

India Ratings Assigns Adani Airport Holdings’s Additional Proposed NCD ‘IND A+’/Stable; Affirms Existing Ratings

Sep 23, 2024 | Airport & Airport services

India Ratings and Research (Ind-Ra) has taken the following rating actions on Adani Airport Holdings Limited’s (AAHL) debt instruments:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
External commercial borrowing	-	-	-	INR10,000	IND A+ /Stable	Affirmed
Non-convertible debentures*	-	-	-	INR4,000	IND A+ /Stable	Affirmed
Proposed non-convertible debentures *	-	-	-	INR19,000	IND A+ /Stable	Affirmed
Proposed non-convertible debentures *	-	-	-	INR500	IND A+ /Stable	Assigned
Working capital limit	-	-	-	INR3,000	IND A+ /Stable	Affirmed

*Details in Annexure

Analytical Approach

Ind-Ra continues to take a consolidated view of AAHL and its six airports - Ahmedabad International Airport Limited, Lucknow International Airport Limited, Mangaluru International Airport Limited, Jaipur International Airport Limited, Guwahati International Airport Limited and TRV (Kerala) International Airport Limited (together referred as A1-A6), which form a part of the restricted group, to arrive at the ratings. Furthermore, in line with the management’s commitment, Ind-Ra has not factored in the availability of any support to Mumbai International Airport Limited (MIAL) and Navi Mumbai International Airport Private Limited (NMIAL; [‘IND A’/Negative](#)) directly from the restricted group; however, the non-aero income to AAHL under the current service arrangement and proposed joint-venture structures for certain non-aero services as represented by the management have been factored in the credit assessment. Any support, if required, is likely to be funded from either the distributable surpluses of the restricted group or AAHL’s sponsors.

The ratings are also supported by the operational, managerial and financial support from the Adani group. The sponsor company for AAHL is Adani Enterprise Limited (AEL). Ind-Ra has not considered the sponsor contribution in the form of subordinated debt as obligations impacting the structure, due to the presence of subordination clauses that stipulate the payment of principal and interest only after meeting the restricted payment covenants. The subordinated debt terms also have no event of default on the non-payment of interest as well as principal debt service, and no cross-default clauses with senior debt.

Detailed Rationale of the Rating Action

The ratings reflect the diversified pool of airports with a significant improvement in the revenue profile compared to previous year, aero revenue visibility with tariff orders issued for all six airports, strong growth potential for passenger traffic at the regionally established airports and higher than estimated non-aero realization at restricted group level in FY24.

The ratings also factor in the sponsor's track record of providing timely support to its subsidiaries, and its experience in the completion and management of infrastructure assets and regulated income businesses.

The ratings also reflect the issuance of tariff orders for all the six airports and higher-than-Ind-Ra-expected non-aero income realisation at the restricted group level in FY24. Airports Economic Regulatory Authority (AERA) has not admitted the financial arrangement between AAHL and airport operators in terms of non-aero business in the tariff orders across the six airports. As per the existing master services agreement between AAHL and A1-A6 airports, non-aeronautical services will be provided to the respective airports through its holding company at a minimum guaranteed fee or a certain percentage of revenue share, whichever is higher. As per the tariff orders, a notional amount of non-aero has been considered by AERA, basis past realisation when the airports were operated by Airports Authority of India (AAI), while arriving at the cross-subsidisation component of the regulated revenue. The airport operators have filed an appeal against the AERA order in Telecom Disputes Settlement and Appellate Tribunal (TDSAT) and the outcome is awaited. Basis the notional amount considered by AERA in the tariff orders for A1-A6, the impact of the same on the approved net aggregate revenue requirement (ARR) in the current third control period is assessed to be minimum. Though the visibility of ARR for the third control period provides comfort to the ratings in the medium term, any adverse decision by AERA and/or TDSAT on the non-aero component in the next control period order remains key monitorable.

Furthermore, while the non-aero income increased around 53% yoy during FY24 reaching INR9.36 billion (FY23: INR6.12 billion), it remains a key monitorable. Furthermore, considering the capex plan of about INR235 billion during FY25-FY27 for aero (A1-A6), non-aero and city-side development (CSD) across by AAHL across its airports at a standalone level, additional debt tie-up to meet the capex requirements and implementation remain critical.

