India Ratings Upgrades Delhi International Airport's NCDs and Other Facilities to 'IND AA-'/Stable

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India Ratings and Research (Ind-Ra) has taken the following rating action on Delhi International Airport Limited's (DIAL) debt instruments:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR1,850	IND AA-/Stable	Upgraded
Fund-based limits (interchangeable between fund-bused and non-fund-based limits)	-	-	-	INR1,500	IND AA-/Stable	Upgraded
Non-fund-based limits	-	-	-	INR490	IND AA-/Stable	Upgraded
Non-fund-based limits	-	-	-	INR2,000	IND AA-/Stable	Assigned
Long-term debt*	-	-	-	INR53,000	IND AA-/Stable	Upgraded
Working capital demand loan	-	-	-	INR1,000	IND AA-/Stable	Upgraded
Non-convertible debentures (NCDs)^	-	-	-	INR29,440 (reduced from INR29,500)	IND AA-/Stable	Upgraded

^details in annexure
*Unallocated limits

Analytical Approach: Ind-Ra continues to take a standalone view of DIAL to arrive at the rating.

The upgrade reflects the positive outcome of the arbitration proceedings over revenue sharing that was ruled in favour of DIAL, growth in passenger traffic and non-aero revenue in line with Ind-Ra's estimates along with a significant advancement in its capex.

The ratings are supported by the location advantage of the airport, which serves the National Capital Region and Delhi being the national capital and important commercial centre, and hence, Ind-Ra expects the passenger traffic to improve. The ratings also derive comfort from DIAL's operations, management and development agreement (OMDA) -driven minimum tariff of base airport charges, which provide a floor to aeronautical revenue, restricted cashflow movement of funds within the group companies considering DIAL's ringfenced structure, and healthy liquidity of INR15.66 billion as on 31 December 2023.

Ind-Ra notes DIAL is in the process of submitting fourth control period (CP4) tariff application with the regulator, Airport Economic Regulatory Authority (AERA) by mid-February 2024. DIAL expects a substantial increase in tariff in the CP4 considering the capex of about INR115.50 billion and the Supreme Court's ruling in favour of DIAL over the calculation of aero tax. DIAL has availed INR2,000 million of standby letter of credit facility which has been issued in favour of Pushpak Airport Leasing Solutions Private Limited, which has leased the equipment to DIAL.

The ratings are constrained by any event impacting the traffic including the upcoming airport in Noida which is likely to commence operations in FY26, regulatory risk related to any major disallowance of capex for tariff determination for CP4 and bullet repayments due in the medium term, leading to high refinancing risk, which would be a rating monitorable.

Key Rating Drivers

Favourable Outcome of Arbitration for Revenue Share: DIAL had invoked the force majeure clause of the concession agreement in FY21, as the COVID-19-led crisis had materially and adversely affected its business. In January 2021, the Delhi High Court had provided an interim relief from the payment of the revenue share to the Airports Authority of India (AAI) until the settlement of the arbitration. The arbitration proceedings over the revenue sharing for 19 March 2020 to 28 February 2022 were concluded and were ruled in favour of DIAL, which requires AAI to refund INR4.65 billion paid by DIAL along with interest; excused the company from making revenue share payment for January 2021 to February 2022, and increased OMDA concession by one year and 11 months. The arbitration order, however, can be challenged by AAI within the limitation period as permitted. Any adverse movement of the revenue share proceedings leading to a paucity in liquidity would be monitorable.

Healthy Traffic Growth: DIAL's overall passenger volumes for FY23 recovered to 94% of the pre-COVID-19 levels (i.e. compared to that of FY19), led by a recovery in the domestic passenger traffic to 98% and international passengers to 84% of the pre-COVID levels. The traffic grew 14% yoy to 54.58 million in 9MFY24, much higher than that witnessed in FY19 (pre-COVID-19). Ind-Ra expects the traffic to reach 73 million in FYE24. (FY23: 65.3 million; FY22: 39.3 million; FY21: 22.6 million; FY20: 67.3 million).

With the non-aero income contributing 58% to the overall revenue in FY23, and the expectation of higher non-aeronautical revenue per-passenger on account of the ongoing capex, the growth in the non-aeronautical revenue will remain key. During 1HFY24, the non-aero income stood at INR14.07 billion (FY23: INR24.8 billion; FY22: INR16.6 billion; FY21: INR12.8 billion; FY20: INR22.0 billion), in line with Ind-Ra's expectation. However, DIAL could see its domestic traffic being affected temporarily by the upcoming Jewar Airport, i.e. Yamuna International Airport Private Limited ('IND A-'/Stable), considering passengers in the western Uttar Pradesh area and the catchment region around the Jewar airport shifting to the new airport FY26 onwards. However, as the capacity of Jewar Airport is only 12 million during the Phase 1 against 100 million passenger capacity of DIAL, there is less likelihood of any major impact on DIAL's passenger traffic in the near term.

