

August 28, 2017

Bangalore International Airport Limited

Instrument	Amount (Rs. crore)	Rating Action
Term loans	1813.74	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)
Cash credit limits	50.00	[ICRA]AA (Stable); Upgraded from [ICRA]AA- (Stable)

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 1813.74 crore term loan facilities and Rs. 50 crore cash credit limits of Bangalore International Airport Limited (BIAL)^{1†} to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade reflects the expected optimisation in the total capex outlay after the change in management at BIAL with the new investor – Fairfax taking control of the asset in July, 2017 and the management’s intent to finalise the terminal building capex only after receiving sufficient clarity on the extent of quantum of capex that would be approved by AERA. The rating takes into account the robust growth of 18% in operating income during FY2017 on account of healthy growth in traffic (21% in passenger traffic and 16% in air traffic movement (ATM)), and strong liquidity of the company as reflected by liquid surplus of Rs. 513.16 crore as on March 31, 2017. The traffic growth at BIAL has been robust over last four years both in terms of passengers and ATM - passenger traffic grew at a CAGR of 17.5% during FY2013-FY2017 to 22.9 mn and ATMs grew at a CAGR of 15% to 177,000 during the period. Further, the rating factors in the refinancing of long term loans during Q3FY2017 which has elongated the debt maturity profile that will allow the internal accrual generation to support the planned capex, while also resulting in healthy projected coverage indicators over the medium term. The rating favorably factors in the policy directive from Ministry of Civil Aviation (MoCA) which recommended hybrid till (as per National Civil Aviation Policy, 2016 (NCAP-2016)) for future tariff determination at all airports. However, the tariff for the current control period (FY2017-FY2021) is yet to be determined and till such time, the current UDF rates, allowed on ad-hoc basis, apply.

The rating takes into account the strengths 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 in the form of interest free loans with deferred payment terms, modest revenue sharing terms with the GoI are also comforting factors.

^{1†} For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

The rating is however constrained by the substantial capex requirements for more than doubling its existing capacity of the airport. In the light of Airport Economic Regulatory Authority's (AERA) normative approach for capex, uncertainty remains with regard to the allowable capex. However, ICRA notes that AERA is open to review of normative approach for capex as reflected by the appointment of a consultant by AERA to vet BIAL's capex programme. For BIAL, total capex for the second terminal (T2) expansion including second runway was earlier estimated at Rs. 12,200 crore over FY2018-FY2021 which is proposed to be funded through a mix of debt and internal accruals in 3:1 ratio. Fairfax is in the process of revisiting the capex program which is expected to result in optimisation in the total capex outlay. The capex related to second runway is estimated to be around Rs. 2,300 crore for which the cost per sqm is close to the normative rate with a nominal difference and therefore, the company intends to start the runway related work by Q3, FY2018. BIAL's management intends to finalise the terminal building capex only after receiving sufficient clarity on the extent of quantum of capex that would be approved by AERA.

The T2 expansion is expected to be completed by end of second control period; the full impact of the capex on user development fee (UDF) will be visible from third control period starting FY2022. Till such time, the company would witness elevation in debt levels and correspondingly higher gearing. BIAL's ability to execute the large capex program within the budgeted costs and timelines and get the same approved by AERA for tariff determination would be critical. ICRA notes that BIAL's current passenger throughput has exceeded the terminal capacity leading to capacity constraints during peak hours. This could become a socio-political issue. However, BIAL is working on terminal improvement process with an estimated cost of around Rs. 170 crore towards setting up more check-in counters, security checks etc. which will be funded through internal accruals.

Going forward, passenger traffic growth rates and improvement in non-aero revenue streams will drive BIAL's cash accruals. In the near term, higher than anticipated reduction in UDF at the time of final tariff determination for second control period would be a credit negative. In the long term, the ability of the company to execute the proposed capex program within budgeted costs and timelines and get the same approved by AERA for tariff determination will be a key rating sensitivity.

Key rating drivers

Credit strengths

- Favourable policy directive from the Ministry of Civil Aviation (MoCA): In this context, ICRA views AERA's order, dated January 12, 2017 in aligning the regulatory till approach with the NCAP-2016 as a positive development. Under hybrid till, 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. Shift from single to hybrid till is expected to improve cash accruals
- Robust growth in traffic: The growth in traffic both in terms of passenger traffic and air traffic movement has been robust over the last five years. Passenger traffic grew at a CAGR of 17.5% during FY2013–FY2017 to 22.9 million and ATMs grew at a CAGR of 15% to 177,000 during the period
- Healthy financial performance: BIAL's financial performance continued to remain healthy with robust cash accruals and conservative capital structure. Further, refinancing of long term loans during Q3FY2017 with elongated debt maturity profile results in healthy projected coverage indicators over the medium term
- Monopoly position: Being the only airport in Bangalore and major international airport in Karnataka
- Financial support received from Government of Karnataka (GoK) in the form of interest free loans with deferred payment terms has led to a conservative capital structure

Credit challenges

- **Large capex programme:** BIAL is in the process of more than doubling its existing capacity at a total estimated cost of Rs. 12,200 crore over FY2018–FY2021, which is proposed to be funded through a mix of debt and internal accruals in the ratio of 3:1. The company's ability to execute the large capex programme within the budgeted costs and timelines would be critical
- Timely tariff orders from the regulator and ability of the company to get the capex approved by AERA will remain critical
- **Uncertainty in terms of allowable capex exists:** In the light of AERA's normative approach for capex², uncertainty in terms of allowable capex exists. However, BIAL's management intends to finalise the capex programme only after receiving enough clarity on the issue of normative capex
- **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
- High degree of correlation of revenues to GDP growth and high event risk
-

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Airports](#)

Company's Profile

BIAL is a Special Purpose Vehicle held by FIH Mauritius Investments Limited (a Fairfax Company³, 48% holding), Siemens Project Ventures GmbH, Germany (26%), 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 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 budgeted total cost of Rs. 2471 crore, had an initial handling capacity of 11.5 million passengers per annum. 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. The Master Plan envisages a terminal capacity of 55 million passengers per annum by the end of the 30- year term of the Concession Agreement.

² AERA came out with normative approach for future capex in June 2016, wherein the allowable project cost is capped at Rs. 65,000 per sq. m. in case of the terminal building and Rs.4,700 per sq. m. in case of the runway

³ The ultimate parent Fairfax Financial Holdings Limited is rated by Moody's at Baa3 (Stable).

	FY2016	FY2017
Operating income (Rs. crore)	1137.97	1314.35
PAT (Rs. crore)	419.06	565.38
OPBDIT/ OI (%)	70.62%	70.87%
RoCE (%)	21.52%	25.43%
Total Debt/ TNW (times)	1.58	1.26
Total Debt/ OPBDIT (times)	2.37	2.33
Interest coverage (times)	4.30	5.43
NWC/ OI (%)	-21%	-20%

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. Crore)	Month-year & Rating	Month- year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	
								Aug 2017
1	Term loans	Long Term	1,813.74	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	-	
2	Cash credit limits	Long Term	50.00	[ICRA]AA (Stable)	[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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity date	Size of the issue (Rs. crore)	Current Rating and Outlook
Term loan	14-11-2016	9.83%	30-09-2033	1,813.74	[ICRA]AA (Stable)
Cash Credit	-	10.15%	-	50.00	
Total				1,863.74	

(Source: BIAL)



Name and Contact Details of the Rating Analysts:

Analyst Contacts

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Name and Contact Details of Relationship Contact:

Jayanta Chatterjee

+91 80 43324601

janantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500