

September 22, 2017

## GMR Aero Technic Limited

### Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Cash Credit	27.50	[ICRA]B+ (Stable); reaffirmed
<b>Total</b>	<b>27.50</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 27.50-crore<sup>1</sup> cash credit limits of GMR Aero Technic Limited (GAT)†. The outlook on the long-term rating is Stable.

### Rationale

The rating continues to be constrained by the lower-than-expected ramp up in the scale of operations, which has led to underutilisation of the facility, high operating leverage and consequently operating losses over the past few years, resulting in negative net worth. The shortfall in debt servicing for FY2017 has been funded through equity infusion from the holding company – GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA(Stable)/A1+). In FY2017, GAT’s European Aviation Safety Agency (EASA) certification was temporarily suspended (from July 2016 to February 2017), largely due to documentation related non-compliance. While the company continued to deliver domestic orders based on Directorate General of Civil Aviation (DGCA) norms, the order flow from international/leased aircrafts was adversely affected during this period, resulting in lower-than-anticipated revenues. ICRA notes that the company has taken necessary measures to become EASA complaint and the suspension was removed from March 2017. During 5M FY2018, the company signed five new agreements with four different airlines to conduct 51 checks. Given the high debt repayments in FY2018, ICRA expects GAT to remain dependent on the funding support from its sponsor in the near term for operational losses and shortfall in debt servicing.

The rating, however, continues to draw comfort from GAT’s well-equipped maintenance, repair and operations (MRO) facilities in Hyderabad with requisite approvals from DGCA and EASA. Also, GAT has a strong parentage (as a part of GHIAL) with demonstrated track record of timely fund infusion to fund operational losses and support debt servicing obligation. ICRA also notes the high entry barriers in the MRO industry as service providers need to develop specific capabilities to cater to different types of aircraft and need to acquire related regulatory approvals. ICRA notes that GAT has confirmed order book for 51 checks from four airline companies to be performed in FY2018. Also, it has entered into General Terms Agreement (GTA) with AirAsia, Flynas and TruJet, under which the flights will be inducted by service orders issued by the airlines as when required. Further, the reduction in lease rentals payable to GMR Hyderabad Aviation SEZ Limited (GHASL) – a Group company – will aid profitability.

Going forward, the company’s ability to ramp up operations by securing new orders and achieve break-even would remain key sensitivities. ICRA expects GAT to remain dependent on funding support from its sponsors over the near term.

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

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

## Key rating drivers

### Credit strengths

- **Strong parentage:** The rating takes support from the strong profile of the sponsor – GHIAL (rated [ICRA]AA(Stable)/A1+) – with demonstrated track record of timely fund infusion to fund operational losses and support debt servicing obligation. In FY2017, GHIAL infused Rs. 61 crore of equity to fund operational losses and shortfall in debt servicing.
- **Facilities in line with international standards with requisite approvals:** GAT has a well-equipped international standard MRO facility in Hyderabad with all the necessary approvals from statutory authorities like DGCA and EASA.
- **New agreements with clients:** As of August 31, 2017, GAT entered into new agreements for 51 checks from four different airlines (IndiGo, Oman airways, Jet Airways and GoAir) to be performed in FY2018. Also, it has entered into GTA with AirAsia, Flynas & TruJet, under which the flights will be inducted by issuing the service orders by airline as when required.

### Credit challenges

- **Weak performance in FY2017:** In FY2017, the turnover was lower than expected on account of temporary suspension in EASA certification from July 2016 to February 2017, largely due to documentation related non-compliance. This resulted in no new orders during the same period and this suspension resulted in lower-than-anticipated revenues.
- **Deterioration of coverage and leverage indicators:** Continued operating losses have further deteriorated coverage and leverage indicators in FY2017. The net worth has further eroded in FY2017 to negative Rs. 388 crore from negative Rs. 326 crore in FY2016 due to net losses.
- **GAT expected to remain dependent on sponsor:** Given the high debt obligation in FY2018, GAT is expected to remain dependent on its sponsor. Therefore the ability of the company to service the debt would critically hinge on timely support from the holding company, GHIAL.

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

### Links to applicable criteria

[Corporate Credit Rating Methodology](#)

### About the company

MAS GMR was established as a 50% joint venture (JV) between GHIAL and Malaysian Aerospace Engineering Sdn. Bhd (MAE). The JV has developed a Rs. 309-crore airframe MRO facility at GHASL, which started commercial operations in November 2011. Subsequently, MAE exited the JV in September 2014 and GHIAL acquired its stake. Thereafter, the JV was renamed GMR Aero Space Engineering Limited (GAE).

GAE has since restructured its operations to take advantage of the tax benefits for SEZs. It has been designated as the co-developer of the Aviation SEZ, and GMR Aero Technic Limited (GAT) has been incorporated as a 100% subsidiary of GAE to conduct the actual business of an MRO. Thus, most of the equipment/infrastructure has been retained by GAE, which collects a lease rental from GAT (that runs the MRO business). The term loans of Rs. 230 crore remain on GAE's books – this loan is now to be serviced from the lease rentals from GAT. The arrangement between GAE and GAT is purely internal with cash flow from the MRO business of GAT being used to service the loan of GAE. Please note that the entities have been considered as one for the purpose of analysis.

**Key financial indicators (Audited)**

	FY2016	FY2017
Operating Income (Rs. crore)	75.23	58.00
PAT (Rs. crore)	-55.91	-62.07
NCA	-45.26	-55.57
OPBDIT/ OI (%)	-45.57%	-78.97%
Total Debt/ TNW (times)	-0.92	-0.92
Total Debt/ OPBDIT (times)	-8.77	-7.82
Interest Coverage (times)	-2.96	-3.83
NWC/OI (%)	-75%	-97%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

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

**Any other information:** Not applicable

**Rating history for last three years  
Table**

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 FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Cash Credit	Long Term	27.5	September 2017	October 2016	September 2015	September 2014
				[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	[ICRA]B+ /A4

**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**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
NA	Cash Credit	-	13.75%	-	27.50	[ICRA]B+ (Stable)

Source: GAT

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About ICRA Limited:

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