
Rating Rationale for GVK Airport Developers Pvt. Ltd.'s Secured Non-Convertible Debentures Issue of ₹ 750 Crore with a tenure up to 366 days

NCD Issue Rating: BWR AA- (SO)

Outlook : Stable

Brickwork Ratings has assigned **BWR AA-(SO) [Pronounced BWR Double A minus (Structured Obligation)]** for GVK Airport Developers Private Limited's ("GVKADPL") proposed Secured Bond issue of ₹ 750 crore, having a tenor of 366 days. 'BWR AA' stands for an instrument that is considered to offer **HIGH** credit quality in terms of timely servicing of principal and interest obligations.

The rating has factored inter alia, the nature and strength of the underlying securities/collateral, the structured payment mechanism including the triggers for the Debenture Trustee to initiate appropriate action to protect the investor's interest, additional security in the form of guarantee by the Holding Company - GVK Power and infrastructure Ltd., strong cash flows from the two airport companies under its operations and the management quality of the issuers.

BWR has essentially relied upon the information/ clarification provided by the issuer, Term sheet outlining the structure of the deal, valuation of collateral being provided by the issuer and audited financial results of the holding company of the promoter group, BIAL and MIAL.

Background

GVK Airport Developers Pvt. Ltd. (GVKADPL) is a group company of Secunderabad (AP) based leading infrastructure player GVK Power and Infrastructure Ltd. (GVKPIL) and is in the business of developing and managing airports. It is currently developing and managing Mumbai's Chatrapathi Shivaji International Airport. Another group company GVK Airport Holdings Pvt. Ltd. (GVKAHPL) is engaged in the business of investments as promoters and developers of International and domestic airport projects. Currently it holds 36.63% and 29% equity stake in Mumbai International Airport Pvt. Ltd. (MIAL) and Bangalore International Airport Limited (BIAL) respectively and is the largest stake holder in MIAL.

Details of the proposed issue

GVKADPL, currently, proposes to raise about ₹ 750 crore through issue of secured Bonds, which will have a tenure of 366 days. Interest on the Bonds will be calculated on a monthly basis, and becomes payable along with the principal on maturity. The Bonds will be secured by pledge of over 72% of the 36.63% equity stake in MIAL held by the group as also pledge of 99% of the 29% stake in BIAL acquired by GVKAHPL (12% stake acquired from Unique (Flughafen Zürich AG) Zurich Airport and 17% stake acquired from L&T). The estimated present value of the stakes in both the Airports offered as security/collateral for the proposed Bond issue is about ₹ 3500 crore. The bonds would be additionally secured by the corporate guarantee of GVKPIL, the flagship company of the promoter group.

We have not taken into account the second charge of the assets of Jegurupadu Power Phase I assets being provided by the GVK group as those assets are already charged to the lenders of Jegurupadu power Phase II.

A SEBI registered reputed Debenture Trustee has been appointed by the issuer and the Trustee shall be vested with appropriate powers to create securities for the proposed bond issue and to enforce such securities in case of need and to take all such measures necessary in the event of default to protect the interests of the investors.

End use of Funds

The funds to be raised through the proposed bond issue will be used to refinance the existing credit facilities availed by the Company in connection with the acquisition of stake in BIAL and for general corporate purposes.

MIAL

Mumbai International Airport Private Limited (MIAL) has entered into an agreement with Airport Authority of India in April 2006 for developing, operating and maintaining the Mumbai's Chatrapathi Shivaji International Airport. MIAL, a joint venture company owned by the GVK led consortium (74%) and Airports Authority of India (26%) was formed in March 2006 to manage and develop the MIAL. At present, MIAL caters to 25.6 million passengers and handles around 551,189 tonnes of cargo annually. With the up-gradation of the infrastructure, MIAL will be able to cater to passenger traffic of 40 million and cargo traffic of one million ton

per year. The Airport is expected to reach its maximum capacity in next three years. MIAL has got rights to manage the Airport for 30 years with an option of managing it for another period of 30 years.

