Press Release

MUMBAI AVIATION FUEL FARM FACILITY PRIVATE LIMITED

July 02, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 366.50 Cr.
Long Term Rating	ACUITE AA-/ Outlook: Stable
Short Term Rating	ACUITE A1+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE AA-**' **(read as ACUITE double A minus)** and short-term rating of '**ACUITE A1+**' **(read as ACUITE A one plus)** on the Rs. 366.50 crore bank facilities of MUMBAI AVIATION FUEL FARM FACILITY PRIVATE LIMITED (MAFFFL). The outlook is **'Stable'**.

MAFFFL is a Joint Venture Company (JVC) between Mumbai International Airport Private Limited (MIAL), Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL). MIAL, the airport operator, has granted License to MAFFFL for developing an integrated fuel farm facility project at Chhatrapati Shivaji Maharaj International Airport (CSIA), Mumbai. The company operates & maintains existing Aviation Fuel farm facilities and provide Into-Plane services at CSIA, Mumbai and also, to develop, operate & maintain the new Integrated Fuel farm Facility on Open access basis. The fuel storage capacity is 47500 KL. The infrastructure charge levied by MAFFFL for use of the facility is subject to regulation by the Airport Economic Regulatory Authority (AERA).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MAFFFL to arrive at the rating.

Key Rating Drivers

Strengths

- **Strong Promoters**

  MAFFFL has a strong promoter profile with Mumbai International Airport Private Limited (MIAL), Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) holding a 25% stake each. IOCL, HPCL and BPCL have high financial flexibility. Moreover, these companies are the key customers of the fuel facility at the Mumbai airport. In addition, MIAL's status as an airport operator and its shareholding in MAFFFL mitigates operational risks for the company. The promoter has been supporting MAFFFL through equity infusion amounting to Rs. 25.60 crore in FY2019 and Rs.14.48 crore in FY2018. Acuite expects continued support from the promoters group over the medium term.

- **Significant competitive advantage**

  The concession agreement with MIAL grants exclusive rights to MAFFFL to develop and maintain the aviation fuel facilities at the CSIA at Mumbai. This arrangement makes MAFFFL the sole fuel service provider at the airport and provides a strong competitive advantage.

  The tariff charged by MAFFFL for its fuel infrastructure and into-plane service charges are regulated and determined by AERA on a multi-year basis. This lends stability to MAFFFL's profitability. Fuel infrastructure charge, major source of income generation for the company is determined by AERA on the basis of the price cap approach. Under the approach, the aggregate revenue requirement is a build-up of the fair rate of return on the regulatory asset base, operation and maintenance expenditure, depreciation and taxation. However, revenues other than aeronautical services are deducted while arriving at the aggregate revenue requirement. In case the actual expenditure incurred by MAFFFL is higher/lower than estimated expenditure, fuel infrastructure charge is trued up/down accordingly.

Further, the company has granted sub-concessions to two Into Plane (ITP) service providers namely Bharat Star Services Pvt. Ltd. (BSSPL) and Indian Oil Skytanking Pvt. Ltd. (IOSL), at CSIA, Mumbai. ITP services started in January 2015. As per the agreements, MAFFFL receives a share of the gross revenue from into-plane operations and of its gross revenue share, it has to share a portion with MIAL.

- **Comfortable credit metrics**
  MAFFFL has comfortable credit metrics marked by low gearing and healthy debt coverage metrics. The gearing ratio stood at 0.33 times as on 31 March, 2020 as against 0.56 times as on 31 March, 2019 and debt service coverage ratio (DSCR) stood at 2.52 times in FY2020 as compared to 3.17 times in FY2019. However, the same are expected to moderate from the current levels, given the expectation of contraction in its revenues and profits due to limited aircraft traffic in FY2021 along with debt addition due to the ongoing capex.

Weaknesses

- **Regulated by AERA**
  The tariff levied by MAFFFL for the use of storage facilities are subject to regulation by AERA. As a result, the tariff is subject to a downward revision if the actual costs incurred are lower than estimated or vice versa. A downward revision, along with a decline in throughput volume, could significantly impact MAFFFL's operations. The control period is for five years.

- **Vulnerability of operations due to ongoing lockdown may impact credit profile**
  The business operations of MAFFFL are dependent on the growth in aircraft traffic at the Mumbai airport. The ongoing countrywide lockdown due to Covid-19 pandemic and complete suspension of passenger flights at the airport for two months has impacted MAFFFL's operations. Moreover, if the lockdown continues for an extended period, the company's revenues and liquidity will be severely impacted.

Liquidity Position - Adequate

MAFFFL's liquidity remains adequate, marked by healthy net cash accruals to its maturing debt obligations. However, if the ongoing lockdown situation and suspension of passenger flights due to Covid-19 continues for an extended time period, it may adversely impact the company's operations, leading to a significant decline in its cash flows from operations and deterioration in its liquidity profile.

Rating Sensitivities

- Significant decline in operating performance leading to stretched liquidity

Material Covenants

No major covenants apart from financial covenants.

Outlook: Stable

Acuité believes that MAFFFL will maintain a stable outlook in the medium term on the back of the support of strong promoters. The outlook may be revised to 'Positive' in case of significant and sustainable growth in revenue while maintaining operating margins. Conversely, the outlook may be revised to 'Negative' in case of a sharp decline in net cash accruals and delay in completion of project leading to stretched liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	116.28	140.64
PAT	Rs. Cr.	40.05	51.84
PAT Margin	(%)	34.44	36.86
Total Debt/Tangible Net Worth	Times	0.33	0.56
PBDIT/Interest	Times	25.77	16.87

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

None

Any other information
Not Applicable

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-52.htm
- Entities in Service Sector-https://www.acuite.in/view-rating-criteria-50.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

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

Rating History (Upto last three years)
Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	14-May-15	Not Applicable	14-Dec-25	216.50*	ACUITE AA-/ Stable
Proposed Term loan	Not Applicable	Not Applicable	Not Applicable	101.00	ACUITE AA-/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	49.00	ACUITE A1+

**Please note that the sanctioned amount of term loan was Rs. 216.50 crore. The outstanding amount as on March 31, 2020 is Rs. 118.35 crore.*

Contacts

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About Acuité Ratings & Research:
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