid level on the back of levy of user development fee (UDF) from April 1, 2022 and recovery in non-aero revenues (predominantly duty free). The under-recovery of revenues in second control period (CP2 – FY2017 to FY2021) because of the Covid-19 pandemic, along with the proposed capex programme of Rs. 1,500 crore towards expansion of T3 terminal, cargo complex, construction of airport hotels, etc., are factored in the tariff determination for the third control period (CP3, FY2022-FY2026), resulting in an increase in applicable tariffs for CIAL starting from April 1, 2022 with the implementation of UDF. CIAL is expected to report 70-72% growth in operating income (OI) in FY2023. The rating also factors in its strong debt coverage metrics.

The rating remains constrained by the stiff competition from four international airports situated within 270 km radius from CIAL, viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. Any shift in traffic is expected to result in lower revenues and profitability. However, CIAL is well positioned in of cost competitiveness (least burden on passengers despite levy in UDF w.e.f. April 2022), advantageous geographical location with close proximity to major tourist destinations and Cochin being the major business hub in Kerala. Unlike the other private airports which are either governed by the Operations, Maintenance and Development Agreement (OMDA) or Concession Agreement (CA), there is no concession awarded by the Government of India (GoI) in the case of CIAL. In absence of a CA, the rights, obligations, and the concession period are not defined for CIAL. Further, the GoI is not bound by any non-compete/ right of first refusal clauses, should there be any proposal to develop new international airports in the region. This is mitigated to an extent by the Government of Kerala's shareholding of around 32.4%, along with long operational track record and competitive tariff at CIAL.

The Positive outlook on the rating reflects ICRA's opinion that CIAL's credit profile will be supported by healthy ramp-up of passenger traffic and revenues crossing the pre-Covid level in FY2023, along with its strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

Long operational track record – The company has a strong operational track record of over two decades with lowest capital cost per sqm with least burden (i.e., UDF levied) on passengers among all the major airports, which reduces the regulatory risk to a large extent. While it reported under-recovery of Rs. 286 crore in the previous control period on account of the pandemic, along with the expected capex programme of Rs. 1,500 crore for CP3, tariffs are to increase from April 1, 2022 as per the tariff

order of CP3. As a part of it, CIAL implemented UDF component of Rs. 180 per passenger and Rs. 400 per passenger for domestic and international passengers, respectively. Compared to the international airports within the vicinity, CIAL is well positioned in terms of cost competitiveness (least UDF charges on passengers).

Revenues and profitability levels to surpass pre-Covid level in FY2023 – Passenger traffic witnessed strong rebound post the dip in traffic in Q4 FY2022 due to the impact of Omicron. The international traffic at CIAL has reached the pre-Covid level to 98% in August 2022 and domestic traffic recovered to 78% of the pre-Covid level and expecting the total traffic to recover by FY2024. Given the recovery in the traffic and implementation of new tariff charges, the total revenue and profit are expected to cross the pre-Covid level by FY2023.

Strong debt coverage metrics – With significant increase in revenues and operating profit in FY2022, the coverage indicators improved in FY2022 with interest coverage of 4.1 times (PY: 0.8 times) and DSCR of 1.8 times (PY: 0.6 times). A further improvement in the projected coverage metrics is likely owing to the ramp-up in traffic and increase in tariff from April 1, 2022.

Credit challenges

Stiff competition from other international airports in the vicinity – CIAL has four international airports situated within 270 km radius from CIAL viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. Any shift in traffic is expected to result in lower revenues and profitability. However, CIAL is well positioned in terms of cost competitiveness (least burden on passengers), advantageous geographical location in proximity to major tourist destinations and Cochin being the major business hub in Kerala.

Lack of concession agreement – In the absence of a concession agreement (CA), the rights, obligations and the concession period are not defined for CIAL. Further, the GoI is not bound by any non-compete/right of first refusal clauses should there be any proposal to develop new international airports in the region. However, comfort can be taken from the Government of Kerala's shareholding of around 32.42%, along with the long operational track record.

Liquidity position: Adequate

The company's liquidity position is adequate, with unencumbered cash of Rs. 91.8 crore as on March 31, 2022 and cushion of Rs. 185 crore in working capital limits. It has debt repayment obligation of Rs. 27.6 crore in FY2023, which can be met through its estimated cash flow from operations. The capex for FY2023 is estimated at Rs. 363 crore, which would be funded by undrawn term loans of Rs. 222 crore and internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade CIAL's rating if there is a sustained growth in passenger traffic along with improvement in non-aero revenues and profitability resulting in improvement in debt coverage metrics.

Negative factors – Pressure on CIAL's rating could arise if the ramp-up in traffic and/or non-aero revenues are lower than ICRA's base case assumptions, which adversely impacts the cash flows. The rating may be downgraded if there is loss of market share to competing airports in the region, on a sustained basis, and/or larger-than-anticipated debt-funded capex.

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 rating, ICRA has considered the consolidated financials of CIAL. As on March 31, 2022, the company had four subsidiaries, which are enlisted in Annexure II.

About the company

Cochin International Airport Limited (CIAL) was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from the airport users as well as the public, Non-Resident Indians (NRIs), the Government of Kerala (GoK) and the airport service providers. The Chief Minister (CM) of Kerala is the chairman of the company. CIAL was incorporated on March 30, 1994 as a public limited company and achieved commercial operations in June 1999. To cater to the high traffic demand, CIAL constructed a new international terminal, which was inaugurated in March 2017 and the total passenger handling capacity per annum increased to 20 million. The Government of Kerala (GoK) is the major shareholder in CIAL with 32.4% stake.

Key financial indicators

CIAL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	267.6	502.3
PAT (Rs. crore)	-92.9	35.0
OPBDIT/OI (%)	16.9%	45.2%
PAT/OI (%)	-34.7%	7.0%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	16.6	3.0
Interest coverage (times)	0.8	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Oct-10-2022	Sep-7-2021	Sep-4-2020	Apr-2-2020	Feb - 27- 2020
1	Fund-based - Term loans	Long-term	639.69	554.67	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]AA-@, placed on Watch with Negative Implications	[ICRA]AA- (Stable)
2	Fund-based- Working capital	Long-term	185	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Term loans	Simple
Fund-based- Working capital limit	Simple

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, is available on ICRA's website: www.icra.in

Annexure I: Instrument details

Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Term loan	March 2015	7.8%	March 2028	639.69	[ICRA]A+ (Positive)
NA	Long-term – Fund-based – Working capital limit	-	7.5%	-	185.00	[ICRA]A+ (Positive)

Source: CIAL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	HIL Ownership	Consolidation Approach
Cochin International Aviation Services Limited	99.99%	Full Consolidation
Air Kerala International Services Limited	99.99%	Full Consolidation
CIAL Infrastructures Limited	99.99%	Full Consolidation
CIAL Duty free and Retail Services Limited	99.90%	Full Consolidation

Source: CIAL

ANALYST CONTACTS

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

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.co.in

Vamshi Kinnera
+91 40 4067 6520
vamshi.kinnera@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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