S&P Global Ratings (/en_US/web/guest/home)

Delhi International Airport Downgraded To 'B-' On Heightened Liquidity Risks; Remains On CreditWatch Negative

25-Nov-2020 04:35 EST

View Analyst Contact Information

Table of Contents

Related Criteria

We forecast Delhi International Airport Ltd.'s (DIAL) funds from operations (FFO) cash interest coverage will be below 1.0x over the next 12 months. Our base case no longer considers the receipt of commercial property development (CPD) cash flows due to material delays.

We also believe DIAL's greater dependency on CPD income results in higher volatility in cash flow and profitability than we would expect for a regulated airport asset.

We are lowering our long-term issuer credit rating on DIAL and our long-term issue rating on the company's senior secured notes to 'B-' from 'B+'. We are keeping the ratings on CreditWatch where they were first placed with negative implications on March 20, 2020.

The CreditWatch reflects our view that DIAL's capital structure could become increasingly unstable without CPD income, which would heighten refinancing risks for the company's bond due in February 2022.

SINGAPORE (S&P Global Ratings) Nov. 25, 2020--S&P Global Ratings today took the rating actions listed above. We lowered the ratings on DIAL due to uncertainty in the company's receipt of CPD income and deposits from Bharti Realty Ltd. Our base case no longer considers these cash flows because CPD income has now been delayed for more than one year and we have no visibility on the timeline for resolution. We believe DIAL could face increased liquidity risks given its high dependence on CPD cash flows to support interest obligations and capital expenditure (capex) amid continuing regulatory uncertainty.

In our view, the complexity in obtaining Airport Authority of India (AAI) approval for DIAL's CPD transaction with Bharti Realty is higher than we had expected. This has increased uncertainty on the timing of the transaction. Further, given that the transaction has not closed, we believe there could be increased risks of contract renegotiation or even cancellation. However, we believe Bharti Realty and DIAL are still keen to close the deal, as they have extended the deadline for closure to Dec. 31, 2020. DIAL had expected its transaction with Bharti Realty to close in September 2019, which would have resulted in lease rentals of about Indian rupee (INR) 3.6 billion per year and a one-off upfront security deposit payment of about INR15.3 billion.

In the absence of CPD cash flows, we anticipate DIAL's FFO interest coverage will fall below 1.0x over our five-year projection horizon. The company's high cash balance would likely be depleted at a faster pace given that its large committed expansion plans were highly dependent on the receipt of CPD funds. This, combined with significantly weaker passenger traffic due to COVID-19 travel restrictions and large interest servicing costs, would put pressure on DIAL's ability to service its interest obligations over our projection horizon.

We do not view DIAL's capital structure as unsustainable, even though its interest servicing ratio is below 1.0x. We understand the company is considering a few options that could preserve cash in the absence of CPD money. These include obtaining lease financing for up to INR20 billion of its capex for mobile equipment, which could offer significant cash flow relief.

Further, DIAL will be able to service interest during construction through debt, as part of its capex facilities. We also note that the company's cash balance of INR29.5 billion (as of Sept. 30, 2020) will be sufficient to meet its capital spending over the 12 months to Sept. 30, 2021, and that debt maturities over this period are minimal.

That said, DIAL could face heightened refinancing risks over the next 12-18 months in the absence of CPD income or other funding sources, as the company approaches its bond maturity in February 2022. DIAL's high dependence on CPD money to meet interest obligations, lack of committed alternative funding sources amid a materially weaker operating environment, and high committed capex create further difficulties to refinance its

February 2022 bond amid uncertain market conditions.

In our opinion, DIAL's high dependence on CPD income to support cash flows and capex results in volatility in cash flows and profitability that is higher than we expected, despite the greater predictability of base airport charges (BAC). Furthermore, we believe DIAL's weakened profitability due to lower passenger traffic and high fixed costs is exacerbated by the company's high 46% revenue share with AAI. However, persistent delays in DIAL's CPD development makes it difficult for the company to manage its cost base as effectively as peers in periods of downturn. In comparison, GMR Hyderabad International Airport Ltd., which operates with just a 4% revenue share that is recoverable under its tariff, is not exposed to the same weakness in profitability, despite its own tariff cuts and weaker traffic.