In FY10, MIAL generated total revenue of ₹ 989.72 Crores with a net profit of ₹ 132.80 crores as compared to ₹ 943.79 Crores and ₹ 85.28 Crores respectively in FY09. The revenue consists of 40.69% aeronautical income and the balance 59.30% from non-aeronautical, cargo operations, and interest and dividend.

During September ending H1 FY11, MIAL increased its total income to ₹ 548.43 crore with a net profit of ₹ 83.97 crore as compared to ₹ 484.66 crore and ₹ 66.80 crore during the same period of the previous year.

GVKAHPL's holdings of 36.63% stake in MIAL have been valued at about ₹ 3600 crore on a discounted cash flow basis. The pledge of over 72% shareholding offered as security/collateral for the proposed Bond issue is valued at about ₹ 2600 crore. As regards the aforementioned valuation, we have relied upon the valuation made by a reputed Investment Banker, provided to us by the issuer.

A summary of financial results and key financial ratios of MIAL for the period 2008 to 2010 are attached in Annexure I & II.

BIAL

Bangalore International Airport Limited (BIAL), the owner and operator of the new Bengaluru International Airport, is a public limited company, registered under the Indian Companies Act. Currently the shareholders are Siemens Project Ventures, Bangalore Airport & Infrastructure Developers Private Limited (a wholly owned subsidiary of GVK Power & Infrastructure Limited), Unique (Flughafen Zürich AG) Zurich Airport, Government of Karnataka, through KSIIDC and the Government of India, through the Airports Authority of India. The airport has scope to expand as it has 4000 acre of land allocated towards it. The new International Airport started operating in May 2008.

In FY10, BIAL generated total revenue of ₹ 464.71 crores with a net profit of ₹ 77.74 crores as compared to ₹ 309.49 crores and loss of ₹ 97.03 crores respectively in FY09. However, net-worth decreased to ₹ 378.26 crores in FY10 from ₹ 384.20 crores in FY09.

During September ending H1 FY11, BIAL increased its total income to ₹ 258.71 crore with a net profit of ₹ 48.92 crore as compared to ₹ 231.56 crore and ₹ 40.97 crore during the same period of the previous year.

Currently, there is a movement of 1100 aircraft every week on an average and 9.4 million passengers on an annual basis at BIAL. BIAL is expected to increase its capacity to 40 million passengers in the coming few years. BIAL has got rights to manage the International Airport for 30 years with an option of managing it for another period of 30 years.

GVKAHPL's holdings of 29% stake in BIAL have been valued at about ₹ 1275 crores on a discounted cash flow basis. The pledge of over 72% shareholding offered as security/collateral for the proposed Bond issue is valued at about ₹ 900 crores.

A summary of financial results and key financial ratios of BIAL for the period of FY2009-FY2010 are attached in Annexure III & IV.

Event of Default

The 'event of default' would be when the interest / repayment of principal is not paid on the due date and the company is not able to cure such default within a period of 3 working days. At the end of such a time, if the default persists, it shall amount to an Acceleration Event, pursuant to which the Debentures shall become due and payable immediately and the Issuer shall be required to credit the Payment Account with sufficient funds for such redemption. The structure of the deal provides for the pledger granting a power of attorney to the Trustee to transfer the shares into its DP accounts and sell them on behalf of the investor in the event of bankruptcy of the issuer. It also provides that each debenture holder shall have the right to invoke/not invoke his pro-rata share of Security and this will in no way effect the enforcement by other debenture holders. The Company has appointed IL&FS as the Debenture Trustee for the Issue.

GVKPIL Profile

GVK Power & Infrastructure Ltd (GVK PIL) is a Secunderabad-based infrastructure player. The Company was incorporated in 1994 as Jegurupadu Operating & Maintenance Company, a private company with unlimited liability, under the Companies Act, 1956. Subsequently, the

Company was converted from a private limited company to a public limited company in 2005 and the name was changed to Jegurupadu Operating & Maintenance Company Limited. The name of the Company was changed to GVK Power & Infrastructure Limited on July 13, 2005.

GVKPIL is a holding entity with three verticals-Energy, Transportation and Urban infrastructure.

