India Ratings Upgrades GMR Hyderabad International Airport's NCDs and Bank Loan to 'IND AA+'/Stable

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India Ratings and Research (Ind-Ra) has upgraded GMR Hyderabad International Airport Limited's (GHIAL) debt instruments' ratings as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Non-convertible debentures (NCDs)*	-	-	-	INR19,900 (reduced from INR20,000)	IND AA+/Stable	Upgraded
Bank loan (fund-based/non-fund-based)	-	-	-	INR2,500	IND AA+/Stable	Upgraded

*details in Annexure

Analytical Approach: Ind-Ra continues to take a consolidated view of GHIAL and its subsidiaries to arrive at the ratings, owing to the operational, strategic and legal linkages among them.

The upgrade factors in 21% yoy growth in its passenger traffic during 9MFY24 and surpassing (110%) the peak traffic of pre-COVID-19 levels (FY20) along with significant advancement in its capex. The rating also considers the higher-than expected improvement in GHIAL's non-aero revenue in FY23 and 9MFY24, leading to a sooner-than-expected fall in its leverage and limited risk of debt refinancing, considering the majority (75%) of bullet maturity of 2024 has already been refinanced. The healthy traffic growth provides adequate comfort for the company to meet annual traffic of 24.8 million-25 million passengers (pax) in FY24, leading to healthy cashflow generation. The traffic growth will continue be a key factor for a ramp-up in the internal accruals.

The rating is supported by the location advantage of the airport, which serves the Hyderabad region, which is the capital city and an important commercial centre. Hence, Ind-Ra expects the passenger traffic to improve over the medium term. The agency expects a further increase in the non-aero income in the near term, considering the opening up of a new terminal, an increase in the pax traffic, increased propensity in consumer spending and various initiatives taken by GHIAL for scaling its revenue. The rating also derives comfort from GHIAL's regulated framework which allows a cost recovery from the user tariff determination every five years, restricted cashflow movement of funds within the group companies considering GHIAL's ringfenced structure, and healthy liquidity of INR15,420 million as on 31 December 2023.

The rating is constrained by any event impacting the traffic, regulatory risk related to any major disallowance of its capex for tariff determination for the fourth control period (CP4) and the bullet repayments due in the medium term, leading to high refinancing risk, which would be a rating monitorable. However, GHIAL has received further 30-year extension in the concession agreement until March 2068, thus improving financial flexibility and mitigating the refinancing risk.

Key Rating Drivers

Encouraging Traffic Ramp-up: In 9MFY24, GHIAL reported traffic of 18.57 million passengers (FY23: 21 million; FY21: 8.0 million; FY20: 21.6 million). Although the propensity to travel has improved, higher air fares or a fall in the economic growth could affect the traffic growth.

International passengers accounted for only 18% of the overall passengers in 9MFY24 (FY23: 16.5%; FY22: 11.5%; FY21: 7%; FY20: 18%). The share of non-aeronautical revenue accounted for about 27% of the standalone operating revenue of GHIAL in 9MFY24 (FY23: 33%; FY22: 33%; FY21: 24%; FY20: 25%). While the loss in aeronautical and non-aeronautical revenue impacted the cashflows and liquidity over FY21-FY22, due to COVID-19 disruptions, Ind-Ra believes GHIAL's long-term return are likely to be largely protected, as any over-recovery or a shortfall would be trued-up in the subsequent control periods.

GHIAL's standalone revenue stood at INR13,400 million in 9MFY24 (FY23: INR12,460 million; FY22: INR78,000 million; FY21: INR58,000 million) and EBITDA stood at INR9,520 million (INR7,850 million; INR3,300 million; INR2,000 million). Its EBITDA for 9MFY24 excluded the impact of non-cash derivate loss shown as part of expenses. GHIAL reported non-aero revenue of INR3,979 million (INR215/passenger) in 9MFY24 (FY23: INR4,460.6 million; FY22: INR2,595 million; FY21: INR1,414 million). The standalone net leverage (net debt-to-EBITDA) reduced to 5.2x in 9MFY24 (FY23: 8.7x; FY22: 17.1x; FY21: 21.6x; FY20: 2.8x).

Terminal Expansion Likely to be Completed by 4QFY24: GHIAL is incurring a capex to improve the capacity of the airport to 34 million passengers from 12 million passengers. The physical progress as on 31 December 2023 was about 98.7% and GHIAL plans to complete majority of the expansion works in 4QFY24. The management has confirmed that it does not expect any significant cost overrun. The terminal has opened in a phased manner over the past 15 months. The total capex, including terminal expansion, has been estimated at INR6,600 million, which has been funded through a debt of INR4,500 million and the balance through internal accruals. As on 31 December 2023, the company incurred INR5,700 million (87%) for the capex and the balance funds would be met through the liquidity of INR9,950 million earmarked for meeting the capex.

