

March 27, 2017

## Delhi Aviation Fuel Facility Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loans	220.0	Upgraded to [ICRA]AA-(Stable) from [ICRA]A+(Stable)

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has upgraded the long-term rating to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus) for Rs. 220 crore<sup>1</sup> term loan of Delhi Aviation Fuel Facility Private Limited (DAFFPL)<sup>†</sup>. The outlook on the rating is Stable

### Rationale

The rating upgrade takes into consideration healthy revenue growth of DAFFPL in 9MFY2017 driven by around 10% yoy growth in fuel offtake given the overall growth in aircraft traffic at Delhi Airport. Further the rating factors in the track record of continuation of the prevailing tariff of Rs. 755/kl. The rating also continues to factor in the strong financial profile enjoyed by the company with healthy operating margins and net margins. Further healthy internal accrual generation coupled with scheduled debt repayment has led to gradual improvement in debt coverage metrics. Its gearing has improved to 0.4 times as on December 31, 2016 from 0.5 times as on March 31, 2016 and its interest coverage has improved to 8.7 times in 9MFY2017 from 7.5 times in FY2016 and its Debt/OPBDITA has improved from 1.2 times to 1.1 times during the same period. Moreover the rating continues to derive strength from low business risks of its core business of providing fuel facilities at the Delhi airport, and strong promoter profile of the company<sup>2</sup> along with shareholding by the airport operator Delhi International Airport Private Ltd. (DIAL).

However, the rating of the company is constrained by exposure to regulatory risk with respect to tariff determination as the current tariff is in force till March 2017 after which the tariff for future years is to be decided by the Airports Economic Regulatory Authority (AERA); and sensitivity of DAFFPL's cash flows to fluctuation in fuel throughput volumes which in turn is exposed to slowdown in aircraft traffic movement. The rating also continues to factor in the cash outflows in the form of dividend payouts.

Going forward, any adverse tariff order by the regulator would be a key rating sensitivity along with cash outflows related to dividend and security deposits payouts, and trends of throughput volume.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> The shareholding pattern is: Indian Oil Corporation Ltd. - 37%, Bharat Petroleum Corporation Ltd. - 37% and Delhi International Airport Pvt. Ltd. - 26%

## **Key rating drivers**

### **Credit Strengths**

- Strong promoter profile – 37% shareholding each, is held by Indian Oil Corporation Ltd. (IOCL) (rated [ICRA]AAA(Stable)/[ICRA]A1+), and Bharat Petroleum Corporation Ltd. (BPCL). Delhi International Airport Private Ltd. (DIAL) (rated [ICRA]AA-(Stable)/[ICRA]A1+) which is the airport operator, holds 26% stake, thereby mitigating the operations risks for DAFFPL. IOCL and BPCL are also the key users of the facility thereby reducing business risk.
- Competitive advantage on account of being the sole service provider of fuel facility at the Delhi airport.
- Robust internal accrual generation with infrastructure charges @ Rs. 755/kl. Going forward as well, the internal accrual generation is expected to be robust if infrastructure charges continue at Rs. 755/kl, leading to robust debt coverage indicators.

### **Credit Weakness**

- Regulatory risks over future tariff determination by the Airport Economic Regulatory Authority (AERA)
- Vulnerability of revenue to aircraft traffic at the airport. Any decline in aircraft traffic at Delhi airport may result in decline in volume of fuel off-take leading to decline in company's revenues and impacting its profitability
- Consistent cash outflows in the form of regular dividend payout and additional security deposit to DIAL

## **Description of key rating drivers highlighted above:**

DAFFPL has a strong promoter profile with IOCL and BPCL holding 37% stake each and remaining 26% held by the airport operator i.e. DIAL. IOCL and BPCL have high financial flexibility, sizeable sovereign ownership and occupy strategically important position in the Indian energy sector. Moreover, these companies are the key eventual customers of the fuel facility at the Delhi Airport though the transactions are carried out at arm's length prices. In addition DIAL's status as an airport operator and its shareholding in DAFFPL mitigates the operations risks for DAFFPL.

The revenues of DAFFPL primarily comprise the infrastructure charges which are levied per kiloliter (kl) of aviation turbine fuel (ATF) which is dispensed at the Delhi airport. Thus, the revenue generation is directly dependent on the aircraft traffic level at the airport. The company enjoys a significant competitive advantage, as it is the sole concessionaire to operate the fuel facilities at the airport. The total aircraft traffic has been on overall rising trend since FY2001. However any adverse movement in aircraft traffic may lead to lower fuel offtake and hence lower revenues for the company.

The tariff charged by DAFFPL is governed by AERA exposing the company to regulatory risk. The AERA, vide its order dated September 11, 2012 (issued on October 22, 2012) approved the infrastructure charge to be levied at Rs. 755/kl for the first regulatory control period (April 1, 2011 to March 31, 2016). Thereafter AERA, vide its subsequent orders extended the levy of existing tariff till March 31, 2017. Going forward the revenue generation and profitability of the company would depend on the tariff orders passed by AERA.

Over last few years company has reported healthy revenue growth and strong internal accrual generation which company has distributed by way of dividends. Further company is required to keep security deposit which is updated at regular intervals depending on the fuel offtake at the airport. Consequently company has witnessed sizeable cash outflows over last few years towards dividend payout and security deposit.

**Analytical approach:**

Not Applicable

**Links to applicable Criteria**

Corporate Credit Ratings: A Note on Methodology

**About the Company:**

Delhi Aviation Fuel Facility Pvt. Ltd. (DAFFPL) is promoted by Indian Oil Corporation Ltd. (IOCL, 37% stake), Bharat Petroleum Corporation Ltd. (BPCL, 37% stake) and Delhi International Airport Pvt. Ltd. (DIAL, 26% stake) to develop and maintain the aviation fuel facilities at Terminal 3 (T3), cargo terminal and the earlier Terminal 2 (T2) at the Indira Gandhi International Airport at Delhi. The concession has been granted by DIAL to DAFFPL for a period of 25 years starting from July 28, 2010, when T3 became operational. Aviation fuel facility comprises the infrastructure used for supply of Aviation Turbine Fuel (ATF) to the air carriers at the airport. Indian Oil Skytanking Ltd. (IOSL) is the Operator of the fuel facility.

The Infrastructure Charge of DAFFPL for use of the facility is subject to regulation by the AERA. The AERA, vide its order dated September 11, 2012 (issued on October 22, 2012) approved the infrastructure charge to be levied at Rs. 755/kl for the first regulatory control period (April 1, 2011 to March 31, 2016). Thereafter AERA, vide its subsequent orders extended the levy of existing tariff till March 31, 2017.

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History for last three years:**
**Table: Rating History**

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Term loans	Long term	220.0	Mar 2017 [ICRA]AA- (Stable)	Oct 2016 [ICRA]A+ (Stable)	Sep 2015 [ICRA]A+ (Stable)	Sep 2014 ICRA]A (Stable)	Sep 2013 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](http://www.icra.in)

**Annexure-1  
Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loans	Jul 2010	8.6%	June 2022	220.0	[ICRA]A+ (Stable)

Source: Delhi Aviation Fuel Facility Limited

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