The company has consolidated its infrastructure assets under one roof, making it an integrated infrastructure player and has interests in various Power Generation assets (viz., Gas, Hydel and Thermal), Roads, Airports, SEZ, Coal Mines, Oil and Gas, etc. Main contributors to Company's revenue are power, roads and airport operations. Power contributed 69.07% to revenues in FY10 while roads contributed 23.35%. The rest came from other businesses. Its revenue comprises of O&M fee, incentives and dividends from its Subsidiary / Associate Companies and interest income from surplus funds.

GVK Power projects are based on coal, gas and hydel resources. It has the Jegurupadu combined cycle power plants. It has a 44.97% stake in Gautami Power, a 464 mw gas-based project. Alaknanda Hydropower Co, a subsidiary, is developing a 330 mw hydroelectric power plant on Alaknanda river in Uttarakhand. In the road construction sector, the company had undertaken conversion of Jaipur-Kishanganj section of NH-8 from two lanes to six and has a concession period of 20 years including construction time, for operation and charging tolls.

GVKPIL, the Holding Company, has 14 subsidiaries and 3 associate companies including MIAL & BIAL.

Shareholding

As on FY10, Promoters and promoters group have aggregate holdings of 54.25% in GVKPIL, FIIs hold of 28.36% and Banks, FI and Mutual funds hold of 6.50% and the others holds 10.89%.

Financial performance

GVKPIL is one of the major players in the Infrastructure industry. The group's consolidated total income has increased from ₹ 533.96 in FY09 crores to ₹ 1815.81 crores in FY10. Its income from operation has increased from ₹ 355.60 crores in FY09 to ₹ 1786.62 crores in FY10. PAT has

increased from ₹ 107.56 crores to ₹ 155.87 crores during the same period instead of increase in cost of fuel from ₹ 249.38 crore in FY09 to ₹ 1054.23 crore. Total borrowings of the Company have gone up from ₹ 2980 crores in FY09 to ₹ 4445 crore in FY10. Net-worth also grew from ₹ 2293.87 crores in FY09 to ₹ 3155.92 crores in FY10.

Consolidated financial performance and key ratio analysis of GVKPIL for the period 2008 to 2010 are shown in Annexure V & VI.

Aviation Industry

The aviation industry in India over the last two year experienced some turbulence as the airlines are caught in a vertex of big losses, high debt and falling demand during the financial year ended March 2010. The sector reportedly suffered due to over-expansion, costly fuel and cut-throat competition. Sudden economic shock in the second half of the year and sky rocketing ATF prices have taken a toll with passenger numbers experiencing a fall during the year 2008-09 snapping the recent impressive growth trend. With an increase in traffic movement during December 2009 and increase in revenues by almost US\$ 21.4 million, the Airports Authority of India seems set to accrue better margins in 2009-10, as per the latest estimates released by the Ministry of Civil Aviation. As per report released by the Ministry of Civil Aviation contended that passengers carried by domestic airlines from January-February 2010 stood at 8,056,000 as against 6,761,000 in the corresponding period of 2009-a growth of 19.2 per cent.

The Indian aviation industry is one of the fastest-growing aviation industries in the world with private airlines accounting for more than 75 per cent of the domestic aviation market. There are currently 24 major international passenger and cargo airports, and 36 regional airports in India. The air traffic is now showing signs of growth compared to the previous year. Modernization of airports and setting up of new airports offer opportunities to the private sector.

Risk Factors

Keeping in view the tenor of the instrument, the cash flow from the operations of the issuer, and the nature of collateral offered to secure the Bonds, redemption of the bonds would essentially depend on the ability of GVKADPL or the promoter group's ability to raise fresh debt or fresh equity. Enforcing the underlying securities could be time consuming and involve elaborate procedures- the pledged shares of MIAL and BIAL though valuable, cannot be liquidated immediately as they are not listed shares.

MIAL airport is expected to reach its threshold capacity of 40 million passengers by 2014. Any delay in completion of the Navi Mumbai airport could cause a strain on the infrastructure at MIAL and affect its performance.