Robust Financial Performance: In 6MFY24, GHIAL's consolidated revenue improved to INR13,470 million (FY23:

INR20,880 million; FY22: INR12,880 million; FY21: INR10,340 million; FY20: INR21,400 million), due to the easing of travel restrictions. The EBITDA also improved to INR7,780 million (excluding the impact of non-case derivate loss) in 6MFY24 (FY23: INR8,450 million; FY22: INR4,350 million; FY21: INR2,700 million; FY20: INR12,200 million). The consolidated interest coverage (EBITDA/interest) improved to 3.13x in 6MFY24 (FY23: 2.09x; FY22: 1.37x; FY21: 0.95x; FY20: 4.25x) and the net leverage (net debt-to-EBITDA) reduced to 4.48x (8.22x; 14.1x; 17.6x; 2.9x).

Liquidity Indicator - Adequate: GHIAL's liquidity provides adequate visibility to meet its capex and the current traffic levels provide adequate visibility for healthy cash accruals. As on 31 December 2023, GHIAL had a cash balance of INR15,420 million including surplus cash of INR5,430 million, excluding INR2,000 million inter-corporate deposits (ICDs) provided to GMR Infrastructure Airport Limited (GIL). GHIAL receives interest of 11% annually from GIL and loan will be repaid by FY26, as per the management. Also, GHIAL had INR1,500 million of undrawn working capital limits as on 31 December 2023, which adds to the liquidity cushion. The company has sufficient room to raise temporary financing to meet any liquidity requirement. GHIAL has repayment obligation of INR630 million in FY24 towards the interest free loan provided by the Telangana government.

Strong Sponsor Experience: GAL, the sponsor, is 51% held by listed entity GMR Airport Infrastructure Limited and 49% by Groupe ADP. GAL is an established infrastructure developer that also operates Delhi Airport, India's largest airport, and recently commissioned Goa Airport in India. Aeroports de Paris SA (Groupe ADP) holds a 49% stake in GMR Airports Limited since July 2020 and GAL holds a 74% stake in GHIAL after the recent acquisition of additional 11% stake from Malaysia Airports Holdings Berhad. Ind-Ra takes comfort from the presence of independent directors and representatives from ADP Groupe, the Telangana government and the Airports Authority of India on the board of GHIAL.

Moderate Debt Structure: GHIAL (excluding subsidiaries) had a debt of INR71,380 million as on 31 December 2023. The debt consisted of bonds of USD711 million, NCDs worth INR19,900 million, and interest-free loan of INR3,150 million from the Telangana government. The interest rate is fixed for the USD bonds, which are hedged through coupon only swap, and the principal has been hedged through cross currency swap and call spread. The USD bonds have bullet maturities in April 2024, February 2026 and October 2027. The NCDs worth INR11,500 million and INR8,400 million were raised in December 2022 and March 2023, respectively, which was utilised towards the refinancing of 2024 and 2026-dollar bonds partially. GHIAL has already refinanced USD226 million out of USD300 million maturing in 2024 through the recent NCDs and intends to refinance the balance USD74 million by March 2024, as per the management. The next bullet repayments would be due in February 2026 (USD287 million) and October 2027 (USD350 million), which the management intends to refinance well before the due dates. Although GHIAL faces refinancing risk for the bullet payments, healthy cashflow generation and availability of long concession life provides financial flexibility, mitigating the risk to an extent. GHIAL had fund-based working capital limits of INR1,500 million which remained undrawn and the non-funded-based limits of INR750 million, of which INR620 million was utilised as on 31 December 2023. As on 31 December 2023, GHIAL provided guarantees equivalent to INR7,230 million (31 December 2022: INR6,680 million) for the benefit of debt in its subsidiaries.

Lower Revenue Approved in CP3; Likely True-Up in CP4: GHIAL received the tariff approval for CP3 on 1 September 2021, which allowed a tariff increase from FY23. The recovery of INR8,130 million of the approved aggregate revenue requirement has been delayed to the next control period. The Airports Economic Regulatory Authority (AERA) of India has indicated that a balanced approach has been taken, considering the representation of stakeholders who were also affected by COVID-19 disruptions. The AERA has noted that the operating expenditure for the CP3 is to be trued up in the subsequent control periods, based on the actuals subject to reasonableness and efficiency. The regulatory consistency in applying the hybrid till mechanism (wherein 30% of the non-aeronautical revenue will be used to cross-subsidise aeronautical charges) for tariff determination continues to support the ratings. While a lower tariff recovery in CP3 has increased the importance of traffic recovery, long-term visibility of tariff recovery in line with tariff determination rules provides comfort and also provides GHIAL flexibility to raise financing, based on such visibility.

As against GHIAL's proposed capex of INR55,960 million for the expansion (excluding interest during construction), AERA approved a capex of INR48,200 million, based on changes in inflation reference, non-recognition of change in terminal area, disallowance in soft cost and difference in interest during the construction calculation. AERA has indicated that the actual capex will be considered in true-up based on justification. GHIAL has appealed in Telecom Disputes Settlement and Appellate Tribunal regarding various aspects of the CP3 tariff order. AERA has considered cargo, ground handling and fuel as aeronautical income, in line with Ind-Ra's expectation. AERA has allowed the pre-control period losses in the aggregate revenue requirement for the CP3 in line with the expectation.

