January 12, 2024

GMR Air Cargo and Aerospace Engineering Limited (formerly GMR Aerospace Engineering Limited): Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund based -Term loans	293.25	276.00	[ICRA]AA (CE) (Stable); reaffirmed and outlook revised to Stable from Positive
Long Term-Fund based - Working capital facilities	45.00	45.00	[ICRA]AA- (Stable); reaffirmed
Long Term – Unallocated Limits	30.00	30.00	[ICRA]AA- (Stable); reaffirmed
Total	**368.25**	**351.00**	

Rating Without Explicit Credit Enhancement	[ICRA]AA-

**Instrument details are provided in Annexure-I*

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) (Stable) rating

The rating for the Rs. 276-crore term loan facility of GACAEL is based on the strength of the corporate guarantee provided by GHIAL (rated [ICRA]AA+ (Stable)), the parent of GACAEL. The above rating has been reaffirmed at [ICRA]AA (CE) with the outlook revised to Stable from Positive. The CE rating is one notch lower than the rating of the guarantor and is constrained, given the absence of pre-default invocation and a well-defined payment mechanism in the corporate guarantee deed. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GHIAL.

For arriving at the ratings of GHIAL, ICRA has consolidated the financials of GHIAL and its subsidiaries, namely GACAEL, GMR Hyderabad Aviation SEZ Limited, GMR Hospitality and Retail Limited and GMR Hyderabad Aerotropolis Limited. ICRA has considered the strong linkages of GHIAL and its subsidiaries through common management, operational linkages, track record of timely and need-based financial support, and the strategic importance of GACAEL to GHIAL's operations. ICRA notes the presence of cross-default clauses in the loan agreements of GHIAL as well as GACAEL, which further strengthens the linkages.

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by GHIAL is strong to result in an enhancement in the rating of the said instrument to [ICRA]AA (CE) against the rating of [ICRA]AA- without explicit credit enhancement. In case the rating of the guarantor or the unsupported rating of GACAEL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- Debt service reserve (DSR) of six months (principal + interest)
- Minimum DSCR >= 1.15 times and Long-term Debt/EBITDA <= 7.0 times
- During the currency of the loan, the guarantors will not, without the banks' permission formulate any scheme of amalgamation/ reconstitution or change in management control
- Investments in debt mutual funds schemes with a minimum rating of AA/A1+ or an equivalent rating by rating agency or fixed deposits with a bank with a minimum rating of AA or an equivalent rating by rating agency
- Restricted payments clause for payment of dividends, extension of loans, etc.

For [ICRA]AA- (Stable) Rating

The rating reaffirmation considers the strength of GMR Air Cargo and Aerospace Engineering Limited (GACAEL) as the sole operator of the maintenance, repair, and overhaul (MRO) and cargo businesses at Hyderabad airport. The MRO business contributes over 70% of GACAEL's revenues and experienced minimal disruption to its operations during the pandemic, attributed to mandatory periodical checks carried out for aircraft maintenance. Further, MRO revenues improved to Rs. 274.2 crore in FY2023 from Rs. 153.5 crore in FY2019 due to the addition of new clients. The MRO business is expected to witness ramp-up on the back of increased aircraft movements and the signing of new long-term deals. While the cargo volumes are yet to recover to pre-covid levels, the revenue from cargo business (~30% share of revenue during FY2023) is expected to surpass the pre-covid levels and increase by around 30% in FY2024. This growth is expected due to the rise in cargo tariffs following the implementation of Control Period 3 (CP3, 01.04.2021 – 31.03.2026) tariff order from May 01, 2023. With healthy growth prospects for MRO and cargo division in the medium term, the company's revenues are expected to witness around 10% year-on-year (YoY) growth over the next 2-3 years.

The rating favourably factors in GACAEL's close operational and financial linkages with GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA+ (Stable)), given the common management and track record of timely financial support from GHIAL. Moreover, as per ICRA's estimates, GACAEL's MRO revenues account for around 25% of GHIAL's consolidated non-aero revenues while cargo revenues account for around 10% of GHIAL's consolidated aero revenues in FY2024, indicating its strategic importance for its parent entity.

The rating strengths are offset by the vulnerability to fluctuations in cargo volumes at the Hyderabad Airport, exposing GACAEL's revenues to risks associated with global economic slowdown and exogenous shocks. Further, the cargo business is expected to face competition going forward with a second cargo operator to be onboarded in FY2025/FY2026 and any significant impact on account of the same remains a key rating monitorable. Additionally, GACAEL has large capex plans, for both MRO and cargo divisions during FY2024-FY2027 of around Rs. 350 crore, which is expected to be funded by a mix of debt and internal accruals. The capital expenditure is towards the expansion of cargo terminal, installation of additional hangars, hanger doors, regulatory and operational capex. Due to the large debt-funded capex, the leverage and debt coverage metrics are expected to remain moderate in the medium term.

