

Press Release

Kannur International Airport Limited

July 06, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 892.00 Cr.
Long Term Rating	ACUITE BB- Outlook: Stable

*Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.892.00 crore bank facilities of Kannur International Airport Limited (KIAL). The outlook is '**Stable**'.

The rating continues to derive comfort from the extensive expertise of the management and support envisaged from the Kerala Government (KIAL's key stakeholder). These rating strengths are partially offset by the company's exposure to project implementation risk.

About the company and project

Government of Kerala (GoK) had proposed in 1998 to build an international greenfield airport at Kannur (Kerala) keeping in view the aviation scenario, the potential for trade and tourism development. Kannur International Airport Limited (KIAL) is a public limited company set up by GoK in December 2009 to build, own and operate the airport. The proposed airport at Kannur would cater to the requirements from three northern districts – Kannur, Wayanad and Kasargod. There was an increase in the total cost of the project (phase I) from Rs.1892.00 crore to Rs.2124.00 crore which is proposed to be funded through equity of Rs.1232.00 crore and the balance through debt of Rs.892.00 crore from banks/financial institutions. The company has incurred Rs.1778.00 crore till date which is funded through equity of Rs.1065.00 crore and remaining through debt.

Key Rating Drivers

Strengths

• Extensive expertise of the management

The company benefits from the extensive expertise of the management including Mr. V. Thulasidas (Managing Director). He is an IAS officer and has served as Managing Director of National Aviation Company of India Limited; as Director of Air India Limited and Air Mauritius Limited. He has also served as the member of the Board of Governors of International Air Transport Association.

• Support envisaged from Kerala government (KIAL's key stakeholder)

GoK would contribute land of 1192 acres out of the total requirement of 2061 acres. The total consideration for the land provided by the GoK is Rs.315.94 crore which is treated as equity contribution.

GoK has 33 percent stake in the company and the managing director is a former IAS officer. The other directors include ministers of Kerala Government. Further, GoK is expected to provide budgetary support in the initial years to meet the deficit in the cash flows of the company.

The Gross State Domestic Product of Kerala for 2018-19 at current prices is estimated to be Rs.772,894 crore which is 12.6 percent higher than the revised estimate for 2017-18. Revenue deficit for the next financial year is targeted at Rs.12,860 crore, or 1.7 percent of the state Gross Domestic Product (GDP). Fiscal deficit is targeted at Rs.23,957 crore or 3.1 percent of state GDP.

Weaknesses

• Exposure to project implementation risk

The commercial operation has been delayed by a year on account of delay in the earthwork for the runway which could be executed only during the dry spell. Monsoon, restrictions in blasting operations of hard laterite in the site also contributed to the delay. However, presently the company has completed 98 percent of the total construction work and the commercial operation is expected to commence from September, 2018 after the receipt of license approvals. Further, the total cost of the project has been revised from Rs.1892.00 crore to Rs.2124.00 crore and the escalation in the cost is expected to be funded through equity. The project is thus exposed to major implementation risk on account of the cost and time overrun.

Analytical Approach

Acuité has taken a standalone view of KIAL and factored in the support from the GoK while arriving at the final rating.

Outlook: Stable

Acuité believes that KIAL will maintain a 'Stable' outlook and derive benefit from the experienced management and the support extended from the Government of Kerala. The outlook may be revised to 'Positive' in case the company registers healthy cash accruals with successful, project completion and revenue generation. Conversely, the outlook maybe revised to 'Negative' in case of further delay in project completion resulting in time and cost over runs thus impacting the financial risk profile of the company.

About the Rated Entity - Key Financials

Not Applicable

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Infrastructure Entities - <http://www.acuite.in/view-rating-criteria-14.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <http://www.acuite.in/view-rating-criteria-20.htm>
- State Government Support - <http://www.acuite.in/view-rating-criteria-26.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
23-Jan-2017	Term Loan	Long Term	892.00	ACUITE BB-/Stable (Reaffirmed)
7-Oct-2015	Term Loan	Long Term	892.00	ACUITE BB-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	892.00	ACUITE BB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuiteratings.in
Shashikala Hegde Analyst - Rating Operations Tel: 022-67141321 shashikala.hegde@acuiteratings.in	

About Acuité Ratings & Research:

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