September 27, 2024

# Airports Authority of India: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based – Term loan | 1000.00 | 1000.00 | [ICRA]AAA (Stable); reaffirmed |
| Short-term – Working capital facilities | 1500.00 | 1500.00 | [ICRA]A1+; reaffirmed |
| Long-term/Short-term – Working capital facilities | 215.00 | 0.00 | - |
| **Total** | **2715.00** | **2500.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The reaffirmation of ratings factors in Airports Authority of India's (AAI) 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. The ratings consider AAI's diversified revenue streams, which include revenues from aeronautical services provided to its owned/managed airports, the CNS services provided for all the airports in the country, non-aeronautical services provided for its owned/managed airports and the revenue share from the JV/PPP[1] airports. Its financial risk profile has substantially improved in FY2024, supported by the healthy improvement in passenger and aircraft traffic, and strong growth in revenue sharing payments from Delhi International Airport Limited (DIAL), Mumbai International Airport Limited (MIAL) and six privatised airports. MIAL and DIAL had stopped making revenue share payments from January 2021 due to the impact of the pandemic on airport operations. However, these airports resumed revenue sharing payments from Q4 FY2022 and April 2022 respectively. AAI's operating income (OI) improved by 31% to Rs. 14,963 crore in FY2024 from Rs. 11,425 crore in FY2023 and has surpassed the pre-Covid level revenues. The operating margins are healthy at 52.7% in FY2024 and improved from 10.5% in FY2022 on the back of strong growth in revenue sharing payments and increase in both aero and non-aero revenues. The operating margins are expected to remain at similar levels going forward, aided by higher revenue sharing payments from JV/PPP airports. The liquidity position remains strong as reflected by free cash of Rs. 4,403 crore and undrawn working capital limits of Rs. 500 crore as on March 31, 2024 against limited debt repayments for FY2025. The company enjoys strong financial flexibility, given the high strategic importance to the GoI.

AAI's revenues are exposed to volatility in aviation traffic in the country as witnessed during the Covid-19 pandemic. Moreover, limited number of airports are profitable, which exposes its profitability to underlying performance of the select profitable airports and dependence on revenue sharing from JV airports. 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 revenue generating airports under AAI can lead to lower revenues and profitability. However, the same is likely to be mitigated to an extent by the compensation received in the form of per pax fee from the privatised airports. AAI is estimated

[1] *JV airports include Delhi and Mumbai international airports, while PPP airports include Ahmedabad, Jaipur, Guwahati, Lucknow, Mangalore and Trivandrum airports*

to incur a capex of more than Rs. 9,000 crore over the next two years (FY2025-FY2026), which is expected to be funded through its existing cash balances, grants from GoI, internal accruals and debt, if required.

The rating factors in the arbitration cases with DIAL and MIAL on Minimum Annual Fee (MAF) payments, wherein MIAL and DIAL invoked force majeure clauses owing to Covid-19 pandemic and stopped paying MAF from January 2021. The arbitration tribunal has given a verdict in favour of DIAL and MIAL and has ordered AAI to refund the MAF paid by MIAL and DIAL during the force majeure period. However, AAI has approached the Hon'ble Delhi High Court challenging the decision of the tribunal, and the matter is sub-judice. In the interim, AAI has deposited Rs. 471 crore and Rs. 1,159 crore with the High Court, in lieu of MAF amount to be refunded to DIAL and MIAL including interest respectively, as per the directions of the court. Any material negative outcome constraining the company's liquidity position is a key rating monitorable.

The Stable outlook reflects ICRA's opinion that AAI will benefit from the strong revenue growth, healthy cash flows and strong debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Strategic importance to GoI; monopoly in providing CNS services –** 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 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. AAI is the sole entity providing CNS services for air traffic management in India.

**Healthy growth in revenue and profitability in FY2024 –** 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, coupled with resumption of revenue sharing payments by MIAL and DIAL in Q4 FY2022 and April 2022, respectively, resulted in improved revenues and profitability. The OI improved by 31% to Rs. 14,963 crore in FY2024 from Rs. 11,425 crore in FY2023 and has surpassed the pre-Covid level revenues of Rs. 12,262 crore (FY2020). The operating margins are healthy at 52.7% in FY2024 and improved from 10.5% in FY2022 on the back of strong growth in revenue sharing payments and increase in both aero and non-aero revenues. The operating margins are expected to remain at similar levels going forward, supported by higher revenue sharing payments from JV/PPP airports.