The Stable outlook reflects ICRA's expectation that GACAEL's credit profile will benefit from the inherent advantage of mandatory checks to be carried out by the aircrafts for MRO division, and steady growth in the domestic cargo business.

Key rating drivers and their description

Credit strengths

Strong sponsor with demonstrated track record of financial support – The rating takes support from the strong profile of the sponsor – GHIAL (rated [ICRA]AA+ (Stable)). GACAEL has close operational and financial linkages with GHIAL, given the common management and track record of timely financial support. The rating for the term loan facility is based on the strength of the unconditional and irrevocable corporate guarantee provided by GHIAL.

Healthy growth in OI during FY2019-FY2023 and is expected to sustain in the medium term – GACAEL's operating income (OI) increased at a CAGR of 11% to Rs. 382.4 crore in FY2023 from Rs. 252.1 crore in FY2019, primarily on the back of growth in revenues with addition of clients in the MRO division. Further, the revenues for the MRO division were not impacted during the pandemic due to mandatory periodical checks to be carried out for the aircrafts and the growth is likely to continue going forward. The cargo revenues are likely to grow by more than 20% over the next 3 years, on the back of an increase in cargo tariffs (~32% in FY2024, 20% in FY2025 and 20% in FY2026) as per the CP3 tariff order. With healthy growth prospects for the MRO and cargo divisions in the medium term, the company's revenues are expected to witness around 10% year-on-year (YoY) growth over the next 2-3 years.

Credit challenges

Vulnerability to fluctuations in cargo volumes at Hyderabad Airport – GACAEL's cargo operations remain susceptible to fluctuations in cargo volumes at the Hyderabad Airport. The cargo volumes, in turn, depend on global economic conditions and any slowdown in global trade could adversely impact the company's operations. Further, the cargo business is expected to face competition going forward with a second cargo operator to be onboarded in FY2025/FY2026 and any significant impact on account of the same remains a key rating monitorable.

Large capex plans in medium term – GACAEL has large capex plans of Rs. 350 crore, for the MRO and cargo divisions during FY2024-FY2027. The same is expected to be funded by a mix of debt and internal accruals. The capital expenditure is towards the expansion of cargo terminal, installation of additional hangars, hanger doors, regulatory and operational capex. Due to the large debt-funded capex, the leverage and debt coverage metrics are expected to remain moderate in the medium term.

Liquidity position

For the [ICRA]AA (CE) (Stable) rating: Adequate

The liquidity position of the guarantor (GHIAL) is adequate, with an assignable cash balance of around Rs. 630 crore (excluding liquidity earmarked for capex of Rs. 1,256 crore, and restricted cash) as on September 30, 2023. Additionally, the company had a cushion of Rs. 150 crore of working capital limits as on September 30, 2023. Further, the cash flow from operations would be sufficient to service the repayment obligations of around Rs. 108 crore in FY2024 and Rs. 132 crore in FY2025.

For the [ICRA]AA- (Stable) rating: Adequate

GACAEL's liquidity position is adequate with unencumbered cash balance and liquid investments of around Rs. 75 crore and cushion in working capital limits of around Rs. 20 crore as on September 30, 2023. The company has repayment obligations of Rs. 21.0 crore in FY2024 and Rs. 27.0 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations.

Rating sensitivities

Positive factors

For the [ICRA]AA (CE) (Stable) rating

ICRA could upgrade the rating if there is significant improvement in the scale and earnings resulting in improvement in debt coverage metrics on a sustained basis and improvement in the credit profile of the parent.

For the [ICRA]AA- (Stable) rating

ICRA could upgrade the rating if there is significant improvement in the scale and earnings resulting in improvement in debt coverage metrics on a sustained basis and improvement in the credit profile of the parent.

Negative factors – The rating could be downgraded if the credit profile of the guarantor deteriorates or there is any weakening of the linkage with the parent company (GHIAL). A significant decline in GACAEL's revenues and profitability, deteriorating the debt coverage metrics and liquidity on a sustained basis, may exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Support – GHIAL. The rating factors in the expected financial support from GHIAL to GACAEL to protect its reputation from the consequence of a subsidiary's distress. GHIAL has also provided an unconditional and irrevocable guarantee.
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

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

Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	349.1	382.4	188.0
PAT	11.9	10.2	13.6
OPBDIT/OI	17.2%	16.2%	21.7%
PAT/OI	3.4%	2.7%	7.2%
Total outside liabilities/Tangible net worth (times)	37.3	21.9	15.1
Total debt/OPBDIT (times)	5.9	5.6	4.1
Interest coverage (times)	1.7	1.7	2.3