List of Key Rating Drivers

Strengths

- Diversified pool of regionally established airports
- Experienced sponsor profile
- Returns-guaranteed assets; albeit regulatory risks

Weaknesses

- Leverage to peak post debt-funded capex
- Monetisation of non-aero and CSD businesses critical
- Moderate debt structure

Detailed Description of Key Rating Drivers

Diversified Pool of Regionally Established Airports: AAHL benefits from the six holding airports being located in the capital/large cities of Gujarat, Uttar Pradesh, Rajasthan, Assam, Karnataka and Kerala, thereby attracting a consistent flow of domestic and international passengers (pax). The average traffic at these airports grew at a CAGR of 15% over FY15-FY20, in line with the national average of 15%. In FY24, the six airports' reported traffic reached 35.74 million pax (FY23: 30.5 million; FY22: 17.7 million; FY21: 11.7 million; FY20: 33.2 million) registering 17% yoy growth. Though the total passenger traffic in FY24 has exceeded the pre-covid traffic witnessed in FY19, the international traffic at these airports is yet to reach pre-covid levels.

The six airports – Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati, and Trivandrum - have an existing capacity of 9 million pax, 13 million pax, 2 million pax, 5 million pax, 5.6 million pax and 4.8 million pax, respectively; after the implementation of the ongoing and envisaged capex till FY30, the capacity of the airports will increase to 25 million pax, 15

million pax, 5 million pax, 12 million pax, 12 million pax and 9 million pax, respectively. The total capacity of these airports is envisaged at about 78 million pax by FY30. The management has represented that the actual capex and capacity expansion will also depend on the traffic growth.

Experienced Sponsor Profile: AAHL is directly held by AEL, which is the flagship company of the Adani group, created to incubate new businesses. The group has a demonstrated track record of providing support in the development and operations of large infrastructure projects such as ports, transmission, renewables and thermal power. The group has also divested part stakes in renewables, city gas distribution and electricity utility projects to fund growth capital. In FY24, the group had an overall EBITDA of around INR829 billion (FY23: INR572 billion; FY22: INR420 billion), and the gross debt stood at INR2.41 trillion (INR2.27 trillion; FY22: INR1.88 trillion). The ratings are supported by the sponsor group's history of extending support to its subsidiaries to fund any shortfall in debt service.

According to the management, the Adani group's entry into the airports business is a part of its strategy of developing infrastructure and utility assets under the transport and logistics vertical. The group has put in place an experienced in-house project team to ensure the timely implementation of the capex plan and develop strategies to run the airport business. The management has asserted the high strategic importance of the airport business to the Adani group and has committed to extend the requisite managerial, operational and financial support for the special purpose vehicles (SPV) and AAHL. As on 31 March 2024, AAHL had made a net investment of about INR50.0 billion (31 March 2023: INR45 billion) in the six airports and about INR148 billion (INR133 billion) across the airport platform.

Returns-guaranteed Assets; albeit Regulatory Risks: The ratings factor in the likely stability in the applicability of the hybrid-till mechanism for airports. All the six airports have received a tariff order for third control period ending FY26 (Ahmedabad, Mangalore and Lucknow) and FY27 (Jaipur, Guwahati and Trivandrum). AERA has approved substantial portion of the initial estimated capex in the current control period, providing comfort to the capex implementation and regulatory asset recovery. To ensure tariff uniformity for the various operators of private airports, the National Civil Aviation Policy, in its order dated June 2016, specified that the tariffs at all the airports will be calculated on a 30% hybrid till basis. Consequently, 30% of the non-aeronautical revenue will be used to cross-subsidise aeronautical charges. With the tariff orders in place, there is a visibility in terms of aero revenue recovery by the respective airports, albeit with certain traffic risk. Any under-recovery of ARR will be recovered in the next control period as per the regulations.

Furthermore, the regulator in the tariff orders has not admitted the existing arrangement between AAHL and airport operators (under the master service agreement) in terms of non-aero revenue share to airports. The management has mentioned that the airports have filed an appeal with TDSAT against the order and the hearing is pending. AERA has considered notional amount of non-aero income in the third control period for cross-subsidisation while arriving at the ARR. Basis the notional amount considered by AERA in the tariff orders for A1-A6, the impact of the same on the approved net ARR in the current third control period is assessed to be minimum. However, Ind-Ra will monitor the regulatory outcome in relation to the tariff orders for the next control period and the developments surrounding the petition filed with TDSAT in relation to the non-aero revenue of these projects. The potential risk of the regulator (AERA) factoring higher non-aero income (notional or otherwise) from the next control period remains key sensitivity

