

December 09, 2024

Bengaluru Airport Services Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based – Rupee term loan	165.00	[ICRA]AA-(Stable); assigned
Total	165.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned for Bengaluru Airport Services Limited (BASL) factors in its monopolistic position as the sole operator of lounges and transit hotel at terminal-2 of Kempegowda International Airport (KIA), Bangalore. BASL has started the domestic and international lounge operations in January 2023 and September 2023, respectively, and has quickly ramped up the operations with penetration¹ levels increasing to ~17% and ~19%, respectively, for domestic and international lounges in Q2 FY2025. The lounge business is directly linked to the passenger traffic at KIA and with the passenger traffic projected to see a growth of 10-11% in FY2025, BASL is likely to achieve strong revenue growth in FY2025 over FY2024. Further, the growth is expected to continue in the medium term on the back of traffic growth, healthy penetration levels, and tariff revisions at lounges.

The rating factors in the presence of long-term concession agreement signed with Bangalore International Airport Limited (BIAL, rated at [ICRA] AAA (Stable)) for a period of 15 years starting from October 01, 2024 for operating the lounges and transit hotel at terminal 2 of KIA, Bangalore. The rating also considers the strong parentage of BASL, by virtue of being 100% owned by BIAL and the close operational and financial linkages with the parent entity, given the common management and track record of timely financial support. Further, the presence of BIAL as the promoter and the concessioning authority is likely to result in operational synergies for BASL.

The rating is, however, constrained by the high leverage and revenue share to be paid to BIAL. As per the concession agreement signed with BIAL, BASL is required to pay a revenue share of 33.69% and 40.51% for the domestic and international lounges, respectively, resulting in moderate operating margins in the medium term. BASL has incurred a capex of Rs. 221 crore for undertaking the construction of lounges and transit hotel and the same is funded by equity of Rs. 56 crore and debt of Rs. 165 crore. Resultantly, the leverage and coverage metrics are likely to remain moderate in the medium term. However, the long concession period provides the company with strong financial flexibility and refinancing ability. The rating is constrained by the high revenue concentration risk of aggregators (banks/card operators), given that they contribute to nearly 65-70% of the overall revenue of lounges, and any changes in the pricing negotiated with these aggregators is likely to impact the revenues and operating margins of the company. Further, its operating income is susceptible to any changes in the credit card schemes including tightening of complimentary access to lounge (based on minimum spendings by the customers) by banks/card operators. Nevertheless, the nascent stage of lounge operations in the country, coupled with increasing penetration of credit cards is likely to mitigate this risk to a certain extent in the medium term. Moreover, the lounge services of BASL are targeted at the premium card holders, and hence the risk of tightening access to these cards is low.

The company remains exposed to variation in the passenger traffic at KIA, Bangalore, resulting from economic cycles and inherent cyclicity, which exposes BASL's revenues to risks associated with economic slowdown and exogenous shocks. However, the expectation of healthy passenger traffic growth and variable nature of revenue share payments are likely to mitigate the impact of the same to an extent.

¹ Ratio of number of passengers utilising the lounge services to number of departing passengers

The Stable outlook on the rating reflects ICRA's opinion that BASL's credit profile will be supported by healthy ramp-up in operations on the back of increase in passenger traffic, presence of proposed long-term concession agreement, and strong promoter profile.

Key rating drivers and their description

Credit strengths

Sole operator of lounges and transit hotel at terminal 2 of Kempegowda International Airport – BASL is the sole operator of lounges and transit hotel at terminal 2 of KIA, Bangalore, and has started the domestic and international lounge operations in January 2023 and September 2023 respectively. The company has quickly ramped up the operations with penetration levels increasing to ~17% and ~19%, respectively, for domestic and international lounges in Q2 FY2025. The lounge business is directly linked to the passenger traffic at KIA and with the passenger traffic projected to see a growth of 10-11% in FY2025, BASL is likely to achieve strong revenue growth in FY2025 over FY2024. Further, the growth is expected to continue in the medium term on the back of robust passenger traffic growth, healthy penetration levels, and tariff revisions at lounges.

Presence of long-term concession agreement with BIAL – The company has signed a long-term concession agreement with BIAL for a period of 15 years starting from October 01, 2024 for operating the lounges and transit hotel at terminal 2 of KIA, Bangalore in Q3 FY2025. The long concession period provides the company with strong financial flexibility and refinancing ability.