During 1HFY24, DIAL reported revenue of INR24.52 billion and an EBITDA of INR7.79 billion (FY23: INR42.5 billion and INR12.5 billion). Its non-aeronautical yield improved to INR395 per passenger during 1HFY24 (FY23: INR352 per passenger). Ind-Ra believes the strong growth potential of the Indian cargo market will support DIAL's medium-term revenue growth. Delhi is a major gateway to the landlocked-northern India and benefits from its strategic location to capture international traffic of the major part of northern India.

Timely Monetisation of Real Estate Monitorable: As part of the agreement with AAI, DIAL has the right to develop about 230 acres of land parcel around the Delhi airport which provides significant financial flexibility to DIAL. As on

31 December 2023, around 65% of the land parcel has already been monetised. DIAL had, in March 2019, entered into a commercial real estate agreement with Bharti Realty Limited for a 4.89 million square feet (msf.) land. Subsequently, in September 2021, the agreement was revised and split across two areas of 2.73msf and 2.16msf each. Out of the INR17.66 billion of deposits (refundable security deposit of INR14.07 billion and advance development cost of INR3.59 billion), DIAL received INR14.60 billion (refundable security deposit: INR12.55 billion, and advance development cost: INR2.05 billion) during FY19-FY23 and the management expects to receive the balance amount of INR3.05 billion during 4QFY24. In addition, the company has also received the annual lease rental for FY24 onwards worth INR3.55 billion per annum. DIAL is also in negotiation with Bharti Realty for the Phase 2 which is likely to conclude in FY25-FY26. The timely monetisation of the land bank, leading to the deleveraging of DIAL, would be a monitorable.

Improved Revenue Expectation for CP4: DIAL expects a significant recovery in the CP4, based on the Supreme Court's order regarding the tax expenses to be included in aero revenue. DIAL's aeronautical tariff remained at base airport charges +10% in the CP3 (FY19-FY24), despite an over-recovery of nearly INR13 billion, projected by the AERA, on account of the provisions of the OMDA. While the tariff mechanism provides a cushion, losses due to COVID-19 are adjusted in the CP3 against the significant over-recoveries in the past, leading to cash-flow mismatches. The management expects the tariff for the CP4 to increase by more than 100%, due to the capitalisation of the ongoing capex and the Supreme Court's ruling on the tax calculation for the purpose of aero revenue recovery. DIAL is in the process of the tariff determination for CP4 and likely to submit the tariff application to the regulator, AERA, by mid-February 2024 and expects a new tariff order by January 2025.

Liquidity Indicator- Adequate: DIAL had an overall liquidity of INR15.66 billion (excluding working capital limits) as on 31 December 2023, of which operational liquidity was INR10.87 billion; the balance was earmarked towards the ongoing Phase 3A capex. In addition, the company had an unutilised fund-based working capital limit of INR3.99 billion as on 31 December 2023. Ind-Ra expects healthy growth in traffic and non-aero revenue levels over FY24-FY25, leading to a substantial improvement in the EBITDA at INR28 billion-30 billion, as against an anticipated debt obligation of INR25.5 billion.

Reasonable Debt Structure: DIAL's debt structure mainly comprised US dollar-denominated bonds and Indian rupee-denominated NCDs which benefit from structural covenants, including defined cash waterfall, restrictions on dividend payments, and a fixed-charge cover ratio test for additional debt, excluding debt incurred for regulated capex. The interest rate for the NCDs is fixed and that of the dollar bonds are fully hedged. The majority of the debt in DIAL has bullet maturities spread across FY26-FY31. DIAL has part-refinanced the NCDs due in October 2025 through the NCDs of INR7,440 million with a bullet payment at the end of seven years. The recent refinancing has reduced the interest cost and the repayments in the near term, leading to an improvement in liquidity. The risk of the bullet payment for the bonds/NCDs is mitigated by their laddered maturity over FY26-FY31, DIAL's demonstration of refinancing during the peak of COVID-19 in 2021 for the bullet maturity due in 2022, the management's confirmation on retaining accruals in DIAL, and the airport's initial concession term until 2036. DIAL has availed standby letter of credit worth INR2,000 million, which has been assigned to lessee towards equipment's valued INR5,000 million leased to DIAL.

DIAL's cashflows are ringfenced with the presence of AAI's nominee on board of DIAL, the presence of covenants in the concession agreement, the shareholder's agreement and the waterfall mechanism, ensuring priority of debt repayment and restrict free movement of funds within group companies. GMR Airports Infrastructure Limited (GIL), being the listed entity, which held a 51% stake in GAL, has announced a composite scheme of merger of GAL with GMR Infra Developers Limited (GIDL) and GIL subject to the receipt of the necessary approvals which is currently under the process of National Company Law Tribunal. The proposed merger will lead to GAL becoming a listed entity (GIL), which will directly hold the airport assets, thus providing enhanced financial flexibility.

Sponsor Track Record: GAL, the sponsor, is 51% held by listed entity GMR Airport Infrastructure Limited and 49% by Groupe ADP. GAL is an established infrastructure developer that also operates GMR Hyderabad International Airport ('IND AA'/Positive) and GMR Goa International Airport Limited. Fraport AG Frankfurt Airport Services Worldwide, DIAL's operator, is a global player that provides airport management services and operates airports across Germany, Turkey and Peru.

