March 09, 2022

Airports Authority of India: Ratings reaffirmed, Stable outlook assigned, removed from Watch with Negative Implications; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	2100.00	3100.00	[ICRA]AAA; reaffirmed and Stable outlook assigned; removed from Watch with Negative Implications
Short-term Working Capital Facilities	1500.00	1500.00	[ICRA]A1+; reaffirmed; removed from Watch with Negative Implications
Working Capital Facilities	215.00	215.00	[ICRA]AAA/[ICRA]A1+; reaffirmed and Stable outlook assigned for long-term rating; removed from Watch with Negative Implications
Total	**3815.00**	**4815.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action for Airports Authority of India (AAI) factors in the resumption of revenue sharing payments from Mumbai International Airport Limited (MIAL), healthy recovery of passenger traffic in YTD FY2022 and favourable growth prospects with expected resumption of international travel. The ratings positively factor in AAI's improved liquidity position, supported by recovery of accrued revenue sharing payments worth ~Rs. 900.0 crore from MIAL in January 2022, receipt of upfront fee towards the deemed initial regulatory asset base (RAB) from Adani Group on takeover of six airports and recovery of around Rs. 1,000 crore of overdue receivables from Air India (net of Rs. 1,000 crore written-off towards one-time settlement). ICRA is given to understand that the arbitration process related to suspended revenue sharing payments due to invocation of force majeure clause by Delhi International Airport Limited (DIAL, rated [ICRA]A+ (Negative)/A1) is in the final stages.

The ratings favourably factor in AAI's strategic importance to the Government of India (GoI) for managing the air traffic control (ATC) and the aviation infrastructure in the country. AAI owns and controls a significant portion of India's aviation infrastructure and manages the entire airspace in India and the adjoining oceanic areas. AAI is the sole entity providing communication, navigation and surveillance (CNS) services for air traffic management in the country. AAI displayed a track record of strong profitability metrics, healthy cash accruals, negligible debt levels and robust debt metrics till FY2020. Its operations and profitability were impacted significantly by the Covid-19 pandemic and invocation of force majeure clause by DIAL and MIAL, leading to operating losses in FY2021. The steady recovery in traffic in FY2022, along with resumption of revenue sharing payments by MIAL in Q4 FY2022, and by DIAL in FY2023 is expected to result in improved revenues and profitability. AAI's revenues and profitability are likely to reach close to pre-Covid level by FY2024.

AAI is expected to incur a capex of Rs. 3,500-4000 crore for FY2022 (around Rs. 2,900 crore incurred in 11M FY2022 and AAI's target is Rs. 4500 crore for FY2022) and Rs. 5,000-5200 crore for FY2023 towards upgradation and expansion of the existing airports, revival of non-operational airports, upgradation of air navigation services (ANS) and the telecommunication infrastructure. The capex is anticipated to be funded through term loans, existing liquidity, grants from the GoI and internal accruals. AAI has raised Rs. 1,000-crore debt in FY2022 and is likely to raise an additional debt in FY2023 to fund the capex. The company enjoys strong financial flexibility backed by strategic importance to the GoI.

The rating strengths are offset by the exposure to volatility in aviation traffic. AAI's revenues remain vulnerable to fluctuations in the aviation traffic in the country. The limited number of profitable airports in its portfolio further intensifies the vulnerability. Further, AAI is involved in developing greenfield airports and reviving non-operational airports under the Regional Connectivity Scheme (RCS), which may have relatively low revenue potential and/or long gestation period. Thus, it may impact AAI's profitability and return indicators. Further, the privatisation of the existing airports under AAI can lead to lower revenues and profitability.

Key rating drivers and their description

Credit strengths

Strategic importance to GoI – AAI occupies a strategic position because of owning and controlling a significant portion of the aviation infrastructure in the country. The company manages the entire airspace in India and the adjoining ocean areas. It is an autonomous body under the purview of the Ministry of Civil Aviation (MoCA) and is guided in its operations and functions by the AAI Act, 1994. The Act, among other functions, allows it to manage airports and aeronautical communication stations in the country, provide air traffic service (CNS and ATS) and develop infrastructure at the airports.

Monopoly in providing CNS services – AAI is the sole entity providing CNS services for air traffic management. Thus, it is insulated from competition by way of privatisation.