Absence of Significant Incremental Group Investments Critical for Rating: GMR Hyderabad Aviation SEZ Limited (GHASL), GMR Hyderabad Aerotropolis Limited (GHAL), GMR Hospitality and Retail Limited (GHRL) and GMR Air Cargo and Aerospace Engineering Limited (GACAEL) are 100% subsidiaries of GHIAL that are involved in non-aero-related business of hotels, duty free, commercial property development and maintenance, repair, and operations services. The subsidiaries generated healthy cashflows during FY23 and 9MFY24 and are likely to be self-sustainable going forward without any support requirement from GHIAL. The subsidiaries are likely to incur capex of INR6,000 million-7,000 million over the next two-to-three years for constructing a new hotel, interchange facility (retail mall) and the expansion of the cargo terminal. The capex is likely to be funded through a mix of debt and internal accruals and any incremental capex backed by additional debt will be serviced by subsidiaries' cashflows and no significant support is envisaged from GHIAL over the period. As on 31 December 2023, the total debt in subsidiaries stood at INR7,230 million which was backed by guarantee from GHIAL.

In FY21, two subsidiaries of GHIAL – GHRL and GACAEL - extended INR400 million ICDs to GMR Goa International Airport, which was recovered in March 2023. In FY20, GHIAL had provided INR2,000 million interest bearing ICDs to GMR Infrastructure Airports and the ICD tenor has been extended beyond the original envisaged maturity which is likely to be repaid in FY26, as per the management. The management stated that there would be no significant incremental exposure or investment in group companies going forward. Any significant incremental ICDs to the group companies will be a key rating sensitivity.

Rating Sensitivities

Positive: Future developments that could individually or collectively lead to positive rating action are:

- healthy growth in the passenger traffic, non-aero income and commercial property development income, leading to material deleveraging and a significant improvement in the cashflows on a sustained basis
- an improved debt structure along with healthy liquidity

Negative: Future developments that could, individually or collectively, lead to a negative rating action are:

- lower-than 25 million pax annual traffic and INR5,500 million in non-aero income in FY25, leading to material deterioration in GHIAL's cashflows on a sustained basis
- any significant additional loans or investments to the group companies impacting GHIAL's liquidity

ESG Issues

ESG Factors Relevant to Rating: The group structure under governance has relevance and a moderate impact on GHIAL's ratings due to related-party transactions. Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on GHIAL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

GHIAL is a joint venture sponsored by GMR Infrastructure through GMR Airports (74%), in a partnership with the Airports Authority of India (13%), the government of Telangana (13%; which substituted the Andhra Pradesh government's stake in August 2014). GMR Airports acquired an 11% stake from Malaysia Airports Holdings Berhad in January 2024.

GHIAL was incorporated to design, finance, build, operate, expand and maintain a greenfield airport in Shamshabad, Hyderabad. GHIAL will operate the airport for a concession period of 60 years from the commercial operations date, consisting of an initial concession period of 30 years and an extension of 30 years. The airport commenced operations from 23 March 2008 and has been designed to handle 12 million passengers which has currently increased to 34 million passengers.

FINANCIAL SUMMARY (CONSOLIDATED)

Particulars (INR million)	6MFY24	FY23	FY22
Operating revenues	12,477	19,108	11,700
Total revenue	13,477	20,884	12,879
Expenses	5,692	12,431	8,532
EBITDA	7,785	8,452	4,347
EBITDA margin (%)	57.8	40.5	33.8
Interest	2,484	4,041	3,163
Interest coverage (x)	3.13	2.09	1.37
Debt	88,656	88,394	83,420
Cash*	18,865	18,955	22,201
Net debt	69,792	69,440	61,219
Net leverage (x)	4.48	8.22	14.08

*Includes cash ear marked for meeting capex
^increase in debt is due to exchange rate variations; outstanding debt on 31 December 2023 was INR68,500 million based on hedges already present for USD bonds.
Source: GHIAL, Ind-Ra

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

Evaluating Corporate Governance

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	22 February 2023	30 November 2022	17 June 2022
NCDs	Long-term	INR19,900	IND AA+/Stable	IND AA/Positive	IND AA/Stable	-
Bank loan (fund/non-fund)	Long-term	INR2,500	IND AA+/Stable	IND AA/Positive	IND AA/Stable	IND AA/Stable

Annexure

Instrument Type	ISIN	Date of Issue	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE802J07019	13 December 2022	8.805^	13 December 2032	INR11,500	IND AA+/Stable
NCDs	INE802J07027	12 March 2023	8.71^	11 March 2033	INR8,400	IND AA+/Stable

^per annum per quarter

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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