*Source: Company, ICRA Research; * Provisional numbers; 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 rating (FY2024)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
					Jan 12, 2024	Dec 27, 2022	Dec 16, 2022	Jul 29, 2022	Dec 31, 2021	Oct 18, 2021	Oct 09, 2020	Apr 09, 2020
1	Term loans	Long term	276.00	275.13	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Negative)	-	-	-
2	Working capital facilities	Long term	45.00	24.31	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-	-
3	Unallocated limits	Long term	30.00	0.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-	-	-	-	-
4	NCD	Long term	-	-	-	-	-	-	-	[ICRA]AA (CE) (Negative); Withdrawn	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@

@placed on watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund based -Term Loan	Simple
Long Term-Fund based - Working capital facility	Simple
Long Term – Unallocated limits	NA

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
-	**Long Term-Fund based - Term Loan**	August 2021	-	September 2031	276.00	**[ICRA]AA (CE) (Stable)**
-	**Long Term-Fund based - Working capital facility**	-	-	-	45.00	**[ICRA]AA- (Stable)**
-	**Long Term – Unallocated limits**	-	-	-	30.00	**[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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6606 9912
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 4547 4829
vinay.g@icraindia.com

M Rajashekar Reddy
+91 40 4547 4829
m.rajashekarreddy@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
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

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.

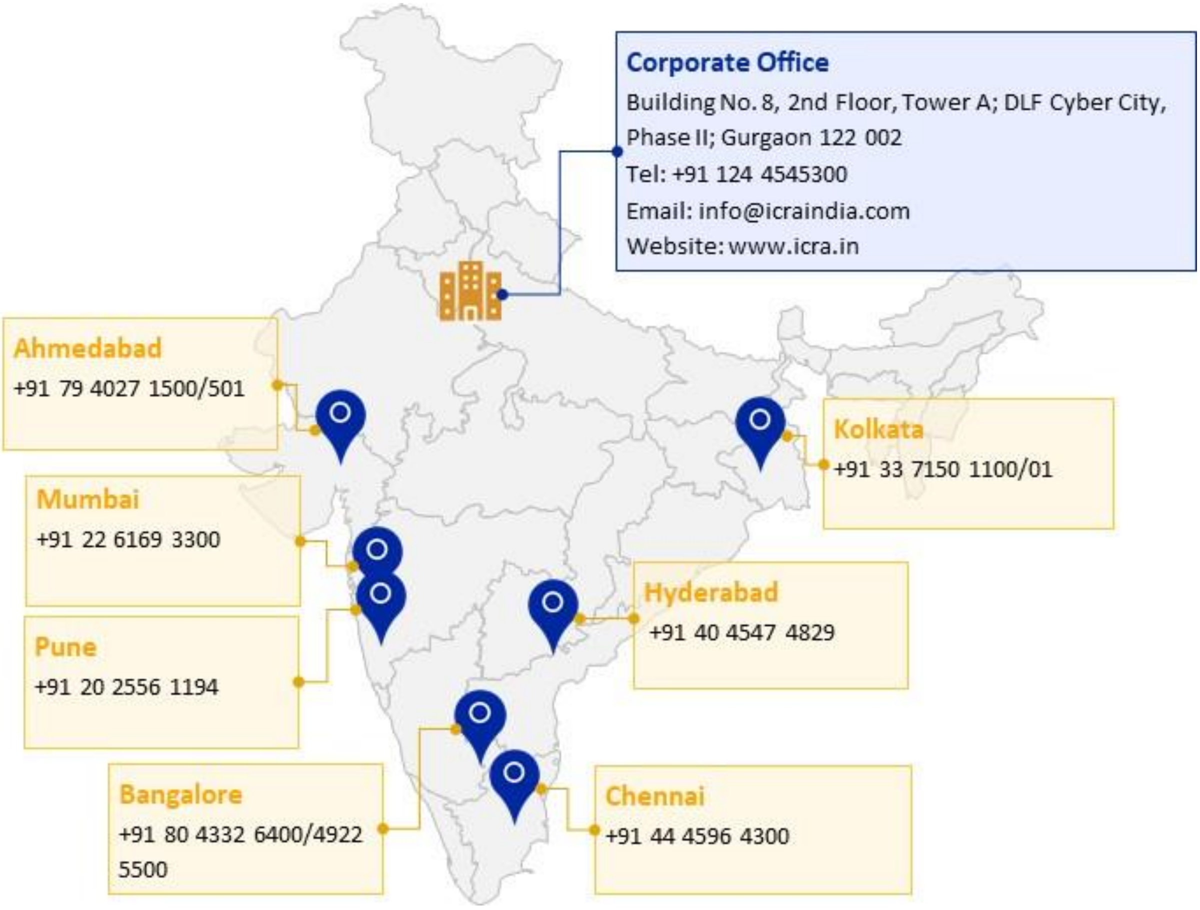
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.