September 24, 2024

Bangalore International Airport Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-convertible Debentures	5000.0	[ICRA] AAA (Stable); Assigned
Total	**5000.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for Bangalore International Airport Limited (BIAL) factors in the regulated returns from aeronautical revenues and strong monopoly position as the operator of Kempegowda International Airport (KIA), Bangalore, which is the third largest airport in the country and the largest in South India, with a passenger handling capacity of 51.5 million passenger per annum (mppa). The rating considers the healthy scale of operations, supported by growth in passenger traffic, commencement of operations at terminal 2 and improvement in both aeronautical and non-aeronautical revenues. The passenger traffic at BIAL is projected to increase by 10-11% in FY2025 to around 41-42 million from 31.9 million in FY2023 (CAGR of 14% over FY2023-FY2025). The operating income of BIAL is expected to improve by around 20% in FY2025 to around Rs. 3000 crore from Rs. 2,539 crore in FY2024 on the back of improvement in both aero and non-aero revenues. Aeronautical revenues are likely to grow on the back of increase in passenger and aircraft traffic and the step-up in user development fee (UDF), landing and parking charges in FY2025, as per the third control period (CP 3 – 01.04.2021 to 31.03.2026) tariff order, which was implemented from October 01, 2021. The non-aero revenues are expected to see healthy growth owing to the increase in leasable area amid opening up of terminal 2, development of additional non-aero revenue generating assets, growth in passenger traffic and increasing spend per passenger. The long debt tenure and healthy cash flow from operations are expected to result in healthy debt coverage metrics.

The rating is also supported by the competitive position of BIAL amid the favourable demographics of the city, presence of large Information Technology (IT) base and strong business travel. The rating derives strength from the regulatory framework, which allows an efficient cost recovery from the user tariff. However, the company remains exposed to asset concentration risk and the variations in passenger traffic resulting from economic cycles, which could lead to a temporary decline in traffic. Nevertheless, this is offset by the true-up framework, wherein the shortfall in returns in any given control period are recovered in the subsequent regulatory period, albeit with a lag.

The rating factors in the cash flow ring-fencing and the restrictive debt covenants for making any dividend payments. The joint ownership of BIAL by the Airports Authority of India (AAI) and Government of Karnataka (GoK), and the presence of nominees from both entities on the company's board lends comfort. Further, the strong parentage of BIAL, in the form of Fairfax Group holding 64% in the entity, coupled with the long concession period provides it with strong financial flexibility. The modest revenue-sharing terms with the Government of India (GoI) is another comforting factor.

BIAL received a confirmation letter from the Ministry of Civil Aviation (MoCA), extending the term of the concession agreement for operating KIA, until May 24, 2068. The extension in concession period has resulted in a long tail period improving the company's financial flexibility and refinancing ability. Further, no new airport can commence operations within an aerial distance of 150 km of the airport before the twenty-fifth anniversary of the airport opening date, which ends in 2033, supporting its credit profile. While a second airport in Bangalore is likely to come up post 2033, BIAL is likely to reach their saturation capacity by the time the new airport ramps up their operations. Further, the regulated nature of aeronautical revenues, which assures definitive return on regulatory asset base (RAB), will compensate for the lower passenger traffic by increasing the aeronautical tariffs, and limit the revenue risk in terms of cannibalisation of passenger traffic to a large extent, albeit with a delay.

BIAL has completed the Phase 2 capex, including the construction of new terminal (T2), second runway and the associated infrastructure (apron, forecourt and other landside developments), which has increased its passenger handling capacity to 51.5 mppa from 26.5 mppa. The total capex incurred by BIAL for the same is Rs. 11,403 crore as of June 2024 and it has capitalised a large part of this capex. Of the total incurred capex for Phase 2, AERA had approved 90% of the capex in the earlier tariff orders and ICRA expects the balance capex to be included as a part of the regulatory asset base during CP4 (applicable from 01.04.2026 to 31.03.2031) tariff determination. Notwithstanding this, the projected cash flows and debt service metrics are expected to remain healthy.

