



Press Release
Kannur International Airport Limited
February 21, 2024
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	782.00	ACUITE C Downgraded	-
Bank Loan Ratings	110.00	ACUITE D Downgraded	-
Total Outstanding Quantum (Rs. Cr)	892.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to '**ACUITE D**' (read as **Acuite D**) on Rs.110 Cr bank facilities and '**ACUITE C**'(read as **Acuite C**) on the Rs.782.00 Cr bank facilities of Kannur International Airport Limited (KIL).

The rating downgrade is on account of banker feedback received stating instances of delays in servicing of debt obligations by the company in recent past.

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.

Unsupported Rating

Not Applicable

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 Mr. Dinesh Kumar C(Managing Director). He is a qualified Civil Engineer and is the former Airport Director of Cochin International Airport Limited. He has hands-on experience in Airport Operations. Chief Minister (CM) of Kerala is the chairman of the company. Kannur International Airport Limited (KIAL) was built under Public Private Partnership (PPP). Chief Minister (CM) of Kerala is the chairman of the company. The Government of Kerala (GoK) is the major shareholder in KIAL with 39.26% stake followed by Bharat Petroleum Corporation

Limited (16.19% 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.

Weaknesses

Weak operational performance

KIAL has shown an improvement in the revenues, however, has not yet achieved the pre-covid levels. The operating revenue stood at Rs.113.34 Cr in FY2023 against Rs.78.57 Cr in FY2022, Rs.45.85 Cr in FY2021 and Rs.116.25 Cr in FY2020.

Further, while the company has achieved positive operating profit for the last two consecutive years which stood at Rs.30.20 Cr in FY2023 against Rs.14.05 Cr in FY2022 and Loss of Rs.25.19 Cr in FY2021, the net profitability has not improved, and it reported net losses of Rs.126.27 Cr in FY2023 against Rs.124.30 Cr in FY2022. The number of passengers handled stood at ~12 lacs in FY2023 against 8 lacs in FY2022 which approx. and thus has achieved ~75% pre covid-levels. (16.2 lac in FY2020). Going ahead, KIAL is expected to gradually increase the revenues and profitability subject to successful implementation of the steps being taken for the same by the airport.

Weak financial risk profile characterised by continued losses.

KIAL's financial risk profile is weak owing to consistent net losses resulting in eroding the net worth. The tangible net worth stood at Rs.764.19 Cr in FY2023 against Rs.891.73 Cr in FY2022 and Rs.1015.75 Cr in FY2021.

Its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.43 times and 1.50 times as on 31 March 2023 respectively vis-à-vis 1.16 times and 1.20 times as on 31 March 2022. The debt protection metrics are poor; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 0.28 times and -0.05 times, respectively, in FY2023 as against at 0.26 times and -0.05 times, respectively, in FY2022. 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.

Instances of delays in servicing of debt obligation

As per the banker's feedback received, the company has delayed in servicing of obligations of term loans in recent past.

Exposure to regulatory risks

The regulatory regime for domestic airport operators is evolving. Although, regulations have been largely favourable 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 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.

ESG Factors Relevant for Rating

Airports are exposed to environmental issues related to the air transport industry such as GHG emissions, air pollutant emissions, environmental management, energy efficiency, and waste management. Further, on the social front they are exposed to Labor management issues, such as employee safety & development and employment quality. Airports are highly exposed to governance risks associated with regulatory compliance, board oversight, business ethics and corrupt practices.

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
- Further Infusion of equity by the promoters

- A significant dip in the overall liquidity of the company
- Timely servicing of repayment obligation

Liquidity Position

Poor

KIAL's liquidity position is poor, as reflected by significant cash losses incurred by the company since FY2018 to FY2023, which is likely to continue over the medium term as well. This weakened liquidity profile and pandemic hit operations have constrained ability to service debt. Further, one of the bankers has intimated recent delays in debt servicing and the account being categorised as SMA0.

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	113.34	78.57
PAT	Rs. Cr.	(126.27)	(124.30)
PAT Margin	(%)	(111.41)	(158.21)
Total Debt/Tangible Net Worth	Times	1.43	1.16
PBDIT/Interest	Times	0.28	0.26

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>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 Aug 2023	Term Loan	Long Term	692.00	ACUITE B+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Term Loan	Long Term	110.00	ACUITE B+ Not Applicable (Reaffirmed & Issuer not co-operating*)
	Term Loan	Long Term	90.00	ACUITE B+ Not Applicable (Reaffirmed & Issuer not co-operating*)
09 Jun 2022	Term Loan	Long Term	692.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	110.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	90.00	ACUITE B+ Stable (Reaffirmed)
19 Mar 2021	Term Loan	Long Term	692.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	110.00	ACUITE B+ Stable (Reaffirmed)
	Term Loan	Long Term	90.00	ACUITE B+ Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2022	Simple	692.00	ACUITE C Downgraded (from ACUITE B+)
South Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2022	Simple	110.00	ACUITE D Downgraded (from ACUITE B+)
Federal Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2022	Simple	90.00	ACUITE C Downgraded (from ACUITE B+)

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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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