

## Bhadra International (India) Private Limited

February 19, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loans	304.53	304.53	[ICRA]D; Re-affirmed
Long-term Non-fund Based	30.0	30.0	[ICRA]D; Re-affirmed
Short-term- Non-fund Based	78.0	78.0	[ICRA]D; Re-affirmed
<b>Total</b>	<b>412.23</b>	<b>412.23</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]D (pronounced ICRA D)<sup>1</sup> on the Rs. 304.53-crore<sup>2</sup> term-loan facilities and Rs. 30-crore fund-based working capital facilities of Bhadra International (India) Private Limited (Bhadra International or the company). ICRA has also reaffirmed the short-term rating of [ICRA] D on the Rs. 78-crore non-fund based working capital facilities of the company.

### Rationale

The rating reaffirmation factors in the continued delays in servicing of interest and principle dues on the outstanding term loans by Bhadra International, due to its stretched liquidity. Further, the impasse on the implementation of the new National Civil Aviation Policy (NCAP, 2016) has resulted in weaker-than-expected business performance due to competition from non-entitled players, thereby impacting the financial health of the company. Although Bhadra International's operating profits registered an year-on-year (Y-o-Y) improvement in FY2017 backed by growth in the top-line, the same continues to remain weak due to high fixed operating overheads, large royalty commitments to the Airport Authority of India (AAI) and relatively low capacity utilisation levels. Net losses, coupled with an eroded net worth and significant debt continues to weigh on the company's financial profile. ICRA takes note of its exposure to regulatory risks, given the impasse on the implementation of the erstwhile ground handling policy (now NCAP), which is constraining the company's ability to scale up operations and also restricting its pricing power.

Notwithstanding the weak financial metrics, the business profile of the company derives strength by virtue of its presence at two of the top-five busiest airports (Kolkata and Chennai) in India; reputed client base comprising leading international airlines. The business profile derives strength from its strong infrastructure and state-of-the-art equipment which has supported the healthy growth in operating revenues over the last five years, despite a delay in implementation of the policy.

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

Going forward, the ability of the company to regularise delays in debt servicing and improve its cash flows with higher operating leverage, in line with further scale up in operations will remain the key rating drivers. While ICRA acknowledges the suit filed by the company against AAI, for losses caused due to its failure to implement the policy, a timely and favourable conclusion to the on-going arbitration proceedings<sup>3</sup> remains a rating sensitivity.

## Key rating drivers

### Credit strengths

**30% revenue growth in FY2017; operating profitability increases by 5.5 times albeit on low base** - Bhadra International's operating income (OI) comprising mainly revenues from cargo handling and ramp-handling services, has registered a Y-o-Y growth of 30% in FY2017 and a CAGR of 28% over the last five years, from Rs. 76 crore in FY2013 to Rs. 201 crore in FY2017. Despite operational challenges and the impasse on the implementation of the ground-handling policy, the company has been able to register a healthy Y-o-Y growth aided by new client addition as well as higher business from existing clients. The operating profits of the company increased from Rs. 1.3 crore in FY2016 to Rs. 8.8 crore in FY2017 on account of healthy improvement in top-line. Given the competition from un-entitled entities resulting in limited pricing power, it is focussing on cost-control measures to drive profitability. This includes efficient utilisation of manpower and equipment and reduction in interest burden through conversion of high cost rupee debt into foreign currency denominated debt. The initiatives taken have already started yielding results, with operating profits in 9M FY2018 at Rs. 10.5 crore.

**Presence at two of the top-five busiest airports in India offer high growth potential** - Bhadra International offers ground-handling services at Kolkata, Chennai, Calicut, Coimbatore, Mangalore, Trichy and Trivandrum, all of which are international airport locations. Of the seven locations, Chennai and Kolkata airports continue to contribute more than three-fourths of the total revenues and being metro airports, these are likely to remain the key revenue drivers. Chennai International Airport is a strategic location for transit cargo from Western countries to the east of Asia, which offers high growth potential for the company. Bhadra International earns more than 80% of its revenues from servicing international airlines. As per the data reported by the AAI, Kolkata, Calicut and Coimbatore reported 23%, 34% and 38% increase in international aircraft movement in 9M FY2018, albeit on a lower base, while Chennai witnessed a modest 1.4% growth in the same period.

**Strong infrastructure and state-of-the-art equipment provides competitive edge in attracting new clients; enables high on time turnaround for aircrafts** - The equipment used by Bhadra International is in line with international standards and it conforms to the standards laid down by the International Air Transport Association, which helps to tap the niche international airlines segment. The company has a proven track record of on-time turnarounds and high-quality services, which has helped to win accolades and top-vendor rankings from players such as Lufthansa and Air Arabia. Bhadra International's client base has grown steadily over the last five years increasing from 19 players in FY2012 to 49 players as in FY2017 including leading international players such as Qatar Airways, Air Arabia, Cathay Pacific etc. Given the healthy growth in client base, the client concentration risks of the company have consistently reduced over the last five years.