**Strong debt coverage indicators and liquidity position –** The debt coverage indicators are expected to remain strong in the medium term, on the back of healthy growth in operating profits. The company enjoys strong financial flexibility, given the high strategic importance to the GoI. The liquidity position remains strong as reflected by free cash of Rs. 4,403 crore and undrawn working capital limits of Rs. 500 crore as on March 31, 2024 against limited debt repayments for FY2025.

### 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 revenue generating airports under AAI can lead to lower revenues and profitability. However, the same is likely to be mitigated to an extent by the compensation received in form of per pax fee from the privatised airports.

**Exposed to volatility in aviation traffic –** AAI's revenues are exposed to fluctuations in the aviation traffic in the country as witnessed during the Covid-19 pandemic. The limited number of profitable airports in its portfolio further intensifies the vulnerability. However, the diversified stream of revenues, strong financial flexibility and its strategic importance to GoI mitigates this risk to a certain extent.

## Liquidity position: Strong

The company's liquidity position is strong, with unencumbered cash balance of Rs. 4,403 crore and cushion in working capital limits of Rs. 500 crore as on March 31, 2024. It has low debt repayment obligations of Rs. 1.3 crore in FY2025 and Rs. 387.9 crore in FY2026. AAI is likely to incur a capex of more than Rs. 9,000 crore over the next two years (FY2025-FY2026), which is expected to be funded through its existing cash balances, grants from GoI, internal accruals and debt if required.

## Rating sensitivities

**Positive factors –** NA

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

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Airports |
| **Parent/Group support** | Parent: Government of India<br>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 the 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 133 airports in the country, which include 100 domestic airports, 23 international airports, 10 customs airports. 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[2] charges for the same.

### Key financial indicators

| AAI Standalone | FY2023 (Audited) | FY2024 (Provisional) |
|---|---|---|
| **Operating income** | 11,425 | 14,963 |
| **PAT** | 2,972 | 4,651 |
| **OPBDIT/OI** | 45.5% | 52.7% |
| **PAT/OI** | 26.0% | 31.1% |
| **Total outside liabilities/Tangible net worth (times)** | 1.4 | 1.2 |
| **Total debt/OPBDIT (times)** | 0.9 | 0.3 |
| **Interest coverage (times)** | 50.6 | 80.9 |

*Source: Company, ICRA Research; Amount in Rs. crore; All ratios as per ICRA's calculations;*
*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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

## 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 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Type | Amount Rated (Rs. crore) | September 27, 2024 | FY2024 | | FY2023 | | FY2022 | |
| | | | | Date | Rating | Date | Rating | Date | Rating |
| **Term loan** | Long term | 1000.00 | [ICRA]AAA (Stable) | June 30, 2023 | [ICRA]AAA (Stable) | - | - | March 09, 2022 | [ICRA]AAA (Stable)* |
| **Term loan** | Long term | - | - | June 30, 2023 | [ICRA]AAA (Stable) reaffirmed and withdrawn | - | - | March 09, 2022 | [ICRA]AAA (Stable)* |
| **Short-term – Working capital facilities** | Short term | 1500.00 | [ICRA]A1+ | June 30, 2023 | [ICRA]A1+ | - | - | March 09, 2022 | [ICRA]A1+* |
| **Working capital facilities** | Long term/ Short term | - | - | June 30, 2023 | [ICRA]AAA (Stable)/ [ICRA]A1+ | - | - | March 09, 2022 | [ICRA]AAA (Stable)/ [ICRA]A1+* |

**Removed from Watch with Negative Implications*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term Fund-based – Term loan** | Simple |
| **Short-term – 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 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** | December 2021 | - | November 2031 | 1000.00 | [ICRA]AAA (Stable) |
| **NA** | **Short-term – Working capital facilities** | - | - | - | 1500.00 | [ICRA]A1+ |

*Source: Company*

*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.

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