We estimate that the implementation of DIAL's control period 3 (CP3; April 1, 2019 to March 31, 2024) tariff could result in an eventual tariff that is 40% higher than the current BAC levels. This is because capex is capitalized in the next regulatory period and we expect the company to be compensated for lower passenger traffic related to COVID-19. However, this tariff increase would not be sufficient to mitigate the absence of CPD cash flows, with EBITDA still insufficient to meet interest obligations. We believe DIAL's refinancing prospects could weaken if regulatory outcomes are negative, such as the approval of a lower tariff increase or a significant delay in CP3, or if DIAL's actual passenger numbers are lower than what is incorporated in the tariff determination. Our base case assumes that the CP3 tariff will be implemented on April 1, 2021.

We believe passenger traffic volumes in India will remain depressed as the country struggles to control the COVID-19 pandemic. Domestic and international traffic in India is unlikely to recover to pre-COVID levels before fiscal 2024 (year ending March 31, 2024). We project total passengers in fiscal 2021 would be just below 27 million, 40% of fiscal 2020 (pre-COVID) levels. Total traffic in fiscal 2022 would be about 75% of fiscal 2020 levels, improving to about 90% in fiscal 2023 and picking up thereafter.

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings (http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

Environmental, social, and governance (ESG) factors relevant to the rating action:

Health and safety.
Travel restrictions with caps on domestic flights, negligible international traffic, and consumer apprehension regarding air travel during the pandemic expose DIAL to elevated ESG risks.

In our view, DIAL's delay in formulating timely refinancing plans and securing alternative funding sources amid regulatory uncertainties and an absence of CPD income indicates the company's challenges in its strategic planning. This could hinder the company's ability to meet its financial and operational goals in a challenging environment.

We aim to resolve the CreditWatch within the next 90 days based on DIAL's progress in putting in place credible refinancing plans for its bond maturity in February 2022 and achieving a sustainable interest coverage ratio.

We could lower the rating on DIAL by at least one notch if:

The company fails to implement a credible refinancing plan for its February 2022 bond, and
It is unable to put in place measures to preserve enough cash such that we believe DIAL's financial commitments would be unsustainable in the long term.
We could affirm the rating with a stable outlook if DIAL secures facilities for refinancing its February 2022 bond. This would also entail the company putting in place measures to alleviate pressures on its capital structure, such that FFO cash interest coverage is sustainably above 1.0X.

Related Criteria

General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10999747), July 1, 2019
Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourceId/10906146), April 1, 2019
Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_US/web/guest/article/-/view/sourceId/10486915), March 28, 2018
Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments (/en_US/web/guest/article/-/view/sourceId/9478732), Jan. 20, 2016
Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourceId/8956570), Dec. 16, 2014
Criteria | Corporates | General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceId/8314109), Nov. 19, 2013
Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Infrastructure Industry (/en_US/web/guest/article/-/view/sourceId/8284110), Nov. 19, 2013
General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceId/8304862), Nov. 19, 2013
General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceId/8313032), Nov. 19, 2013

General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities (/en_US/web/guest/article/-/view/sourceId/7629699), Nov. 13, 2012
General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings (/en_US/web/guest/article/-/view/sourceId/7554329), Oct. 1, 2012
General Criteria: Principles Of Credit Ratings (/en_US/web/guest/article/-/view/sourceId/6485398), Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

European Endorsement Status

Global-scale credit rating(s) have been endorsed in Europe in accordance with the relevant CRA regulations. Note: Endorsements for U.S. Public Finance global-scale credit ratings are done per request. To review the endorsement status by credit rating, visit the standardandpoors.com website and search for the rated entity.

Primary Credit Analyst:	Annabelle C Teo, Singapore + 65 6239 6376; annabelle.teo@spglobal.com (mailto:annabelle.teo@spglobal.com)
Secondary Contacts:	Abhishek Dangra, FRM, Singapore + 65 6216 1121; abhishek.dangra@spglobal.com (mailto:abhishek.dangra@spglobal.com) Huili Yong, Singapore +65 65976145; hui.li.yong@spglobal.com (mailto:hui.li.yong@spglobal.com)