April 02, 2020

Cochin International Airport Limited: Rating placed on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	412.50	412.50	[ICRA]AA-@; placed on watch with negative implications
Total	**412.50**	**412.50**	

**Instrument details are provided in Annexure-1*

Rationale

The rating has been placed on watch with negative implications following the closure of all airport operations (excluding cargo) in the country because of nationwide lockdown due to Covid-2019. Both domestic and international passenger traffic witnessed substantial de-growth in the run up to the lockdown on account of various visa and travel restrictions imposed by Government of India. CIAL's liquidity is adequate with unencumbered cash balance of around Rs. 60 crore as on March 25, 2020 is adequate to meet its fixed expenses and debt servicing obligations till end of Q1FY2021. ICRA believes that even after restoration of air travel, the ramp-up in traffic would be gradual in case of domestic segment while international segment may take even more time to resume fully. Overall, the revenues for H1FY2021 are likely to witness sharp decline on YoY basis. Also, deterioration in credit profile of airlines is expected to result in elongation of receivable cycle for CIAL. While ICRA has revised its base case for FY2021; given the dynamic developments and prevailing high level of uncertainty, we will assess the cashflow impact and test the assumptions by end of Q1FY2021 and keep the investors updated.

The rating takes into account the strong financial profile of CIAL characterized by conservative capital structure and strong debt coverage indicators. The rating takes into account the strong operational track record of CIAL of over two decades with lowest capital cost[1] per sqm with least burden on passengers (no user development fee (UDF) being levied) amongst all the major airports which reduces regulatory risk to a large extent. The rating favourably 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; the shift from single to hybrid till has resulted in increase in cash accruals. Airport Economic Regulatory Authority (AERA) finalised the tariff for second control period (FY2017-FY2021) on July 13, 2017 with effective date of implementation as August 2017. The rating also takes into account the strengths arising from the regulatory framework which allows efficient cost recovery as a part of the tariff from the users.

The rating, however, remains constrained by the high competition from four international airports situated within 260 km radius from CIAL viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. However, CIAL is well positioned in terms of cost competitiveness (least burden on

[1] CIAL has been used as benchmark for normative approach for capex as per AERA

passengers), its proximity to major tourist destinations and Cochin being the major business hub in Kerala. During FY2019, the operations of the airport were affected by heavy rains and flooding (August 2018) with closure of the airport for 14 days resulting in revenue loss and increase in repair costs to rectify flood related damages resulting in decline in operating margins. The international passenger traffic reduced by 5.7% in FY2019 due to closure of airport during peak traffic season due to floods along with economic slowdown in gulf regions. Overall, the passenger traffic growth has witnessed moderation in FY2019 at 0.8%. In 9M FY2020, the y-o-y traffic growth remained subdued at 2.8% primarily due to international traffic, which grew only by 0.5%. International passengers account for around 48% of total passenger throughput at CIAL. The traffic in FY2021 is expected to witness substantial de-growth. Any deterioration in credit profile of airlines resulting in elongation of receivable cycle for CIAL would remain a monitorable.

CIAL is in the process of carrying out the second cycle of runway re-carpeting works, which commenced from November 2019 is largely completed; the balance work is expected to be completed within four days post the lockdown. Further, the variation in passenger traffic due to economic cycles, which may lead to temporary traffic de-growth and in-turn revenue decline is compensated by truing up for the shortfall in the next regulatory period, albeit with a lag. Unlike the other private airports which are either governed by the operations, maintenance and development agreement (OMDA) or concession agreements. There is no concession awarded by GoI in the case of CIAL. In the absence of a concession agreement (CA), the rights, obligations and the concession period are not defined for CIAL. Further, GoI is not bound by any non-compete/ right of first refusal clauses should there be any proposal to develop new international airports in the region. However, comfort can be taken from Government of Kerala's shareholding of around 34% along with the long operational track record – there was no objection raised by GoI/AAI even at the time of inviting bids for other major private airports (during FY2002-FY2006).

Key rating drivers

Credit strengths

Strong financial profile: The financial profile of CIAL is characterized by a conservative capital structure and strong debt coverage indicators. The liquidity position is adequate with unencumbered liquid surplus of Rs.60 crore as on March 25, 2020.

Favourable policy directive from the Ministry of Civil Aviation (MoCA): MoCA recommended hybrid till (as per NCAP2016) for future tariff determination at all airports; the shift from single to hybrid till aids in improvement in cash accruals.

Long operational track record with low burden on passengers: The company has a strong operational track record of over two decades with lowest capital cost per sqm with least burden on passengers (no user development fee (UDF)) amongst all the major airports which reduces regulatory risk to a large extent. Further, AERA finalised the tariff for second control period under hybrid till (FY2017-FY2021) on July 13, 2017 with effective date of implementation as August 2017.