BIAL is planning to undertake capex with an outlay of around Rs. 16,000 crore over FY2025-FY2029 for the capacity expansion, which is expected to increase the passenger handling capacity to 80-85 million per annum. The expansion capex is likely to include terminal 2 expansion, terminal 1 upgrade, construction of west cross field taxiway, eastern connectivity tunnel, metro stations and sustaining capex, among others. BIAL is anticipated to avail debt of around Rs. 13,000 crore for undertaking this capex. However, majority of these expansion works will be undertaken only after securing necessary approvals from stakeholders and concerned authorities. Timely completion of the expansion capex within the budgeted costs with no material disallowance by the AERA are key monitorables going forward. While the large debt-funded capex is likely to moderate the leverage metrics, the debt coverage metrics are expected to remain healthy.

BIAL is currently in the process of refinancing the Phase 2 term loans with a longer tenured non-convertible debentures (NCDs) of 15 years including moratorium of 7 years to conserve cash to fund the expansion projects over FY2025-FY2029.

The Stable outlook on the rating reflects ICRA's opinion that BIAL's credit profile will be supported by healthy growth in passenger traffic, robust growth in operating income and healthy debt coverage metrics.

Key rating drivers and their description

Credit strengths

Strong competitive position and monopoly in its region of operations – Kempegowda International Airport, operated by BIAL is the third largest airport in the country and the largest in South India, with a passenger handling capacity of 51.5 mppa. It is the major international airport in Karnataka and has a monopoly position in its area of operations. The rating is supported by the competitive position of BIAL amid the favourable demographics of the city, presence of large IT base and strong business travel. The rating continues to derive strength from the regulatory framework, which allows an efficient cost recovery from the user tariff. However, the company remains exposed to asset concentration risk and the variations in passenger traffic resulting from economic cycles, which could lead to a temporary decline in traffic. Nevertheless, this is offset by true-up framework, wherein the shortfall in returns in any given control period are recovered in the subsequent regulatory period, albeit with a lag.

Healthy increase in passenger traffic and revenues to result in improved cash flow position – The passenger traffic at BIAL witnessed healthy growth of 18% in FY2024 and is expected to increase by 10-11% in FY2025 to around 41-42 million from 31.9 million in FY2023 (CAGR of 14% over FY2023-FY2025). Its operating income is projected to improve by around 20% in FY2025, to reach around Rs. 3,000 crore from Rs. 2,539 crore in FY2024 on the back of improvement in both aero and non-aero revenues. Aeronautical revenues are likely to increase on the back of increase in passenger and aircraft traffic and the step-up in UDF, landing and parking charges in FY2025, as per CP3 tariff order, which was implemented from October 01, 2021. The non-aero revenues are also expected to see healthy growth owing to expansion in leasable area amid opening up of terminal 2, development of additional non-aero revenue generating assets, growth in passenger traffic and increasing spend per passenger. This coupled with healthy operating margins is likely to result in healthy debt coverage metrics.

Extension in concession period resulted in long tail period which provides financial flexibility – BIAL received a confirmation letter from the MoCA, extending the term of the concession agreement for operating KIA, until May 24, 2068. The extension in concession period has resulted in a long tail period improving the company's financial flexibility and refinancing ability. Further, no new airport can commence operations within an aerial distance of 150 km of the airport before the twenty-fifth anniversary of the airport opening date, which ends in 2033 supporting its credit profile. While a second airport in Bangalore is likely to come up post 2033, BIAL is likely to reach their saturation capacity by the time the new airport ramps up their operations. Further, the regulated nature of aeronautical revenues, which assures definitive return on regulatory asset base (RAB), will compensate for the lower passenger traffic by increasing the aeronautical tariffs, and limit the revenue risk in terms of cannibalisation of passenger traffic to a large extent, albeit with a delay.

Cash flow ring-fencing and modest revenue sharing – The cash flow ring-fencing and the restrictive debt covenants for making any dividend payments supports BIAL's credit profile. The joint ownership of BIAL by the Airports Authority of India (AAI) and GoK, and the presence of nominees from both entities on the company's board lends comfort. Further, the strong parentage of BIAL, in the form of the Fairfax Group holding 64% in the entity, coupled with the long concession period provides it with strong financial flexibility. Nevertheless, no major support from Fairfax is being envisaged to BIAL, given its strong financial profile. The modest revenue-sharing terms with the GoI is another comforting factor.

