



Press Release

GMR Aviation Private Limited [GAPL]

September 19, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned*	Rating Action
1	Long Term Fund based – Term Loan	30.76 (reduced from INR 40.07)	IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook]	Reaffirmed
	Total	30.76		

*CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.

Details of facilities are in Annexure 1

Rating Rationale

The rating assigned to the bank facilities of GMR Aviation Private Limited (GAPL) continues to derive comfort from an unconditional & irrevocable Corporate Guarantee given by GMR Infrastructure Limited (GIL) [Holding Company] to the bank facilities of the company (GAPL). This corporate guarantee results in credit enhancement in the rating of the said bank facilities to IVR BBB- (CE)/ Stable Outlook [IVR Triple B Minus (Credit Enhancement) with Stable Outlook] against the unsupported rating of IVR BB+; Stable Outlook (IVR Double B Plus with Stable Outlook).

Further, the rating continues to derive strength from support from GMR group and experienced management. The rating is however constrained by sub-optimal size of operations, fluctuating profitability margins with continuing losses, underutilisation of fleet, significant debt repayment obligations subject to low debt protection metrics, high competition and inherent risk associated with the aviation industry and stressed financial risk profile of the group holding company.

Key Rating Sensitivities:

➤ Upward Rating Factor:

Overall improvement in debt protection metrics of GAPL and/or improvement in financial performance of the guarantor



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➤ **Downward Rating Factor:**

Any further decline in revenue and/or EBITDA margin leading to decline in debt protection metrics of GAPL and/or decline in financial performance of the guarantor.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Support from GMR group

GAPL is a wholly owned subsidiary of GMR Infrastructure Limited (GIL). By virtue of being part of GMR group (having a diverse business profile including energy), the company has the advantage of operational synergies. The holding company has also supported the operations of GAPL by infusing debt (converted to equity in FY17) to fund the operating losses of the company. Also, unconditional and irrevocable corporate guarantee given by GIL to the bank facilities of the company indicates support from the GMR group.

Experienced management

The day to day operation of the company is managed by professionals having rich industry experience. Mr. G. Subbarao, CEO of the company is a qualified Chartered Accountant having an overall experience of over four decades. He has been associated with the GMR group since 2000. Mr. P.S. Nair, a Director in the company has extensive experience of over 25 years in the aviation industry. He has served as CEO of Delhi International Airport Limited and CEO of GMR Hyderabad International Airport Limited. There are other members in the Board who are qualified & experienced, adding credence & professionalism in the governance of the company.

Key Rating Weaknesses

Sub-optimal size of operations

The scale of operation of the company continues to remain moderate in spite of the company being in business for over a decade. The total operating income of the company has been in the range of INR40-60 Crore in the past few years. However, the total operating income of the company has improved from INR51.08 Crore in FY18 to INR64.56 Crore in



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FY19 due to higher utilization of charter services by the group entities. Thereafter the operating income stood at INR66.69 Crore in FY20. In spite of the scale of operations, the Company has been able to maintain steady revenues, EBITDA margins and cash profits.

Fluctuating profitability margins with continuing losses

The margins of the company are susceptible to fluctuation in variable costs including global fuel prices. Other factors contributing to the volatile profitability margins are high maintenance costs of its fleet at periodic intervals. The EBITDA margin of the company has remained moderate over the last three years with marginal improvement from 22.96% in FY18 to 23.95% in FY19, thereafter fell to 21.61% in FY20. The Company has been able to reduce its losses from INR6.19 Crore in FY18 to INR3.71 Crore in FY19. The losses increased again in FY20 to INR4.67 Crore. In FY20, the Company had to incur extraordinary repairs (non-recurring) on account of engine accident (INR 4.46 Crore), reducing the EBITDA. The Company has been cash positive in spite of negative PAT.

Underutilization of fleet

The company is not optimally utilizing its fleet due to various reasons including lack of demand for charter services. The company is required to undertake regular maintenance of its fleet irrespective of utilization level thus affecting the profitability margins to a great extent. However, the management has indicated of steps being taken in this regard to improve the utilization levels going forward. Additionally, given the COVID situation, the private charters usage is expected to increase, providing better revenue streams.

