

Press Release

**GMR Aviation Private Limited**

June 20, 2019

**Ratings**

| Sl. No. | Instrument/Facility        | Amount (Rs. Crores) | Rating Assigned*  |
|---------|----------------------------|---------------------|---|
| 1.      | Long Term Debt – Term Loan | 40.07               | IVR BBB- (SO)/Stable Outlook (IVR Triple B Minus [Structured Obligation] with Stable Outlook) |
|         | <b>Total</b>               | <b>40.07</b>        |   |

\*SO rating fully backed by an unconditional and irrevocable guarantee of GMR Infrastructure Limited

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating derives strength from experienced management and support from GMR group. The rating however is constrained by moderate scale of operation, fluctuating profitability margins (albeit improvement in FY19), underutilisation of fleet, significant debt repayment obligations, high competition and inherent risk associated with the aviation industry and stressed financial risk profile of the group holding company. Utilization level of fleet, ability to maintain margins in competitive environment, operational challenges including high maintenance cost and financial performance of the guarantor are the key rating sensitivities.

**List of key rating drivers with detailed description**

**Key Rating Strengths**

**Support from GMR group**

GAPL is a wholly owned subsidiary of GMR Infrastructure Limited (GIL). The holding company has supported the operations of GAPL by infusing debt (converted to equity in FY17) to fund the operating losses of the company. Also, unconditional and irrevocable corporate guarantee given by GIL to the bank facilities of the company indicates support from the GMR group.

## **Experienced management**

The day to day operation of the company is managed by professionals having rich industry experience. Mr. G. Subbarao, CEO of the company is a qualified Chartered Accountant having an overall experience of over four decades. Mr. P.S. Nair, a Director in the company has extensive experience of over 25 years in the aviation industry. There are other members in the Board who are qualified & experienced, adding credence & professionalism in the governance of the company.

## **Key Weaknesses**

### **Moderate scale of operation**

The scale of operation of the company continues to remain moderate in spite of the company being in business for over a decade. The total operating income of the company has been in the range of Rs.40-60 crore in the past few years. However, the total operating income of the company has improved from Rs.51.08 crore in FY18 to Rs.64.55 crore in FY19 (provisional) due to higher utilization of charter services by the group entities.

### **Fluctuating profitability margins; albeit improvement in FY19**

The margins of the company are susceptible to fluctuation in variable costs including global fuel prices. Other factors contributing to the volatile profitability margins are high maintenance costs of its fleet at periodic intervals. The EBITDA margin of the company has remained moderate over the last three years with marginal improvement from 22.97% in FY18 to 24.01% in FY19.

### **Underutilisation of fleet**

The company is not optimally utilizing its fleet due to various reasons including seasonal nature of business. The company is required to undertake regular maintenance of its fleet irrespective of utilization level thus affecting the profitability margins to a great extent. However, the management has indicated of steps being taken in this regard to improve the utilization levels going forward.

## **Significant debt repayment obligations**

The company had availed term loan of Rs.55 crore to refinance existing external debt and fund major maintenance of its helicopter. The repayment of this debt obligation is a key factor given that the company has been booking losses for the past few years. However, the company has been able to reduce its losses in FY19 compared to the previous year.

## **High competition and inherent risk associated with the aviation industry**

The company remains exposed to inherent risk of economic downturns, high capital investment, low and volatile margins etc. associated with the aviation industry. The company also faces stiff competition from many other charter service operators.

## **Stressed financial risk profile of the group holding company**

GIL (on a consolidated basis) continues to have a stressed financial risk profile reflected by low profitability and debt coverage matrices. The company has reported book loss in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss in associates resulting in low debt service coverage indicators.

## **Analytical Approach & Applicable Criteria**

Consolidated

Rating Methodology for Infrastructure companies

Financial Ratios and Interpretation (Non-Financial Sector)

## **Liquidity**

The company is earning a moderate level GCA which is expected to increase with increase in scale of operation., The debt servicing ability of the company appears to be on the lower side on account of major repayment of the long term debt over the next three years. However, the company maintains sufficient cash and bank balances to meet its liquidity requirements indicating a moderate degree of liquidity support to the company in meeting its debt obligations. Further the support extended by the group acts as liquidity bulwark for the company.

**About the Company**

GMR Aviation Private Limited (GAPL) is a wholly owned subsidiary of GMR Infrastructure Limited. The company was incorporated in December 2006 with the primary objective of providing aircraft charter services (non-commercial aircraft and helicopters) and consultancy service in aviation security. The controlling office of the company is in New Delhi. Presently, Mr. G. Subbarao is the CEO of the company and he is assisted by experienced key managerial in managing the daily operations of the company. The present fleet of the company includes 2 aircrafts (Falcon and Hawker) and 1 helicopter (Bell), which caters to the requirements of companies of the GMR group as well as external clients. The entire fleet is owned and managed by the company.

**Financials (Standalone)**

**(Rs. crores)**

| For the year ended* / As On | 31-03-2018<br>(Audited) | 31-03-2019<br>(Audited) |
|-----------------------------|-------------------------|-------------------------|
| Total Operating Income      | 51.08                   | 64.55                   |
| EBITDA                      | 11.73                   | 15.50                   |
| PAT                         | -6.19                   | -3.71                   |
| Total Debt                  | 51.62                   | 43.21                   |
| Tangible Networth           | 138.01                  | 134.30                  |
| EBITDA Margin (%)           | 22.97                   | 24.01                   |
| PAT Margin (%)              | -11.62                  | -5.70                   |
| Overall Gearing Ratio (x)   | 0.37                    | 0.32                    |

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

**Rating History for last three years:**

| Sl. No. | Name of Instrument/ Facilities | Current Rating (Year 2019-20) |                                |                             | Rating History for the past 3 years     |   |   |
|---------|--------------------------------|-------------------------------|--------------------------------|-----------------------------|---|---|---|
|         |                                | Type                          | Amount outstanding (Rs. crore) | Rating                      | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 |
| 1.      | Term Loan                      | Long Term                     | 40.07                          | IVR BBB-(SO)/Stable Outlook | --                                      | --                                      | --                                      |

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

## Name and Contact Details of the Rating Analyst:

Name: Mr. Abhilash Dash

Tel: (022) 62396023

Email: [abdash@infomerics.com](mailto:abdash@infomerics.com)

## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

## Annexure 1: Details of Facilities

| Name of Facility           | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook*     |
|----------------------------|------------------|------------------|---------------|------------------------------|-------------------------------|
| Long Term Debt – Term Loan | --               | --               | April 2022    | 40.07                        | IVR BBB- (SO) /Stable Outlook |

\*SO rating fully backed by an unconditional and irrevocable guarantee of GMR Infrastructure Limited