July 15, 2019

Delhi Aviation Fuel Facility Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loans	70.0	60.0	[ICRA]AA- (Stable); reaffirmed
Fund based - Overdraft Limits	20.0	20.0	[ICRA]AA- (Stable); reaffirmed
Fund based – Short-term Loan	40.0	40.0	[ICRA]A1+; reaffirmed
Unallocated Limits	90.0	170.0	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed
Total	**220.00**	**290.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action takes into consideration the steady increase in fuel offtake witnessed by Delhi Aviation Fuel Facility Private Limited (DAFFPL) in FY2019, which has negated the impact of tariff decline[1] to some extent. The company reported gross revenue growth of (12.5%)[2] YoY in FY2019. However, taking into consideration the revised tariff of Rs. 609/kl, its revenues decreased 9.7% YoY in FY2019. Nevertheless, the company continues to generate healthy internal accruals. This, coupled with scheduled term loan repayments, has led to a comfortable leverage profile and robust debt coverage metrics for DAFFPL, with gearing of 0.32 times as on March 31, 2019 and interest coverage of 11.97 times in FY2019. Moreover, the ratings continue to derive strength from the low risk in DAFFPL's core business of providing fuel facilities at the Delhi airport, given its status as the sole service provider at the airport. The ratings also draw comfort from the strong promoter profile of the company[3], along with shareholding by the airport operator, Delhi International Airport Limited (DIAL – rated [ICRA]AA-(Stable)/[ICRA]A1+).

However, the ratings continue to be constrained by the sensitivity of DAFFPL's cashflows to fluctuations in fuel throughput volumes, which in turn are vulnerable to slowdown in aircraft traffic movement at the Delhi airport. The ratings also take into consideration the expected addition of debt for the ongoing capex programme of the company, which would result in an increase in its leverage. Nevertheless, ICRA expects the company's cashflows to be adequate to meet the debt repayment commitments, assuming no inordinate increase in dividends and/or payouts for security deposits as witnessed in the past.

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[1] *Airports Economic Regulatory Authority's (AERA's) in its tariff order dated December 18, 2017 had lowered the tariff for DAFFPL from Rs. 755/kl to Rs. 609/kl with effect from January 01, 2018. However, DAFFPL got stay order from Telecom Disputes Settlement and Appellate Tribunal (TDSAT). The revenue from the excess tariff of Rs. 146/kl is being kept in a separate escrow account and is not available to DAFFPL. For FY2019, this excess revenue was Rs. 34.47 crore*

[2] *This is based on DAFFPL's reported revenue for FY2019, derived at the tariff of Rs. 755/kl.*

[3] *The shareholding pattern is: Indian Oil Corporation Ltd. (IOCL) - 37% (rated [ICRA]A1+), Bharat Petroleum Corporation Ltd. (BPCL) - 37% and DIAL - 26% (rated [ICRA]AA- (Stable)/A1+)*

ICRA also takes note of DAFFPL's exposure to regulatory risks with respect to fuel infrastructure charge (FIC) or tariff determination by AERA. In its tariff order[4] dated December 18, 2017, AERA decided to reduce these charges to Rs. 609/kl from the existing level of Rs. 755/kl for the remainder of the second regulatory control period (April 1, 2016 to March 31, 2021), w.e.f. January 1, 2018. Subsequently, DAFFPL obtained stay against AERA's order by filing an appeal in the Telecom Disputes Settlement and Appellate Tribunal (TDSAT). Until its final verdict, TDSAT has allowed DAFFPL to continue to levy FIC of Rs. 755/kl, although the amount corresponding to the excess tariff of Rs. 146/kl is kept in an escrow account and is not available for use by the company. TDSAT's order on the matter is expected to set the tariff fixation principles, which is critical for the future tariff determination, given that the company is undertaking sizeable capex.

Outlook: Stable

ICRA believes that DAFFPL will continue to benefit from its position as the sole service provider of aviation fuel facilities at the Delhi airport as well as steady growth prospects for air traffic in the country. The outlook may be revised to Positive if the company is able to sustain growth in throughput volumes, leading to healthy growth in revenues and profitability and strengthening of the overall financial risk profile. The outlook may be revised to Negative if there is any adverse regulatory development which impacts its financial profile, and/or the cash outflows pertaining to dividends and security deposits to DIAL are higher than expected, resulting in weakening of the company's liquidity position.

Key rating drivers

Credit strengths

Robust operating profitability – DAFFPL witnessed steady increase in fuel offtake, which helped it negate the impact of tariff decline to some extent. It reported revenue growth of 12.5% (YoY) in FY2019. However, revenues adjusted for tariff reduction declined 9.7% YoY in FY2019. Nevertheless, it continues to report healthy profitability with reported OPBDITA margins of 65.9% in FY2019 (operating margins, excluding excess revenues, stand at 84.3% in FY2019). This coupled with scheduled debt repayments has led to comfortable gearing profile and robust debt coverage indicators.

