

October 06, 2020

Delhi Aviation Fuel Facility Private Limited: Ratings downgraded to [ICRA]A+/[ICRA]A1; removed from watch with negative implications and negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loans	60.00	198.65	[ICRA]A+; downgraded from [ICRA]AA-; removed from watch with negative implications; negative outlook assigned
Fund based- Cash Credit	20.00	40.00	[ICRA]A+; downgraded from [ICRA]AA-; removed from watch with negative implications; negative outlook assigned
Fund based- Short Term Loan/ Working Capital Demand Loan	40.00	0.00	-
Unallocated Limits	170.00	51.35	[ICRA]A+/[ICRA]A1; downgraded from [ICRA]AA-/[ICRA]A1+; removed from watch with negative implications; negative outlook assigned on long-term rating
Total	290.00	290.00	

*Instrument details are provided in Annexure-1

Rationale

The rating action factors in the expectation of weakening of Delhi Aviation Fuel Facility Private Limited's (DAFFPL's) financial profile in FY2021. This is mainly due to the sharp decline in aircraft traffic owing to the Covid-19 outbreak, which resulted in the suspension of commercial aircraft at Delhi airport until May 25, 2020, followed by the limited traffic operations thereafter. The expectation of a gradual recovery in aircraft traffic is likely to cause contraction in DAFFPL's revenues and profits, given its dependence on providing fuel facilities at the Delhi airport. Consequently, the debt coverage metrics – TD/OPBIDTA, interest coverage and DSCR are expected to weaken and the liquidity buffer to moderate in FY2021. While the throughput volumes are likely to recover in FY2022, the profit and cash flow generation are likely to critically hinge on the tariff fixation by the regulator for control period-3 (CP-3: FY2022-FY2026), which may decline when compared to CP-2. Moreover, DAFFPL is undertaking debt-funded capex during FY2021-FY2023 for installation of fuel hydrant system at terminal T1, which will result in increased leverage. However, the repayments would commence in FY2023 and with the recovery in traffic, DAFFPL's cashflows are expected to remain sufficient to service this additional debt.

Further, ICRA notes the sizeable cash outflows to the parent group in the form of dividends over the last few years. Even during the current fiscal, when there is an expected moderation in the profits, DAFFPL is likely to make a dividend payout, albeit lower than previous years. Going forward, significant upstreaming of cash flows to the parent group (through dividends and/or loans and advances) could adversely impact DAFFPL's liquidity position, especially in the current scenario wherein the cash flows from operations are expected to remain weak over the near term.

However, the ratings continue to draw comfort from DAFFPL's established position as the sole service provider of aviation fuel facilities at the Delhi airport, which is the busiest airport in the country in terms of aircraft traffic. Further,

the ratings take cognisance of DAFFPL's strong promoter profile¹, along with the shareholding by the airport operator, DIAL. In spite of the expected moderation in operating profits, cash accruals and credit metrics against the backdrop of weak aircraft traffic in near term, ICRA notes DAFFPL's track record of healthy financial profile until FY2020, as reflected by stable operating and net profitability metrics, comfortable capital structure and robust debt coverage metrics (adjusted for lease liability) supported by the healthy fuel off-take. ICRA notes that DAFFPL has availed moratorium on debt servicing related to its bank facilities until June 2020 and has been servicing the debt obligations thereafter.

The negative outlook factors in the expectation of the subdued performance and the consequent weak cash flows and debt coverage metrics because of slow recovery in the aircraft traffic.

Key rating drivers and their description

Credit strengths

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) of the Indira Gandhi International Airport in Delhi. In FY2019, the scope of DAFFPL's services was extended to terminal T1 as well. This arrangement makes DAFFPL the sole fuel service provider at the airport and provides a strong competitive advantage.

Strong promoter profile - DAFFPL has a strong promoter profile with Indian Oil Corporation Limited (IOCL) and Bharat Petroleum Corporation Limited (BPCL) holding 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 mitigate operational risks for the company.

Track record of healthy profitability and debt coverage metrics; however, expected moderation in FY2021 – DAFFPL's financial profile is healthy as reflected by stable operating and net profitability metrics, comfortable capital structure and robust debt coverage metrics (adjusted for lease liability) till FY2020, supported by the healthy fuel off-take. However, DAFFPL's operational and financial profile are expected to moderate in FY2021 owing to the decline in the aircraft traffic. The company's coverage metrics are expected to improve only gradually over FY2022-FY2023 and is linked to recovery in aircraft traffic, despite the expected decline in the tariff.

