

Press Release

Kannur International Airport Limited

March 19, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.892.00 Cr.
Long Term Rating	ACUITE B+/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.892.00 crore bank facilities of Kannur International Airport Limited. The outlook is '**Stable**'.

The rating factors in the application by the company for restructuring of its term loans under the RBI Resolution Framework for Covid-19 related Stress. Acuité takes cognizance of the Resolution Framework for Covid-19 related Stress and related guidelines announced by the Reserve Bank of India (RBI) vide its circulars dated 06-Aug-2020 and 07-Sep-2020. Acuité also takes note of the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 160 dated 31-Aug-2020 in this regard.

About the company

Government of Kerala (GoK) had proposed in 1998 to build an international green field 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 project was expected to complete by December, 2015 however, the project got delayed by three years and became operational in December, 2018. The company is promoted by Government of Kerala (39.23% shareholding), Bharat Petroleum Corporation Limited (16.20% shareholding), Airports Authority of India (7.47% shareholding), and MA Yusufali (8.59% shareholding) among others.

Analytical Approach

Acuité has considered the standalone business and financial profile of Kannur International Airport limited to arrive at the rating.

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.

Acuité believes that the company will derive benefit from its experienced management over medium to long term.

- **Upward trend in revenue**

Company started its operations in December, 2018 and has been able to scale up its operation marked by operating income of Rs.15.01 crore in FY2019 and Rs.111.50 crore in FY2020. However, with high finance cost and high operating leverage, the company is generating cash losses at the current operating levels; with net cash accruals being Rs. (21.82) crore in FY2020. Owing to

lockdown the operations of the Airport have significantly been impacted which will further lead to higher losses in FY2021.

Acuité believes that the ability of the company to scale up its operations to generate cash profit over the medium term will be critical

Weaknesses

- **High competition from other international airport in Kerala**

KIAL is exposed to high competition from other three international airport in the state of Kerala- Cochin International Airport, Calicut International Airport, and Trivandrum International Airport. KIAL's ability to position itself in term of cost competitiveness and superior services will be a key factor in the future. Majority of the international traffic for KIAL is from the middle-east region. Any slowdown in the gulf region, could have an adverse effect on traffic and consequently revenues. The variation in passenger traffic due to economic cycles, which may lead to temporary traffic de-growth and in turn revenue decline is compensated by truing up for the shortfall in the next regulatory period, albeit with a lag.

Liquidity Profile: Stretched

The liquidity position of the company is stretched marked by cash losses during the last 3 years (FY2018-Fy2020) under study which has led to erosion of net worth. There has been equity infusion by the promoters to support operations of the company. With losses during the FY2021 on account of subdued performance, liquidity position of the company will remain stretched.

Going forward, Acuité expects the liquidity position of the company to remain stretched over the medium term on account of expected losses.

Rating Sensitivities

- Significant improvement in the operating income and profitability
- Improvement in financial risk profile of the company
- Further Infusion of equity by the promoters

Material Covenants

None

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

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	111.50	15.01
PAT	Rs. Cr.	(88.89)	(46.97)
PAT Margin	(%)	(79.72)	(312.93)
Total Debt/Tangible Net Worth	Times	0.74	0.79
PBDIT/Interest	Times	0.55	(0.79)

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Nov-2020	Term Loan	Long Term	892.00	ACUITE B+ (Indicative- Downgrade)
16-Sep-2019	Term Loan	Long Term	892.00	ACUITE BB- (Indicative)
06-Jul-2018	Term Loan	Long Term	892.00	ACUITE BB-/Stable (Reaffirmed)
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 Available	Not Available	Not Available	692.00	ACUITE B+/ Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	110.00	ACUITE B+/ Stable (Reaffirmed)
Term Loan	Not Available	Not Available	Not Available	90.00	ACUITE B+/ Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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