

Press Release

Kannur International Airport Limited

June 09, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	892.00	ACUITE B+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	892.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

The rating reaffirmation reflects the company's strong parentage being part of GoK and strong regulated business model providing certainty to aero revenue and low offtake risk. The ratings, however, remain constrained by the delayed recovery of passenger traffic at KIAL due to the second wave of the pandemic and the consequent weak cash flow generation expected in FY2022 and FY2023 along with susceptibility to ramp-up in non-passenger revenue in the long term.

About the Company

Kannur International Airport Limited (KIAL) was incorporated as a private limited company on December 3, 2009, and was later converted to a public limited company in August 2020, and commercial operations began in December 2018. The company was established with objective of building, financing, constructing, operating, and managing an international airport in Kannur, Kerala. The project is proposed by the Kerala Government (GoK), which holds a 39.23% stake in the company. The company's chairman is Kerala's Chief Minister (CM). KIAL has the total current passenger handling capacity of 9.34 million per annum.

Analytical Approach

Acuite 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 and strong parentage

The company benefits from the extensive expertise of the management including Dr V Venu, I

A S (Managing Director). The Chief Minister (CM) of Kerala is the chairman of the company. Kannur International Airport Limited (KIAL) was built under Public Private Partnership (PPP). The Government of Kerala (GoK) is the major shareholder in KIAL with 39.23% stake followed by Bharat Petroleum Corporation Limited (16.20% shareholding), Airports Authority of India (7.47% shareholding), and MA Yusufali (8.59% shareholding) among others. Acuité believes that the company will derive benefit from its experienced management and KIAL having attractive location and regulated business model of airport providing true-ups, assures safeguard against impact on traffic and non-aeronautical revenue growth in the long term.

Regulated returns in the form of aero revenue

Revenue is split between aero and non-aero streams. The former segment, which comprises passenger fees, landing and parking charges, is fairly visible and stable. It is regulated by the AERA, which allows for a stable return on aero assets and true-up of aero revenue. The non-aero revenue segment is well-diversified, with revenue from varied activities such as food & beverages, retail, duty-free shops, advertising, and incomes from flight kitchen, car parking, and ATM/forex services. This segment, which remains largely unregulated contributed nearly 30% of total revenues in FY2021 and 27% in FY2020. It is expected non-aero revenue would recover above levels seen in FY 2023 and FY 2024. Lower or higher recovery trajectory than anticipated will be rating sensitivity factor.

Weaknesses

Weak operational performance during last two years

KIAL has shown a significant drop in revenue over last two years as a result of the pandemic's adverse impact on traffic. KIAL reported a 58 percent year-over-year (YOY) growth in FY2022 (Provisional) over FY2021. In compared to FY2021, KIAL reported revenues of Rs. 72.81 cr and a net loss of Rs. 153.58 Cr. In FY2021, KIAL reported a 60% decline in revenues to Rs. 45.85 Cr and net losses of Rs. 184.06 Cr. Further, in the domestic segment, the airport has a high proportion of leisure travellers, which faced the worst brunt of the second Covid wave with Kerala being the worst affected state in the country. However, Acuite expects KIAL's domestic passenger and international traffic to recover to the pre-Covid level by the end of FY2024. With the expected improvement in traffic and non-aero revenues, the company is likely to witness a healthy improvement in the cash flows available for debt servicing in FY2023 after two years of subdued performance.