Low Project Implementation Risk: Indira Gandhi International Airport, operated by DIAL, is undergoing a significant capex of INR98 billion plus interest during the construction on actuals to increase its capacity to 100 million passengers from 66 million passengers. The capex, which was previously scheduled to be completed by June 2022, had been deferred to September 2023 due to impact of pandemic has been further revised to February 2024, leading to an additional interest cost of INR10 billion. The capex includes the development of terminal 1, a fourth runway, an eastern cross-taxiway and aprons of which majority of works has been completed and some finishing works relating to terminal 1 is likely to be completed by end-February 2024, as per the management. DIAL has contracted Larsen & Toubro Limited ('IND AAA'/Stable) as the engineering, procurement and construction contractor on a fixed-price fixed-time basis.

Of the overall capex of INR115.50 billion, DIAL has completed substantial works totalling INR112.61 billion (97.5%), out of which INR107.89 billion was paid as of December 2023. The balance amount of INR7.61 billion shall be funded by INR1.41 billion of lease financing, INR1.54 billion of refundable security deposits from Bharti Realty and INR4.66 billion from the unutilised funds earmarked for capex as on 31 December 2023. The management expects the cost overrun of 5%-6% of the capex cost due to a change in the design, delays in the completion and same is likely to be funded through a mix of internal accruals and debt.

Likely Increase in Net Leverage: DIAL's net leverage (net debt/EBITDA) jumped significantly in FY23 to 11.2x (FY22: 5.8x; FY21: 11.84x; FY20: 5.98x), on account of additional debt availed for the capex and the payment of revenue share in FY23, leading to lower EBITDA than that in FY22 where the revenue share was not paid due to invocation of force majeure event (COVID-19-led disruptions). The agency expects the leverage to remain elevated until FY24 and moderate from FY25 upon the implementation of the CP4 tariff and a ramp-up in traffic and non-aero nautical income. Ind-Ra has considered the management's representation that the entire accruals will be retained for meeting the bullet maturity in FY26 and FY27 towards reduction in overall leverage.

Rating Sensitivities

Positive: The following factors could collectively would lead to rating upgrade:

- healthy growth in passenger traffic, non-aero income and commercial property development income supporting the financial risk profile significantly,
- the monetisation of real estate, leading to deleveraging and a significant improvement in cashflows.

Negative: The following factors individually and collectively would lead to rating downgrade:

- lower-than 75 million pax annual traffic in FY25 and INR30 billion in non-aero income, leading to material deterioration in DIAL's cashflow
- adverse movement on revenue share matter to AAI, leading to impact on liquidity,
- additional debt leading to significant impact on debt metrics.

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 DIAL, 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, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

DIAL is a joint venture company sponsored by the GMR Group through its group company, GMR Airports Limited (64%), in partnership with AAI (26%) and Fraport AG Frankfurt Airport Services Worldwide (10%).

DIAL was incorporated to operate, modernise and undertake a phased expansion of Indira Gandhi International Airport in Delhi under a 30-year concession (extendable by another 30 years) that expires in 2036.

FINANCIAL SUMMARY

Particulars	1HFY24	FY23	FY22
Revenue (INR billion)	24.5	42.5	30.6
EBITDA (INR billion)	7.8	12.5	18.6
Debt (INR billion)	139.0	126.1	109.8
EBITDA margin (%)	31.8	29.7	60.7
Source: DIAL, Ind-Ra			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

Evaluating Corporate Governance

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch					
	Rating Type	Size of Issue (million)	Rating	27 July 2023	21 March 2023	11 October 2022	27 May 2022	19 March 2021	20 March 2020
Fund-based limits	Long-term	INR3,350	IND AA-/Stable	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable	IND A+/Negative	IND AA-/Rating Watch with Negative Implication
Non-fund-based limits	Long-term	INR2,490	IND AA-/Stable	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable	IND A+/Negative	IND AA-/Rating Watch with Negative Implication

Long-term debt	Long-term	INR53,000	IND AA-/Stable	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable	IND A+/Negative	IND AA-/Rating Watch with Negative Implication
NCDs	Long-term	INR29,440	IND AA-/Stable	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable	-	-
Working capital demand loan	Long-term	INR1,000	IND AA-/Stable	IND A+/Positive	IND A+/Positive	IND A+/Positive	IND A+/Stable	-	-

Annexure

Instrument Type	ISIN	Date of Issue	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE657H08019	22 June 2022	9.52	31 August 2028	INR10,000	IND AA-/Stable
NCDs	INE657H08027	13 April 2023	9.75	13 April 2030	INR12,000	IND AA-/Stable
NCDs	INE657H08035	22 August 2023	9.75	22Aug-2030	INR7,440	IND AA-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based limits	Low
Non-fund-based limits	Low
Long-term debt	Low
NCDs	Low
Working capital demand loan	Low

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

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