Credit challenges

Revenue generation remains exposed to movements in aviation traffic: The variation in passenger traffic due to economic cycles, which may lead to temporary traffic de-growth and in-turn revenue decline is compensated by truing up for the shortfall in the next regulatory period, albeit with a lag. During FY2019, the operations of the airport were affected by heavy rains and flooding (August 2018) with closure of the airport for 14 days resulting in revenue loss and increase in repair costs to rectify flood related damages resulting in decline in operating margins. The passenger traffic grew by a modest 0.8% in FY2019 due to closure of airport during peak traffic season due to floods along with economic slowdown in gulf regions. In 9M FY2020, the y-o-y traffic growth remained subdued at 2.8% primarily due to international traffic, which grew by only 0.5%. The traffic in FY2021 is expected to witness substantial de-growth.

High concentration of international passengers from middle-east region: International passengers account for around 48% of total passenger throughput at CIAL. ICRA notes that majority of the international traffic is from the middle-east region. Further, due to the travel advisory issued by Government of India following the COVID-2019 outbreak, South East Asia bound traffic also started witnessing moderation. Hence, continued economic slowdown in the Gulf region along with prolonged moderation/ de-growth in South East Asia bound traffic, could have an adverse effect on CIAL's revenues and therefore remains a key monitorable from credit perspective.

High competition from other international airports in the vicinity: CIAL has four international airports situated within 260 km radius from CIAL viz. Trivandrum International Airport, Calicut International Airport, Coimbatore International Airport and Kannur International Airport. However, CIAL is well positioned in terms of cost competitiveness (least burden on passengers), its proximity to major tourist destinations and Cochin being the major business hub in Kerala.

Lack of Concession Agreement: In the absence of a concession agreement (CA), the rights, obligations and the concession period are not defined for CIAL. Further, GoI is not bound by any non-compete/ right of first refusal clauses should there be any proposal to develop new international airports in the region. However, comfort can be taken from Government of Kerala's shareholding of around 34% along with the long operational track record – there was no objection raised by GoI/AAI even at the time of inviting bids for other major private airports (during FY2002-FY2006).

Liquidity position

The liquidity position of the company is adequate with unencumbered cash of Rs. 60 crore as on March 25, 2020 and cushion in working capital facilities with undrawn limit of around Rs 25 crore. The debt repayment obligation in FY2021 is expected to be around Rs. 72 crore respectively which can be comfortably met from cash flow from operations.

Rating Sensitivities

Positive triggers – Stable outlook may be restored if the traffic normalises post the lockdown at a faster pace and the overall impact of Covid-2019 on cashflows is not significant. Further, significant growth in traffic along with improved diversification in international destinations, non-aero revenues and profitability on a sustained basis will remain key monitorable.

Negative triggers - Negative pressure on CIAL's rating could arise if lockdown gets significantly extended or the ramp up in traffic post lockdown is significantly lower than ICRA's revised base case thereby adversely impacting the cash flows of CIAL. The rating may also be downgraded if there is loss of market share to competing airports in the region resulting in lower than anticipated revenues on a sustained basis, larger than anticipated debt-funded capex and/or any higher than expected support to group companies.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Airports](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CIAL. As on March 31, 2019, the company had five subsidiaries, which are enlisted in Annexure-2.

About the company

Cochin International Airport Limited (CIAL) was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from the airport users as well as the general public, Non-Resident Indians (NRIs), Government of Kerala (GoK) and the airport service providers. Chief Minister (CM) of Kerala is the chairman of the company. CIAL was incorporated on March 30, 1994 as a public limited company. The construction work commenced in August 1994 and achieved commercial operations in June 1999. To cater to the high traffic demand, CIAL constructed new international terminal with 12 mn passenger capacity per annum which was inaugurated in March 2017. The project cost for the same was Rs. 985 crore which was funded through external debt, rights issue and internal accruals. Government of Kerala (GoK) is the major shareholder in CIAL with 32.4% stake.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	686.1	748.2
PAT (Rs. crore)	172.3	188.5
OPBDIT/OI (%)	58.4%	50.2%
RoCE (%)	17.5%	16.9%
Total Debt/TNW (times)	0.4	0.4
Total Debt/OPBDIT (times)	1.2	1.7
Interest Coverage (times)	9.6	9.3

Source: CIAL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years			
					Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	2-Apr-2020	27-Feb-2020	3-Sep - 2018	13-Aug - 2018	-
1	Term Loan	Long Term	412.5	412.5	[ICRA]AA-@	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-

@: Rating watch with negative implications

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	Term Loan	March 2015	8.35%	March 2028	412.5	[ICRA]AA-@

Source: CIAL

@: Rating watch with negative implications

Annexure-2: List of companies considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Cochin International Aviation Services Limited	99.99%	Full Consolidation
Air Kerala International Services Limited	99.99%	Full Consolidation
CIAL Infrastructures Limited	99.99%	Full Consolidation
CIAL Duty free and Retail Services Limited	99.90%	Full Consolidation
Kerala Waterways and Infrastructure Limited	99.99%	Full Consolidation

*As on March 31, 2019

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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

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