

March 07, 2023

Menzies Aviation (Bengaluru) Private Limited: [ICRA]A (Stable) Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	125.00	[ICRA]A (Stable); Assigned
Total	125.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating of Menzies Aviation (Bengaluru) Private Limited (MABPL) favourably factors in the established track record of the sponsor, Menzies Aviation Limited (MAL), in undertaking cargo operations with global presence across 212 airports in 38 countries. MABPL is promoted by MAL and holds 74% of the shareholding with the remaining 26% held by Bangalore International Airport Limited (BIAL). MABPL shall be taking over the cargo terminal operations from May 24, 2023, which is currently being operated by Menzies Aviation Bobba (Bangalore) Private Limited¹ (Menzies Bobba) at Bangalore International Airport. Presence of MAL as the sponsor at both the entities is expected to facilitate in smooth takeover of operations and MABPL is likely to retain majority of the Menzies Bobba customers. The rating derives comfort from the presence of BIAL as a joint venture partner, which is expected to result in operational synergies.

MABPL will be operating the cargo terminal for a period of 15 years and will be constructing a new cargo terminal for the domestic cargo operations, while the existing terminal shall be used for international cargo operations. The new terminal is envisaged to start its commercial operations in H2 FY2024. The successful commencement of cargo operations at the new domestic terminal and ramp-up in cargo volumes remains a key monitorable. At present, Menzies Bobba has a market share of more than 50% for international cargo and 80% for domestic cargo. The total capital commitments for MABPL is around Rs. 240 crore and is expected to be funded through a debt of around Rs. 125 crore and the balance through promoter's contributions.

The rating is, however, constrained by the regulatory risk arising from the timely approval of the proposed tariff hike for cargo terminal operations. MABPL is expected to submit its tariff proposals to Airports Economic Regulatory Authority (AERA) before the commencement of its operations and is expecting a significant hike in tariffs owing to higher concession fee, payment of land lease rentals to BIAL and increase in the regulatory asset base (RAB) due to new cargo terminal addition. As per ICRA's base case estimates, MABPL is likely to achieve revenues of around ~Rs. 150 crore in FY2024 and the profitability margins would be dependent on the approval of tariff hike by AERA.

The rating is also constrained by the inherent vulnerability of MABPL's business operations to the cargo traffic at the Bangalore International Airport, which is susceptible to the adverse developments in the Indian or global economy. Additionally, the company faces competition from the other cargo operator at the Bangalore International Airport. Any significant migration of customers or loss of market share going forward is a credit negative. Further, stiff competition may impact the tariffs charged by MABPL from its customers, notwithstanding the tariff hikes approved by the AERA.

The Stable outlook on the rating reflects ICRA's opinion that MABPL's credit profile will be supported by smooth takeover of cargo operations at the Bangalore International Airport, and strong sponsor profile.

¹ MAL has 49% shareholding in Menzies Bobba whose concession period is ending in May 2023.

Key rating drivers and their description

Credit strengths

Established track record of the sponsor in undertaking cargo operations – MABPL is promoted by MAL and holds 74% of the shareholding with the remaining 26% held by BIAL. MAL has an established track record in undertaking cargo operations, fuel, and ground handling services with global presence across 212 airports in 38 countries. The company shall be taking over the cargo terminal operations from May 24, 2023, which is currently being operated by Menzies Bobba at Bangalore International Airport. Further, MAL has 49% shareholding in Menzies Bobba whose concession period is ending in May 2023.

Smooth takeover of operations from May 2023 – At present, Menzies Bobba has a market share of more than 50% for international cargo and 80% for domestic cargo. Presence of MAL as the sponsor at both the entities is expected to facilitate in smooth takeover of operations and MABPL is likely to retain majority of the Menzies Bobba customers. Although MABPL is a new entity, the company is estimated to achieve cargo volumes of more than 2 lakh MT in FY2024.

Low project gearing – MABPL's total capital commitments is around Rs. 240 crore (~Rs. 180 crore for capital expenditure for construction of new cargo terminal and refurbishment of the existing terminal, Rs. 50 crore of security deposit to be given to BIAL and ~ Rs. 10 crore of payments to be made to BIAL for business transfer considerations) and is expected to be funded through a debt of around Rs. 125 crore and the balance through promoter's contributions. MABPL will be operating the cargo terminal for a period of 15 years and will be constructing a new cargo terminal for the domestic cargo operations, while the existing terminal shall be used for international cargo operations. The new domestic terminal construction will be completed in H2 FY2024. However, till that time both international and domestic operations will be handled at the existing brownfield international terminal.

Presence of BIAL as a shareholder – The rating derives comfort from the presence of BIAL as a joint venture partner, which is expected to result in operational synergies.

Credit challenges

Timely approval of tariff hike is key for profitability and return metrics – The company is exposed to regulatory risk arising from the timely approval of the proposed tariff hike for cargo terminal operations. MABPL is expected to submit its tariff proposals to AERA before the commencement of its operations and is expecting a significant hike in tariffs owing to increase in concession fee, payment of land lease rentals to BIAL and increase in the RAB due to new cargo terminal addition. As per ICRA's base case estimates, MABPL is estimated to achieve revenues of around ~Rs. 150 crore in FY2024 and the profitability margins would be dependent on the approval of tariff hike by AERA.

Potential risk of client loss and pricing pressure due to competition – MABPL faces competition from the other cargo operator at the Bangalore International Airport. Any significant migration of customers or loss of market share going forward is a credit negative. Further, the competitive pressures may impact the tariffs charged by MABPL from its customers, notwithstanding the tariff hikes approved by the AERA.

Vulnerability of revenues to fluctuations in cargo volumes at Bangalore International airport – MABPL's cargo operations remain inherently vulnerable to the cargo traffic at the Bangalore International Airport, which is susceptible to the adverse developments in the Indian or global economy.

Liquidity position: Adequate

MABPL's liquidity position is adequate. The total capital commitments for MABPL is around Rs. 240 crore and is expected to be funded through a debt of around Rs. 125 crore and the balance through promoter's contributions. Moreover, MAL is likely to provide timely support in case of any cost overrun or funding requirement, if any.

Rating sensitivities

Positive factors – ICRA may upgrade MABPL's rating upon successful commencement and ramp-up in cargo volumes of the new domestic cargo facility resulting in improvement in operating profits, debt coverage metrics and liquidity position on a sustained basis. Specific triggers for upgrade include improvement in DSCR to more than 2 times on a sustained basis.

Negative factors – The rating could be downgraded if there is a delay in tariff approval leading to lower-than-expected earnings, thereby adversely impacting its debt coverage metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Menzies Aviation (Bengaluru) Private Limited (MABPL) was incorporated in August 2022, and has won the service provider rights for the cargo operations at Bangalore International Airport. MABPL is a joint venture between Menzies Aviation Limited (MAL) and Bangalore International Airport Limited (BIAL) with the former holding 74% and the later holding 26% of equity in the company.

MABPL will operate, maintain and upgrade the cargo terminal at the Bangalore International Airport. It will provide domestic and international cargo handling and warehousing services to various airlines as well as carrying and forwarding (C&F) agents at the airport. The new concession period shall be for a period of 15 years, commencing from May 2023 to May 2038.

Key financial indicators

Not available as the company was incorporated only in August 2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 07, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Mar 07, 2023				
1 Term loans	Long term	125.00	-	[ICRA]A (Stable)	-	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan*	NA	NA	NA	125.00	[ICRA]A (Stable)

Source: Company

* yet to be sanctioned

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

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

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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.

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Branches



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