Strong liquidity and debt coverage indicators – AAI displayed strong profitability metrics, healthy cash accruals, negligible debt levels and robust debt metrics till FY2020. The company's operations and profitability were impacted significantly by the Covid-19 pandemic and invocation of force majeure clause by DIAL and MIAL, leading to operating losses in FY2021. The steady recovery in traffic in FY2022, along with expected growth over the next two years, resumption of revenue sharing payments by MIAL in Q4 FY2022 and by DIAL in FY2023 will result in improved revenues and profitability. AAI's improved liquidity position is supported by recovery of accrued revenue sharing payments equivalent from MIAL, receipt of upfront fee towards the deemed initial RAB from Adani Group on takeover of six airports and recovery of around Rs. 1,000 crore of overdue receivables from Air India. The debt coverage indicators are likely to remain robust with DSCR of over 8 times expected in FY2023 and FY2024.

Credit challenges

Development of greenfield/RCS airports and privatisation likely to impact revenues and profitability – AAI is involved in developing greenfield airports and reviving non-operational airports under RCS, which may have relatively low revenue potential and/or long gestation period. Thus, it may impact AAI's profitability and return indicators. Further, the privatisation of the existing airports under AAI can lead to lower revenues and profitability.

Exposure to volatility in aviation traffic – AAI's revenues are exposed to fluctuations in the aviation traffic in the country. The limited number of profitable airports in its portfolio further intensifies the vulnerability.

Liquidity position: Strong

The company's liquidity position is strong, with unencumbered cash balance of around Rs. 1,000 crore and cushion in working capital limits of Rs. 2,000 crore as on March 1, 2022. It has low debt repayment obligations of Rs. 2.8 crore each in FY2022 and FY2023. AAI is likely to incur a capex of Rs. 3,500-4000 crore for FY2022 (around Rs. 2,900 crore incurred in 11M FY2022 and AAI's target is Rs. 4500 crore for FY2022) and Rs. 5,000-5200 crore for FY2023, which is expected to be funded through term loans, existing liquidity, grants from GoI and internal accruals.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Negative pressure on AAI's ratings could arise if there is a dilution of AAI's strategic importance to the Government. A significant increase in debt along with prolonged impact on earnings due to pandemic on a sustained basis, could also trigger a downgrade in the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Airports Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: Government of India The assigned rating factors in the strategic importance of AAI to the GoI and access to need-based support from the GoI in a timely manner.
Consolidation/Standalone	Standalone

About the company

AAI is a Government organisation responsible for creating, upgrading, maintaining and managing civil aviation infrastructure both on the ground and air space in the country. It was constituted by an Act of the Parliament and came into being on April 1, 1995 by the merger of the erstwhile National Airports Authority (NAA) and International Airports Authority of India (IAAI) to create a centralised organisation that could effectively manage both the international and domestic airports.

AAI owns and maintains 136 airports in the country, which include 81 domestic airports, 24 international airports, 10 customs airports and 21 civil enclaves at defence airfields. It provides air traffic management services over the entire Indian air space and the adjoining oceanic areas, with ground installations at all airports and various other locations to ensure safety of aircraft operations. AAI continues to perform the navigational functions at all the airports (including privatised) and collects the RNFC and TNLC[1] charges for the same.

Key financial indicators

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	12,261.8	4,335.4
PAT (Rs. crore)	1,985.1	-1962.1
OPBDIT/OI (%)	40.8%	-42.5%
PAT/OI (%)	16.2%	-45.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.5
Total Debt/OPBDIT (times)	0.0	-1.7
Interest Coverage (times)	1084.0	-40.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

[1] *Route Navigation Facilitation Charge (RNFC) and Terminal Navigation and Landing Charges (TNLC)*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of February 28, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Mar-9-2022	2-Feb-2021	21-Sep-2020	10-Jun-2019	10-May-2018	4-Apr-2018
1	Term Loans	Long term	3100.00	3100.00	[ICRA]AAA (Stable)	[ICRA]AAA @	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Short-term Working Capital Facilities	Short term	1500.00	-	[ICRA]A1+	[ICRA]A1+ @	[ICRA]A1+	-	-	-
3	Working Capital Facilities	Long term/ Short term	215.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA @ / [ICRA]A1+ @	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+	[ICRA]AAA (Stable) / [ICRA]A1+
4	Commercial Paper	Short Term	0.00	-		-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+
5	Long term Bonds / Debt Programme	Long term	0.00	-		-	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)

@ on Watch with Negative Implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple
Short-term Working Capital Facilities	Simple
Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 Loans	November 2020	-	November 2030	2100.00	[ICRA]AAA (Stable)
NA	Term Loans	December 2021	-	December 2031	1000.00	[ICRA]AAA (Stable)
NA	Short-term Working Capital Facilities	-	-	-	1500.00	[ICRA]A1+
NA	Working Capital Facilities	-	-	-	215.00	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: AAI

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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