Weak financial risk profile characterised by continued losses

KIAL's financial risk profile is historically characterised by consistent losses at operating and net levels, which had also led to net worth erosion. The tangible net worth of the company stood at Rs. 1,015.75 Cr as on 31 March, 2021 as against Rs. 1,199.83 Cr as on 31 March, 2020. Its gearing and total outside liabilities to tangible networth (TOL/TNW) levels stood at 0.94 times and 1.03 times as on 31 March, 2021 respectively vis-à-vis 0.75 times and 0.83 times as on 31 March, 2020. The debt protection metrics are weak; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at -0.23 times and -0.12 times, respectively, in FY2021 as against at 0.54 times and -0.03 times, respectively, in FY2020. Acuité believes that the KIAL's financial risk profile will remain weak over the medium term and timely receipt of funds from the promoter is critical to meet its funding requirements towards term loan repayment, and the same would be a key rating monitorable

Exposure to regulatory risks

The regulatory regime for domestic airport operators is evolving. Although, regulations have been largely favorable for the developers in recent years, some risks associated with regulatory uncertainty persist. Appropriate and timely true-ups for lower traffic and approval for cost overrun for capex, if any, are the open risks currently. The regulatory regime for airport operators in India is still evolving. Risks pertaining to timeliness of tariff orders and their implementation still persist and will affect airport operators when they seek a true-up either for lower-than-expected revenue or higher capex for past control periods.

High competition from other international airports in the vicinity

Kannur International Airport has four international airports situated within 275 km radius from KIAL viz. Calicut International Airport, Mangalore International Airport, Coimbatore International Airport and Cochin International Airport Limited. Any shift in traffic is expected to result in lower revenues and profitability. However, KIAL is well becoming advantageous geographical location in proximity to major tourist destinations.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in the operating income and profitability
- Faster ramp-up in cash flow streams and build-up of adequate and sustainable cash buffer
- higher-than-expected traffic growth and non-aero income in FY23
- Improvement in financial risk profile of the company
- Further Infusion of equity by the promoters
- A significant dip in the overall liquidity of the company
- Dilution in controlling stake by sponsors

Material covenants

Lenders permitted time up to FY2024 for creation of DSRA equivalent to 6 months principal and interest.

Liquidity Position: Poor

KIAL's liquidity position is poor, as reflected by significant cash losses incurred by the company from FY2018 to FY2022 (provisional), which is likely to continue in FY2023 as well. This, along with increased debt servicing obligations in the near to medium term may aggravate the company's cash flow position. There has been equity infusion by the promoters to support operations of the company. Going forward, the liquidity position of the company to remain poor over the medium term on account of expected losses. This weakened liquidity profile and pandemic hit operations have constrained ability to service debt, and the company has requested its lenders to restructure its debt. The lenders' permitted to extend to debt original debt repayment from 01-Jan-2021 to 01-Jan-2023 with a conversion of interest accrued/ to be accrued to funded interest term loan 196.17 Cr. The repayments obligations due for next 3 years would be, in FY2023 (Rs. 5.62 Cr), FY2024 (Rs. 11.25 Cr) FY2025 (Rs. 41.59 Cr). Acuité believes that the given the possibility of cash losses and scheduled repayment obligations, timely need-based fund infusion by promoters remains crucial for the company to meet its near-term commitments.

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 and regulated tariff structure. The outlook may be revised to 'Positive' in case the company registers significant growth in traffic along with improvement in non-aero revenues and profitability and resulting in a substantial improvement in the coverage metrics, cash flows and liquidity position. Conversely, the outlook maybe revised to 'Negative' in case of reflects possibility of slower than expected recovery in air traffic and non-aero revenues, resulting in weaker than expected financial profile over medium and long term adversely impacting the cash flows.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	45.85	116.25
PAT	Rs. Cr.	(184.06)	(94.66)
PAT Margin	(%)	(401.48)	(81.43)
Total Debt/Tangible Net Worth	Times	0.94	0.75
PBDIT/Interest	Times	(0.23)	0.54

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Mar 2021	Term Loan	Long Term	90.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	692.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	110.00	ACUITE B+ Stable (Reaffirmed)
25 Nov 2020	Term Loan	Long Term	892.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
16 Sep 2019	Term Loan	Long Term	892.00	ACUITE BB- (Issuer not co-operating*)
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)
07 Oct 2015	Term Loan	Long Term	892.00	ACUITE BB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	692.00	ACUITE B+ Stable Reaffirmed
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	110.00	ACUITE B+ Stable Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	Not available	Not available	90.00	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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