Credit challenges

Vulnerability of operations to aircraft traffic; significant reduction in aircraft traffic to adversely impact operational and financial profile in FY2021 - 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. This is being witnessed currently, wherein there is significant correction in the aircraft traffic owing to the Covid-19 outbreak, which resulted in complete suspension of commercial aircraft at the airport until May 25, 2020, followed by limited traffic operations. This is likely to adversely impact DAFFPL's performance with significant decline in the revenues, profits and cash accruals in FY2021. Moreover, the liquidity buffer would moderate, and the debt coverage metrics – TD/OPBIDTA, interest coverage and DSCR are also expected to weaken in FY2021. While the throughput volumes are likely to recover in FY2022, the profit and cash flow generation are likely to critically hinge on the tariff fixation by the regulator for CP-3 (FY2022-FY2026).

¹ The shareholding pattern is: Indian Oil Corporation Ltd. (IOCL) - 37% (rated [ICRA]AAA (Stable)/A1+), Bharat Petroleum Corporation Ltd. (BPCL) - 37% and DIAL - 26% (rated [ICRA]AA- (Negative)/A1+

Sizeable cash outflows towards dividend payments could impact liquidity - 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. Even during the current fiscal, when there is an expected moderation in the profits, DAFFPL is likely to make a dividend payout, albeit lower than previous years. Going forward, significant upstreaming of cash flows to the parent group (through dividends) could impact DAFFPL's liquidity position.

Sizeable capex expected to result in additional debt - DAFFPL is undertaking capex of around Rs. 290 crore during FY2021-FY2023, primarily for installation of a hydrant system at terminal T1. This would require additional debt funding, thereby resulting in higher leverage on the company's books. However, DAFFPL's cashflows are expected to remain sufficient to comfortably service this additional debt, the repayments of which would commence in FY2023.

Liquidity position: Adequate

DAFFPL's liquidity position is **adequate** as the expected cash flow from operations and the refund of security deposits from DIAL (around Rs. 47 crore) are sufficient to cover the licensee fee and debt servicing obligations for the current fiscal. As of August 2020, DAFFPL has cushion of around Rs. 31.5 crore in the fund-based working capital limits. In addition, the company has capex plans in FY2021-FY2023, against which the debt is tied-up. In the current fiscal, the capex is likely to be majorly funded by debt.

Rating sensitivities

Positive triggers – Stable outlook may be restored if the aircraft traffic normalises at a faster pace and is reflected in the faster recovery of cash accruals than anticipated.

Negative triggers – Ratings could be downgraded if the aircraft traffic remains subdued for a prolonged period, adversely impacting DAFFPL's credit risk profile and depleting its liquidity buffers. Further, significant upstreaming of cash flows to the parent group (through dividends and/or loans and advances) that moderates DAFFPL's liquidity position could lead to negative pressures on rating. Moreover, any unanticipated large debt-funded capex that impacts the coverage metrics of DAFFPL could lead to a rating downgrade.

Analytical approach

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

About the company

DAFFPL 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 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 to supply 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 Airport Economic Regulatory Authority (AERA).

In FY2020, the company reported a net profit of Rs. 41.4 crore on an operating income of Rs. 124.0 crore compared to a net profit of Rs. 51.0 crore on an operating income of Rs. 161.5 crore in the previous year.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	161.5	124.0
PAT (Rs. crore)	51.0	41.4
OPBDIT/OI (%)	63.7%	96.5%
PAT/OI (%)	31.6%	33.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.6
Total Debt/OPBDIT (times)	0.8	3.4
Interest Coverage (times)	11.9	3.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2020	FY2019	FY2018
					6-Oct-2020	14-Apr-2020	15-Jul-2019	23-Oct-2018	28-Dec-2017
1	Fund based - Term Loans	Long Term	198.65	63.31	[ICRA]A+ (Negative)	[ICRA]AA-@, placed on watch with negative implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Fund based- Cash Credit	Long Term	40.00		[ICRA]A+ (Negative)	[ICRA]AA-@, placed on watch with negative implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Fund based- Short Term Loan/ Working Capital Demand Loan	Short Term	0.00		-	[ICRA]A1+@, placed on watch with negative implications	[ICRA]A1+	[ICRA]A1+	-
4	Unallocated Limits	Long Term/Short Term	51.35		[ICRA]A+ (Negative)/ [ICRA]A1	[ICRA]AA-@/ [ICRA]A1+@; placed on watch with negative implications	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable) / [ICRA]A1+	[ICRA]AA-(Stable)

Amount in Rs. Crore

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	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 – November 2019	8.05%-8.10%	June 2022 – March 2029	198.65	[ICRA]A+(Negative)
NA	Fund based- Cash Credit				40.00	[ICRA]A+(Negative)
NA	Unallocated Limits				51.35	[ICRA]A+(Negative)/[ICRA]A1

Source: Delhi Aviation Fuel Facility Private Limited

Analyst Contacts

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 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