AAHL proposes to raise INR19.5 billion through NCDs to fund part of the Past Period Regulatory Asset (PPRA) of about INR28.5 billion (regulatory asset base (RAB) differential constituting around INR7.5 billion and the balance related to under recovery). PPRA is the difference between a) initial RAB determined by the AAI at the time of bidding of six airports and the actual RAB identified after the commencement of operations and b) the present value of shortfall in the ARR of the last controlled period till the commercial operating date (COD; till AAI operations date) of the respective airports. This PPRA payment is to be made to AAI, as per the terms of the concession agreements. Three of the airports (Ahmedabad, Mangalore and Lucknow) have already made the PPRA payments with fund infusion by the sponsor. For the balance three airports, the PPRA payments related to the RAB differential will be paid through sponsor funds and the balance through the proceeds from the proposed NCDs. The additional debt of INR0.5billion (a part of the proposed NCDs) will be utilised towards funding a fair rate of return on the under-recovery portion of PPRA till the date of the payment and the initial estimated payment date, and difference in the under-recovery component in case of Guwahati airport, as per the tariff order issued on 6 September 2024, as against the consultation paper. The coupon and repayment obligations towards the proposed NCDs will be met through a pre-determined share of the aero income earned by the six airports. Any under-recovery of the PPRA share of the aero revenue will be carried forward to the next control period. Ind-Ra assesses the

PPRA dues will be cleared over four-to-six years. The PPRA share of aero income will flow through separate sub-account and will be utilised only towards coupon and redemption of NCDs. Furthermore, as per the representation from the management, a certain amount of mandatory redemption will be incorporated as per the terms with a mandatory cash sweep during the NCDs tenor. Though the NCDs are structured by securitising specific cashflows, the repayment is dependent on the actual aero income recovery and is dependent on traffic.

Leverage to Peak Post Debt-funded Capex: The six airports are undergoing capex to improve the airside infrastructure and increase overall area and capacity of terminals to meet the estimated air traffic growth. AAHL expects to incur capex of about INR87.6 billion during FY25-FY27 for aero across A1-A6; and another INR147 billion during the period towards non-aero and CSD business at standalone level (development across eight airports currently held by AAHL). Based on the management representation, Ind-Ra believes at least 30% of the total capex will be met through equity/internal accrual and the balance through debt raised at AAHL's level. AAHL has incurred an expenditure of INR24.4 billion for purchasing its regulatory asset base and meeting the capital work-in-progress. The company's leverage is likely to increase on capex completion, given the increase in debt due to the expansion plan. However, for EBITDA stability, the monetisation of the non-aero revenue remains critical.

Monetisation of Non-aero and CSD Business Critical: The six airports have been awarded on the basis of a fixed fee per passenger instead of revenue sharing; this incentivises the company to maximise its non-aeronautical revenue. It is critical for the airports to monetise a break-even non-aeronautical revenue per pax at the earliest. Ind-Ra has historically seen a significant jump in the spend per pax upon the privatisation of an airport; however, the quantum of monetisation of non-aero revenue per pax will be a key monitorable. The six airports have awarded the non-aero and city-side development business to AAHL based on the bidding process. The bid parameter includes revenue share on the gross revenue of AAHL through non-aero and city-side businesses and features a minimum guarantee amount to be paid to each airport even in case of a fall in the gross revenue. AAHL earned a non-aero income of about INR9.36 billion in FY24 (FY23: INR6.12 billion) across A1-A6 and operating certain non-aero businesses at Mumbai International Airport Limited. As per the management, AAHL will manage the non-aero business of the airport SPVs (including certain services at Mumbai International Airport Limited) through joint venture partnerships with notable retail, food and beverages and duty-free business operators. A sustained improvement in the non-aero business in the near term is critical and a key rating monitorable. Furthermore, the management has implemented certain measures, including providing exclusivity rights to certain vendors/suppliers for various products/services at the airports held by AAHL and are likely to improve the non-aero income.

AAHL will also be implementing large capex to the tune of INR181 billion during FY25-FY29 on CSD across the eight airports. The CSD development includes hospitality, retail, hospitals, office, entertainment and other developments at these airports, with a development plan of around 19 million sf as part of the initial phase and ramp-up subsequently. The tie-up of funding for this planned capex, along with implementation remain key monitorable for the ratings.

Moderate Debt Structure: AAHL raised ECBs amounting USD400 million in FY23 to finance the aero capex of the six airports. These ECBs have a bullet maturity structure, with maturity in June 2025 and September 2025. The terms of the debt entail creation and maintenance of a debt service reserve account covering one quarter of debt obligations. The debt structure entails a complete consolidation of the six airports and AAHL; any additional debt is covenanted. AAHL had also issued NCDs to the tune of INR3 billion as part of its overall financing plan during first half of 2024 and the proceeds were utilised towards meeting capex requirements. These NCDs will mature in 2027-2029 period. The proposed NCDs towards PPRA, will have a tenor of four-to-five years with a certain fixed amount amortised during the tenor and mandatory cash sweep provisions. The financing terms are in line with the existing ECBs and NCDs. Considering the nil repayment of the borrowings at AAHL level (excluding the PPRA debt), the company faces a moderate amount of refinancing risk. However, for the existing ECBs (which constitute a major portion of senior debt), the group already has a refinancing plan in place, thereby mitigating refinancing risks to certain extent. Furthermore, the group's ability to refinance debt across its portfolio of businesses in a timely manner provides comfort to the ratings.

