

October 09, 2020

## GMR Air Cargo and Aerospace Engineering Limited (formerly known as GMR Aerospace Engineering Limited): Rating reaffirmed; Negative outlook assigned

### 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); reaffirmed and negative outlook assigned; removed from watch with negative implications
<b>Total</b>	<b>275.00</b>	<b>275.00</b>	

\*Instrument details are provided in Annexure-1

<b>Rating Without Explicit Credit Enhancement</b>	<b>[ICRA]A-</b>
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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

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 (Negative)), the parent of GMR Air Cargo and Aerospace Engineering Limited (GACAEL), for the rated non-convertible debentures (NCD) programme. The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor GHIAL.

For arriving at the ratings of GHIAL, ICRA has considered the consolidated financials of GHIAL and its subsidiaries namely GMR Hyderabad Aerotropolis Limited, GMR Hyderabad Aviation SEZ Limited, GMR Air Cargo and Aerospace Engineering Limited, GMR Hospitality and Retail Limited, GMR Aero Technic Limited.

### 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

- » DSCR shall not fall below 1.1x at any time during tenor of the facility. Such DSCR testing shall be done on a semi-annual basis on the basis of trailing 12-month financial
- » Coupon will be reset if the rating is downgraded during the tenure of the instrument and shall be increased by 25 bps for every notch downgrade from the date of such downgrade

- » *The promoter shall undertake that all loans and advances in any form provided by it to the issuer or any affiliates of promoter to the company or unpaid dues including trade payables due to promoter or any affiliates shall be subordinate to the NCDs and shall have no right to call an event of default.*

## 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 (Negative)). 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

The liquidity position of the Guarantor is adequate with assignable cash balance (excluding bond proceeds earmarked for capex, ICDs and investments in commercial papers) of Rs. 727.5 crore<sup>1</sup> as on August 31, 2020. The company has low debt repayment obligations Rs. 7.6 crore and Rs. 24.39 crore in FY2021 and FY2022 respectively. The pending capex for FY2021 and FY2022 will be funded through encumbered cash balance earmarked for capex and the current available liquidity.

## Rating sensitivities

### Positive Trigger

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

### Negative Trigger

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

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a>
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

<sup>1</sup> As on August 31, 2020, at consolidated level, bond proceeds (parked for capex) amount to Rs. 445.0 crore, Rs. 416.3 crore is invested in commercial papers, Rs. 200 crore is extended as ICDs to a group entity and Rs. 71.1 is restricted cash; remaining Rs. 727.5 crore is assignable.

## 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 (GACAEL)

	FY2019	FY2020
Operating Income (Rs. crore)	153.5	203.5
PAT (Rs. crore)	-3.2	16.4
OPBDIT/OI (%)	15.1%	21.3%
PAT/OI (%)	-1.3%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	-12.4	-122.8
Total Debt/OPBDIT (times)	7.9	5.0
Interest coverage (times)	1.3	1.9

Source: GACAEL; ICRA research

## 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	Rating	FY2020	FY2019		FY2018		
					9-October-2020	9-April-2020	6-November-2019	31-December-2018	19-April-2018	16-October-2017	9-October-2017	5-July-2017
1	NCD	Long Term	275.0	275.0	[ICRA]AA(CE) (Negative)	[ICRA]AA(CE)@	[ICRA]AA(CE) (Stable)	-	-	-	-	-
2	NCD	Long Term	-	-			[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)
4	Unallocated Limit	Long Term	-	-			-	-	[ICRA]AA (SO) (Stable); Withdrawn	[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](http://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)(Negative)

Source: GACAEEL

### Annexure-2: List of entities considered for consolidated analysis

Not applicable

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