Significant debt repayment obligations subject to low debt protection metrics

The company had availed term loan of INR55 Crore to refinance existing external debt and fund major maintenance of its helicopter. The repayment of this debt obligation is a key factor given that the company has been booking losses for the past few years. However, the Company has been able to reduce its losses from INR6.19 Crore in FY18 to INR3.71 Crore in FY19. The losses increased again in FY20 to INR4.67 Crore. The Company has free cash balance to service any shortfall in its debt servicing obligation.



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High competition and inherent risk associated with the aviation industry

The company remains exposed to inherent risk of economic downturns, high capital investment, low and volatile margins etc. associated with the aviation industry. The company also faces stiff competition from many other charter service operators. However, given the COVID situation, the private charters usage is expected to increase, providing better revenue streams.

Stressed financial risk profile of the group holding company

GIL (on a consolidated basis) continues to have a stressed financial risk profile reflected by low profitability and weak debt coverage matrices. The company has been reporting losses in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss on impairment of investments in associates resulting in low debt service coverage indicators. However, after the consummation of AD stake purchase in GMR Airport, the liquidity position of the Company is expected to improve. GMR group has received INR 98.13 bn in 2 tranches and can also receive additional INR 10.60 bn by FY24 as part of earn outs which is expected to improve the liquidity of the group.

Analytical Approach & Applicable Criteria:

- Credit Enhancement (CE Rating):
Being the subsidiary of GMR Infrastructure Limited (GIL) and GIL has given corporate guarantee for the debt of GAPL.
Unsupported Rating: Standalone
- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The company is earning a moderate level GCA which is expected to increase with increase in scale of operation. The debt servicing ability of the company appears to be on the lower side on account of major repayment of the long term debt over the next three years. However, the company maintains moderate cash and bank balances to meet its liquidity requirements indicating a moderate degree of liquidity support to the company in meeting its



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debt obligations. Further the support extended by the group acts as liquidity bulwark for the company.

About the Company

GMR Aviation Private Limited (GAPL) is a wholly owned subsidiary of GMR Infrastructure Limited. The company was incorporated in December 2006 with the primary objective of providing aircraft charter services (non-commercial aircraft and helicopters) and consultancy service in aviation security. The controlling office of the company is in New Delhi. Presently, Mr. G. Subbarao is the CEO of the company and he is assisted by experienced key managerial in managing the daily operations of the company. The present fleet of the company includes 2 aircrafts (Falcon and Hawker) and 1 helicopter (Bell), which caters to the requirements of companies of the GMR group as well as external clients. The entire fleet is owned and managed by the company.

Financials (Standalone)

For the year ended / As on	INR in Crore	
	31-Mar-19 Audited	31-Mar-20 Audited
Total Operating Income	64.56	66.69
EBITDA	15.46	14.41
PAT	-3.71	-4.67
Total Debt	42.89	35.22
Tangible Net Worth	134.28	129.56
EBIDTA Margin (%)	23.95	21.61
PAT Margin (%)	-5.70	-6.98
Overall Gearing ratio (x)	0.32	0.27

Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.



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Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating*	Date(s) & Rating(s) assigned in 2019-20 (June 20, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
Term Loan	Long Term	30.76 (reduced from INR 40.07)	IVR BBB- (CE)/ Stable Outlook	IVR BBB- (CE)/ Stable Outlook	--	--
	Total	30.76				

*CE rating fully backed by an unconditional and irrevocable Corporate Guarantee of GMR Infrastructure Limited.

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Analysts:

Name: Ms. Neha Mehta

Tel: (022) 62396023

Email: nmehta@infomerics.com

Name: Mr. Prakash Kabra

Tel: (022) 62396023

Email: prakash.kabra@infomerics.com



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Amount (INR Crore) (outstanding as on March 31 st , 2020)	Rating Assigned/ Outlook*
Long Term Fund based – Term Loan	--	--	Upto Sep. 2022**	30.76 (reduced from INR 40.07)	IVR BBB- (CE)/ Stable Outlook

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** post considering moratorium of 6 months extended by RBI due to COVID pandemic.