Strong promoter profile lends financial and operational flexibility – BASL is a wholly-owned subsidiary of BIAL and has close operational and financial linkages with the parent entity, given the common management and track record of timely financial support. BIAL has extended financial support to BASL in FY2024 in the form of loans and advances for undertaking the construction of lounges. Further, the presence of BIAL as the promoter and the concessioning authority is likely to result in operational synergies for BASL.

Credit challenges

High leverage and revenue share resulting in moderate coverage metrics in the medium term – As per the concession agreement signed with BIAL, BASL is required to pay a revenue share of 33.69% and 40.51% for the domestic and international lounges respectively, resulting in moderate operating margins in the medium term. BASL has incurred a capex of Rs. 221 crore for undertaking the construction of lounges and transit hotel and the same is funded by equity of Rs. 56 crore and debt of Rs. 165 crore. Resultantly, the leverage and coverage metrics are likely to remain moderate in the medium term. However, the long concession period provides the company with strong financial flexibility and refinancing ability. Further, the leverage and coverage metrics are expected to improve with increase in revenues and repayment of debt.

High revenue concentration risk of aggregators; risk of tightening credit card access norms to lounges – BASL generates revenue from lounges through aggregators (banks/card operators), airlines and direct walk-ins. Revenue from aggregators contribute to nearly 65-70% of the overall revenue of lounges. Hence, the rating is constrained by the high revenue concentration risk of aggregators and any changes in the pricing negotiated with these aggregators is likely to impact the revenues and operating margins of the company. Further, its operating income is susceptible to any changes in the credit card schemes including tightening of complimentary access to lounge (based on minimum spendings by the customers) by banks/card operators. Nevertheless, the nascent stage of lounge operations in the country, coupled with increasing penetration of credit cards is likely to mitigate this risk to a certain extent in the medium term. Moreover, the lounge services of BASL are targeted at the premium card holders, and hence the risk of tightening access to these cards is low.

Revenues are exposed to variations in passenger traffic resulting from economic cycles – The company is exposed to variation in passenger traffic at the KIA, Bangalore, resulting from economic cycles and inherent cyclicity, which exposes BASL to revenue risks associated with economic slowdown and exogenous shocks. However, the expectation of healthy passenger traffic growth and variable nature of revenue share payments are likely to mitigate the impact of the same to an extent.

Liquidity position: Adequate

BASL's liquidity position is adequate with unencumbered cash balance of Rs. 4.4 crore as on March 31, 2024. The cash flow from operations is expected to be sufficient to meet the debt servicing obligations (P+I) of around Rs. 9.4 crore in FY2025 and Rs. 21.3 crore in FY2026.

Rating sensitivities

Positive factors – ICRA may upgrade BASL's rating upon healthy improvement in scale of operations and earnings resulting in improved debt coverage metrics and liquidity position on a sustained basis.

Negative factors – The rating could be downgraded if there is a significant decline in earnings leading to weakening of debt coverage metrics and liquidity position on a sustained basis. Further, ICRA could downgrade the rating if there is any deterioration in the credit profile or support philosophy or linkage to the sponsor, BIAL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Support – BIAL The rating factors in the expected financial support from BIAL to BASL to protect its reputation from the consequence of a subsidiary's distress.
Consolidation/Standalone	Standalone

About the company

Bengaluru Airport Services Limited (BASL) is a wholly-owned subsidiary of Bangalore International Airport Limited and is incorporated in India on August 06, 2020. The entity was formerly known as Bengaluru Airport Infra Services Limited. The company is currently operating the lounges at Terminal 2 of Bangalore International Airport Limited. Further, it is expected to start the operations of a transit hotel at Terminal 2 of Bangalore International Airport Limited from Q3 FY2025. BASL has signed a long-term concession agreement with BIAL for a period of 15 years commencing from October 01, 2024 for operating the lounges and transit hotel at terminal 2 in Q3 FY2025.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	3.0	112.6
PAT	0.1	6.2
OPBDIT/OI	26.4%	23.8%
PAT/OI	4.3%	5.5%
Total outside liabilities/Tangible net worth (times)	1,459.9	38.8
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	1.2	2.9

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Dec 09, 2024	-	-	-	
1 Term loan	Long Term	165.0	[ICRA]AA- (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	April 2024	NA	March 2034	165.0	[ICRA]AA- (Stable)

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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Branches



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