

April 09, 2020

GMR Air Cargo and Aerospace Engineering Limited (formerly known as GMR Aerospace Engineering Limited): Rating placed on watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	275.00	275.00	[ICRA]AA(CE)@; placed on watch with negative implications
Total	275.00	275.00	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]A-

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA (CE)@ rating on Rs. 275.0-crore NCD Programme

The above rating is based on the strength of the unconditional and irrevocable guarantee provided by GMR Hyderabad International Airport Limited (GHIAL; rated [ICRA]AA @), the parent of GMR Air Cargo and Aerospace Engineering Limited (GACAEL), for the rated non-convertible debentures (NCD) programme.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by GHIAL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AA(CE) against the rating of [ICRA]A- without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » The guarantor irrevocably and unconditionally as primary obligor and principal debtor, guarantees to the debenture trustee, the due and punctual payment of secured debt by the company until final maturity date
- » The guarantee is a continuing guarantee and shall remain in full force and effect and be binding upon the guarantor till the final settlement date
- » The guarantor agrees upon demand by the debenture trustee, to pay without demur or protest the guaranteed obligation

- » *The guarantor waives, suretyship and other rights, including the rights under Indian contract Act 1872, in favour of Debenture trustee for the benefit of debenture holders*
- » Promoter shall ensure that its DSCR shall not fall below 1.1x at any time during the tenor of the facility.

Key rating drivers and their description

Credit strengths

Guarantee from GHIAL for Rs. 275.0 crore NCD Programme – The rating takes support from the strong profile of the sponsor – GMR Hyderabad International Airport Limited (rated [ICRA]AA@). The rating for the NCD programme of Rs. 275 crore is based on the strength of unconditional and irrevocable undertaking and guarantee provided by GHIAL.

Payment mechanism in place to ensure timely payments – The NCDs of Rs. 275 crore have a scheduled tenor of seven years from the deemed date of allotment. The NCDs have a bullet repayment structure, payable on the maturity date. The coupon would be payable on a semi-annual basis. The undertaking from GHIAL would cover all obligations of GACAEL that may arise on the rated NCDs. The payment mechanism is designed to ensure timely payment to the NCD investors, as per the terms of the transaction

Liquidity position

For the [ICRA]AA (CE)@ rating on Rs. 275.0-crore NCD Programme: Adequate

The liquidity position of the guarantor, GHIAL is adequate with assignable cash balance (excluding bond proceeds, ICDs and investments in commercial papers) of Rs. 628.71 crore¹ as on March 18, 2020. The company does not have any external principal repayment obligations in FY2021. The pending capex to be incurred will be funded through undrawn portion of project debt and encumbered balances cash earmarked for capex.

Rating sensitivities

For the [ICRA]AA(CE)@ rating on Rs. 275.0-crore NCD Programme

Positive Trigger

If there is any improvement in the credit profile of guarantor.

Negative Trigger

Negative pressure on rating could arise in case of failure of relevant stakeholders to adhere to NCD structure or deterioration in the credit profile of guarantor.

¹ As on March 18, 2020, bond proceeds (parked for capex) amount to Rs. 835 crore, Rs. 652.83 crore is invested in commercial papers, Rs. 200 crore is extended as ICDs to a group entity and Rs. 67.50 is restricted cash; remaining Rs. 628.71 crore is assignable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Support – GHIAL. The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company, GHIAL.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

GMR Air Cargo and Aerospace Engineering Limited (GACAEL) is a wholly owned subsidiary of GMR Hyderabad International Airport Limited (GHIAL). GACAEL is formed from the merger of GMR Aero Technic Limited and GMR Hyderabad Air Cargo and Logistics Private Limited into GMR Aerospace Engineering Limited. The company is into maintenance, repair and overhaul (MRO) and cargo handling business at Rajiv Gandhi International Airport in Hyderabad. The company has received merger approval from National Company Law Tribunal (NCLT) on July 26, 2019 with effective date of implementation from April 1, 2018. The company was renamed as GACAEL on September 25, 2019.

Key financial indicators

	FY2019 Audited	H1 FY2020 Provisional
Operating Income (Rs. crore)	153.5	92.7
PAT (Rs. crore)	-3.2	6.0
OPBDIT/OI (%)	15.1%	22.7%
RoCE (%)	11.0%	18.0%
Total Outside Liabilities/Tangible Net Worth (times)	-12.4	-34.2
Total Debt/OPBDIT (times)	7.9	4.3
Interest Coverage (times)	1.3	1.7
DSCR	1.4	2.0

Source: GACAEL

Guarantor's profile

GHIAL operates the Rajiv Gandhi International Airport at Shamshabad in Hyderabad. It commenced commercial operations on March 23, 2008. The company's sponsors include GMR Airports Limited (63% holding), Malaysia Airport Holdings Berhad (MAHB) (11%), Airports Authority of India (AAI) (13%), and Government of Telangana State (13%). GHIAL has a 30-year concession for the development, maintenance and operation of the Shamshabad airport, which is extendable for 30 years at its option and another 30 years on mutual agreement. The airport was constructed at a total cost of Rs. 2920 crore with an initial handling capacity of 12 million passengers per annum. The master plan envisages a terminal capacity of 80 million passengers per annum, by the end of the concession term.

Link for last rating rationale of guarantor: [Rationale](#)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018			
					9-Apr-2020	6-Nov-2019	31-December-2018	19-April-2018	16-October-2017	9-October-2017	5-July-2017	
1	NCD	Long Term	275	275	[ICRA]AA(CE)@	[ICRA]AA(CE) (Stable)	-	-	-	-	-	-
2	NCD	Long Term	100	-		[ICRA]AA(SO) (Stable); withdrawn	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	Provisional [ICRA]AA (SO) (Stable)	-	
3	Term Loan – Fund Based	Long Term	-	-		-	-	[ICRA]AA (SO) (Stable); Withdrawn	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)
4	Unallocated Limit	Long Term	-	-		-	-	[ICRA]AA (SO) (Stable); Withdrawn	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)

Amount in Rs. crore

@placed on watch with negative implications

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE550V08017	NCD	October 2017	8.55%	October 2024	275.00	[ICRA]AA(CE)@

Source: GACAEI

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Analyst Contacts

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Shiffali Garg

+91 124 4545 868

shiffali.garg@icraindia.com

Relationship Contact

L Shivakumar

+91 22 3047 0005

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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