Liquidity

Adequate: The management has provided a financing plan for the capex requirement of the six airports acquired from the AAI, including for aero and non-aero businesses. Any surplus generated by AAHL and the six airports is also planned to be used for meeting the equity requirement. The restricted group incurred about INR24.40 billion towards capex (largely aero) in FY24. The management expects a large portion of the capex for FY25 and FY26 to be met through incremental debt at AAHL, and hence, timely tie-up of the funding is a key monitorable. Furthermore, AAHL had available cash of about INR3.17 billion at end-August 2024, of which about INR0.85 billion was in the form of a debt service reserve created for the outstanding senior debt to cover about three months of debt obligations.

Rating Sensitivities

- Positive:** Future developments that could lead to a positive rating action are:
- the completion of the ongoing capex within the stipulated costs and approval from AERA
 - a significant increase in the non-aero revenue per pax over Ind-Ra’s base case assumptions on a sustained basis

- Negative:** Future developments that could, individually or collectively, lead to a negative rating action are:
- increased completion risk due to time or cost overrun or delay in the tie-up of funding for the ongoing capex plans
 - increased regulatory risk on non-aero income
 - slower-than-Ind-Ra-expected ramp-up in traffic or non-aero yield per pax
 - deterioration in the credit profile of the sponsor group
 - any change in arrangement that reduces the flexibility of this structure or inclusion of other airports that constrains the debt service coverages of this restricted group

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit-neutral or have only a minimal credit impact on AAHL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra’s ESG Relevance Disclosures, visit www.indiaratings.co.in.

About the Company

AAHL has been incorporated to hold the airport business of the Adani group and is a 100% subsidiary of AEL. AAHL holds 49% in the six airports - Ahmedabad, Lucknow, Mangaluru, Jaipur, Guwahati and Thiruvananthapuram – with balance 51% held by AEL. AAHL directly and indirectly holds about 73% stake in MIAL, which holds 74% stake in NMIAL. The concession period of the six airports is 50 years, commencing from the date of commercial operations.

Key Financial Indicators

AAHL+A1-6 Consolidated (Restricted Group)

Particulars	FY24	FY23
Revenue from operations (INR billion)	31.7	22.7
Other income (INR billion)	4.1	3.2
Total income (INR billion)	35.8	26.0
EBITDA (INR billion)	9.9	2.2
Finance costs (INR billion)	8.7	8.2
Senior debt (INR billion)	33.9	32.4
Cash & bank balances (INR billion)	3.5	1.7
Net debt/EBIDTA (x)	3.1	14.1
Source: AAHL, Ind-Ra		

AAHL - Standalone

Particulars	FY24	FY23
Revenue from operations (INR billion)	15.5	13.2

Other income (INR billion)	13.8	11.3
Total income (INR billion)	29.2	24.5
EBITDA (INR billion)	20.2	14.4
Finance costs (INR billion)	14.4	13.8
Senior debt (INR billion)	33.9	32.4
Cash & bank balances (INR billion)	3.0	1.3
Net debt/EBIDTA (x)	1.5	2.2
Source: AAHL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	13 September 2024	2 February 2024	27 June 2023	29 March 2022
Non-convertible debenture	Long-term	INR23,500	IND A+/Stable	IND A+/Stable	IND A+/Negative	-	-
External commercial borrowing	Long-term	INR10,000	IND A+/Stable	IND A+/Stable	IND A+/Negative	IND A+/Negative	-
Working capital limit	Long-term	INR3,000	IND A+/Stable	IND A+/Stable	IND A+/Negative	IND A+/Negative	-
Proposed term loan	-	-	-	-	-	WD	Provisional IND A+/Stable

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
External commercial borrowing	Low
Working capital limit	Low
Non-convertible debenture	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity- indicators>.

Annexure

Instrument	ISIN	Date of Issuance	Coupon rate (%)	Maturity date	Amount (million)	Rating/Outlook
Non-convertible debentures	INE0GCN07013	14 March 2024	10	14 March 2029	INR750	IND A+/Stable
Non-convertible debentures	INE0GCN07021	14 March 2024	9.95	15 March 2027	INR750	IND A+/Stable
Non-convertible debentures	INE0GCN07039	12 June 2024	9.95	12 June 2028	INR1,500	IND A+/Stable
Non-convertible debentures *	-	-	-	-	INR20,500	IND A+/Stable

* Non-convertible debentures yet to be issued

Source: AAHL

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Rating Criteria for Infrastructure and Project Finance

The Rating Process

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