Credit challenges

Exposure to risks associated with large debt funded proposed capex – BIAL is planning to undertake capex with an outlay of around Rs. 16,000 crore over FY2025-FY2029 for the capacity expansion, which is expected to increase the passenger handling capacity of BIAL to 80-85 mppa. The expansion capex is likely to include terminal 2 expansion, terminal 1 upgrade, construction of west cross field taxiway, eastern connectivity tunnel, metro stations and sustaining capex, among others. BIAL is expected to avail debt of around Rs. 13,000 crore for undertaking this capex. However, majority of these expansion works will be undertaken only after securing necessary approvals from stakeholders and concerned authorities. Timely completion of the expansion capex within the budgeted costs with no material disallowance by the AERA are key monitorables going forward. While the large debt-funded capex is likely to moderate the leverage metrics, the debt coverage metrics are expected to remain healthy.

Regulatory risks associated with disallowance of capex and tariff determination – BIAL has completed the Phase 2 capex, including the construction of new terminal (T2), second runway and the associated infrastructure (apron, forecourt and other landside developments), which has increased its passenger handling capacity to 51.5 mppa from 26.5 mppa. The total capex incurred by BIAL for the same is Rs. 11,403 crore as of June 2024 and it has capitalised a large part of this capex. Of the total incurred capex for Phase 2, AERA had approved 90% of the capex in the earlier tariff orders and ICRA expects the balance capex to be included as a part of the regulatory asset base during CP4 (applicable from 01.04.2026 to 31.03.2031) tariff determination. Notwithstanding this, the projected cash flows and debt service metrics are expected to remain healthy.

Liquidity position: Adequate

The liquidity position of the company is adequate, with unencumbered cash balance of Rs. 2347 crore and DSRA of Rs. 238 crore as on August 31, 2024. Additionally, the company has a cushion of Rs. 50 crore of working capital limits as on August 31, 2024. Further, the cash flow from operations would be sufficient to service the repayment obligations of around Rs. 513 crore in FY2025 and Rs. 462 crore in FY2026 (prior to refinancing).

Rating sensitivities

Positive factors – NA

Negative factors – Pressure on BIAL's rating could arise if there is material decline in passenger traffic or non-aero revenues adversely impacting its debt coverage metrics on a sustained basis. Further, larger than anticipated debt levels or material disallowance of capex impacting its debt protection metrics and liquidity position will be credit negative. Specific metrics for rating downgrade include cumulative DSCR falling below 1.40 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Airports
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of BIAL and its 100% owned subsidiary Bangalore Airport Hotel Limited (BAHL). BIAL has provided corporate guarantee for the full tenure of the loans availed by BAHL. Further, ICRA has done limited consolidation of Bengaluru Airport City Limited (BACL) and Bengaluru Airport Services Limited (BASL) factoring in the equity commitments and support towards meeting any cash flow mismatches.

About the company

BIAL is a special purpose vehicle held by FIH Mauritius Investments Limited and Anchorage Infrastructure Investment Holding Limited (Fairfax Companies, holding 64% together), Siemens Project Ventures GmbH, Germany (10%), Airports Authority of India (AAI, 13%), and Karnataka State Industrial and Infrastructure Development Corporation Limited (KSIIDC, 13%), which was formed to set up a greenfield international airport on a Build-Operate-Transfer (BOT) basis at Devanahalli, near Bangalore. The airport commenced operations on May 24, 2008. In 2021, BIAL has received an extension in concession period till May 2068.

Key financial indicators (audited)

BIAL Consolidated	FY2023	FY2024
Operating income	1,844.7	2,749.3
PAT	487.3	-55.7
OPBDIT/OI	60.2%	63.6%
PAT/OI	26.4%	-2.0%
Total outside liabilities/Tangible net worth (times)	4.3	4.9
Total debt/OPBDIT (times)	9.4	6.6
Interest coverage (times)	2.3	1.9

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	September 24, 2024	Date	Rating	Date	Rating	Date	Rating
Proposed Non-convertible debentures	Long term	5000.0	[ICRA]AAA (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed Non-convertible debentures	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*	**Proposed Non-convertible debentures**	NA*	NA*	NA*	5000.0	[ICRA]AAA (Stable)

*Source: Company; * yet to be placed*

Annexure II: List of entities considered for consolidated analysis

Company Name	BIAL Ownership	Consolidation Approach
Bangalore Airport Hotel Limited	100.00%	Full Consolidation
Bengaluru Airport City Limited	100.00%	Limited Consolidation
Bengaluru Airport Services Limited	100.00%	Limited Consolidation

Source: BIAL, ICRA Research

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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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