Strong promoter profile – DAFFPL has a strong promoter profile with Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) holding a 37% stake each. The remaining 26% is held by the airport operator, i.e. DIAL. IOCL and BPCL have high financial flexibility, sizeable sovereign ownership and occupy a strategically important position in the Indian energy sector. Moreover, these companies are the key eventual customers of the fuel facility at the Delhi airport, although 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 operational risks for the company.

Significant competitive advantage – The concession agreement with DIAL grants exclusive rights to DAFFPL to develop and maintain the aviation fuel facilities at Terminal 3 (T3), cargo terminal and Terminal 2 (T2) at the Indira Gandhi International Airport at Delhi. In FY2019, the scope of DAFFPL's services has been extended to Terminal 1 (T1) as well. This arrangement makes DAFFPL the sole fuel service provider at the airport and provides a strong competitive advantage.

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[4] *Tariff order no. 32/2017-18 titled- "In the matter of Determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited at IGI Airport, New Delhi"*

Credit challenges

Vulnerability of operations to aircraft traffic – DAFFPL's revenue growth is dependent on the improvement in fuel throughput volumes, which in turn is dependent on increase in aircraft traffic at the Delhi airport. Although the aircraft traffic at the airport has steadily increased over the last few years, it remains vulnerable to adverse developments in the Indian economy. This in turn may adversely impact DAFFPL's operations.

Sizeable cash outflows towards dividend payments and security deposits – Over the last few years, DAFFPL has reported strong internal accrual generation, a significant portion of which has been distributed by way of dividends to shareholders. The same, however, was lower in FY2019. Further, the company is required to keep a security deposit with DIAL, which is updated at regular intervals, depending on the fuel offtake at the airport. These payments have resulted in sizeable cash outflows for the company over the years.

Sizeable capex plans expected to result in additional debt – DAFFPL is undertaking capex of around Rs. 290 crore (excluding interest during construction) over the next three years, primarily for installation of hydrant system at T1. This would require additional debt funding, resulting in higher leverage on the company's books. However, DAFFPL's cashflows are expected to remain sufficient to comfortably service the additional debt.

Liquidity position

DAFFPL's liquidity position has remained healthy on account of strong cash flow generation from operations, supported by low working capital intensity of operations and limited capex requirements thus far.

The existing term loan on DAFFPL's books has an annual repayment commitment of Rs. 17.9 crore till FY2022. Further, over the next three years, the company will be availing additional debt for funding its ongoing capex at T1. However, its cash accruals are expected to remain sufficient to service the increased debt obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

DAFPPL has been promoted by IOCL (a 37% stake), BPCL (a 37% stake) and DIAL (a 26% stake) to develop and maintain the aviation fuel facilities at T2, T3 and cargo terminal at the Indira Gandhi International Airport at Delhi. The concession was granted by DIAL to DAFFPL for a period of 25 years starting from July 28, 2010, when T3 became operational. In FY2019, DAFFPL's scope of services were extended to T1 as well. Aviation fuel facility comprises the infrastructure used for supply of ATF to air carriers at the airport. Indian Oil Skytanking Ltd. (IOSL) is the operator of the fuel facility. The infrastructure charge levied by DAFFPL for use of the facility is subject to regulation by the AERA.

For FY2019, DAFFPL reported profit after tax (PAT) of Rs. 51.0 crore on an operating income (OI) of Rs. 157.4 crore against PAT of Rs. 49.0 crore on an OI of Rs. 140.0 crore for FY2018.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	140.0	157.4
PAT (Rs. crore)	49.0	51.0
OPBDIT/OI (%)	77.9%	65.9%
RoCE (%)	27.0%	25.0%
Total Debt/TNW (times)	0.40	0.32
Total Debt/OPBDIT (times)	0.75	0.76
Interest Coverage (times)	13.84	11.97

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

					Current Rating (FY2020)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
					Date & Rating				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding *(Rs. crore)	July 2019	October 2018	December 2017	March 2017	October 2016
1	Fund based-Term Loans	Long Term	60.00	56.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)
2	Fund based-Overdraft Limits	Long Term	20.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)
3	Fund based-Short Term Loan	Short Term	40.00	22.32	[ICRA]A1+	[ICRA]A1+	-	-	-
4	Unallocated limits	Long Term/Short Term	170.00	-	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)

**As on March 31, 2019*

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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Term Loans	July 2010	-	June 2022	60.00	[ICRA]AA- (Stable)
NA	Fund based- Overdraft Limits	-	-	-	20.00	[ICRA]AA- (Stable)
NA	Fund based- Short Term Loan	April 2019	-	March 2020	40.00	[ICRA]A1+
NA	Unallocated limits	-	-	-	170.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: DAFFPL

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