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<sup>3</sup>The company has filed claims, in excess of Rs. 3000 crore, against AAI for losses suffered over the last seven years due to delay in implementation of the Ground Handling Policy (restricting the pricing power, given the competition from non-entitled players) and claiming a reduction in the royalty percentage payable to AAI to match that being paid by Air India, retrospectively.

## Credit challenges

**Delays in debt servicing due to stretched liquidity** - Bhadra International went into corporate debt restructuring (CDR) in FY2013, as the business failed to scale up as anticipated. While the repayments on restructured loans commenced from September 2014, the company continued to face liquidity constraints due to its inability to scale-up its operations because of competition from non-entitled players. Resultantly, there have been continued delays in meeting repayment obligations. As per the management, on an average, these delays average between 60 to 80 days.

**Weak financial profile results in erosion in net worth and significant near-term debt repayment obligations** - The net worth of the company has fully eroded due to significant operating losses. Bhadra International had undertaken aggressive debt-funded capex in the past towards equipment required for undertaking ground-handling operations at various airport locations. Consequently, it has significant repayment obligations, ranging between Rs. 45-55 crore per annum over the next 3-4 years. Given the poor liquidity conditions, the company has been delaying the payment of its statutory dues and payables (of over Rs. 150 crore, outstanding as on March 31, 2017) which primarily comprise royalty payments to AAI, to service its debt obligations.

**Exposed to regulatory risk due to impasse on implementation of NCAP 2016** - The NCAP, 2016 provides for the replacement of existing Ground Handling Policy by a new framework, which includes, *inter alia*, cap on the number of ground handlers at each airport, requirement for Air India's subsidiary/JV to match royalty/revenue share offered by other ground handlers, right to domestic airlines to self-handle at all airport locations etc. Having retained the key points of the previous policy, NCAP is likely to be a positive for the Ground Handling Agencies (GHAs). However, a delay in its implementation, due to an appeal filed by the Federation of Indian Airlines in the honorable Supreme Court challenging certain provisions (outcome of which is awaited), continues to adversely impact the business and financial profiles of players like Bhadra International.

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

### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Outlook and Rating Watch](#)

[Approach for Financial Ratio Analysis](#)

## About the company

Bhadra International is promoted by Mr. Prem Bajaj who holds a 62.5% of the total equity of the company, while the balance is held by GPC Mauritius IX LLC. Incorporated in 2000, Bhadra International is involved in providing ground-handling services, ramp services and allied services at airports across India. The company entered into a technical collaboration with Novia International Consulting ApS (Denmark) in 2007 and was awarded concession from the AAI to provide comprehensive ground-handling services at seven airports including, Chennai, Trichy, Coimbatore, Kolkata, Calicut, Trivandrum and Mangalore. Bhadra International's clientele includes international players operating out of these locations like Qantas, British Airways, Cathay Pacific, Thai Airways, etc. The company has its corporate offices in New Delhi and Chennai.

In 9M FY2018, as per provisional numbers, the company made gross operating profits of Rs. 10.5 crore on an OI of Rs. 178.3 Crore.

## Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	154.0	200.8
PAT (Rs. crore)	-66.6	-46.7
OPBDIT/ OI (%)	0.8%	4.4%
RoCE (%)	-15.4%	-12.5%
Total Debt/ TNW (times)	-1.8	-1.3
Total Debt/ OPBDIT (times)	252.5	33.6
Interest Coverage (times)	0.0	0.3
NWC/ OI (%)	-21.9%	-46.8%

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:** TDI International India Private Limited (rated [ICRA]B+/Stable/A4) is another company owned by the promoters of Bhadra International.

## Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016*	Date & Rating in FY2015
1	Term Loan	304.52	232.2	Feb 2018 [ICRA]D	Nov 2016 [ICRA]D	-	May 2014 [ICRA]B+
2	Fund-based limits	30.0	-	[ICRA]D	[ICRA]D	-	[ICRA]B+
3	Non-fund Based Limits	78.0	-	[ICRA]D	[ICRA]D	-	[ICRA]A4

\*ICRA assigned ratings of [ICRA]B+/stable/A4 were suspended in July 2015.

## 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	Term Loan 1	Sep-2012	NA	Mar-23	224.11	[ICRA]D
NA	Term Loan 2 (WCTL)	Sep-2012	NA	Mar-23	35.46	[ICRA]D
NA	Term Loan 3 (FITL)	Sep-2012	NA	Mar-19	34.79	[ICRA]D
NA	Term Loan-4 (New TL)	Sep-2012	NA	Mar-23	10.16	[ICRA]D
NA	Long-term Fund-based	NA	NA	NA	78.00	[ICRA]D
NA	Short-term Non-fund based	NA	NA	NA	30.00	[ICRA]D

Source: Bhadra International

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