BIAL's financial risk profile has been currently affected due to slow growth in air traffic experienced in 2009-10 and the consequent impact on BIAL's revenues. Currently, there is a movement of 1100 aircraft every week on an average and 9.4 million passengers at BIAL. BIAL is expected to increase its capacity to 40 million passengers in the coming few years.

The promoters of GVK Airport Holdings Pvt. Ltd. have made a strategic move in deciding to acquire/enhance stake in BIAL as the airport already occupies a very crucial place in the Air map of the country and offers further excellent growth prospects in passenger as well as cargo traffic. While the acquisition gives the Company more say in the development and management of BIAL, it would also add greatly to the valuation of the promoter group, their reputation as a leading player in the Infrastructure Industry in the country, and future growth. These are of critical importance for the GVK group and BWR expects that the issuing company backed by its promoter group would ensure prompt redemption of the Bonds.

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Annexure I		
Mumbai International Airport Private Limited		
Financial Performance Summary		
(Rs. In Crores)	2010	2009
P&L account		
Sales	989.72	943.79
EBITDA	320.80	255.39
EBIT	240.70	215.44
PAT	132.80	85.28
Balance Sheet		
Shareholders' Funds	1019.07	686.27
Loan Funds	2100.68	1470.13
DTL	125.70	56.70
Total Sources of Funds	3254.45	2213.10
Fixed Assets	1705.55	1078.52
Investments	77.74	42.60
Net Current Assets	-78.79	137.48
Total Application of Funds	3245.45	2213.10

Annexure II		
Mumbai International Airport Private Limited		
Financial Key Ratios		
(Rs. In Crores)	2010	2009
Net-worth	1019.07	686.27
Debt-Equity	2.27	2.34
PAT Margin	13%	9%
RoCE	9%	12%
Interest coverage	7.98	8.93
DSCR	6.38	5.42
Net Cash Accruals	10%	9%
Current Ratio	0.70	1.16

Annexure III		
Bangalore International Airport Limited		
Financial Performance Summary		
(Rs. In Crores)	2010	2009
P&L account		
Sales	464.71	309.49
EBITDA	299.21	110.14
EBIT	211.61	-2.70
PAT	77.74	-97.03
Balance Sheet		
Shareholders' Funds	378.25	384.60
Loan Funds	1715.17	1742.52
DTL		
Total Sources of Funds	2093.42	2127.12
Fixed Assets	1717.34	1824.02
Current Assets, Loans and Advances	553.19	378.86
Net Current Assets	280.63	126.62
Total Application of Funds	2093.42	2127.12

Annexure IV		
Bangalore International Airport Limited		
Financial Key Ratios		
	2010	2009
Debt -Equity	4.53	4.53
Interest Coverage	2.24	1.04
DSCR	2.29	0.85
Net-Worth (crore)	378.26	384.20
Profitability Margin	16.73%	-31.09%
ROCE	10.03%	0.95%
Net Cash Accruals	10%	1%
Current Ratio	2.02	1.47

Annexure V			
GVKPIL			
Financial Performance Summary (consolidated)			
(Rs. In Crores)	H1, 2011	2010	2009
Sales	993.29	1786.62	355.60
EBITDA	282.35	488.84	163.09
Interest & Financial charges	133.79	217.10	33.38
Depreciation	92.34	137.12	77.95
Provision for Taxes	11.79	20.01	9.8
PAT (before share of profits of associate and minority interest)	56.22	143.26	85.1
Add:-Net Share of Income from Associates	44.87	51.68	31.55
Minority Interest	13.10	19.06	0.3
Profit for the year	76.2	123.25	107.56

Annexure VI			
GVKPIL			
Financial Key Ratios (consolidated)			
	2010	2009	2008
Debt -Equity	1.42	1.27	0.59
Interest Coverage	2.12	5.28	4.35
DSCR	0.52	5.50	4.09
Net-Worth (Crore)	3155.92	2293.87	2186.3
Profitability Margin	7%	15%	22%
ROCE	5%	3%	10%
Net Cash Accruals	6%	5%	14%
Current Ratio	1.55	2.52	13.91