

# ViewCube

## The flight path to recovery for airports

April 2022

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Ratings

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# CRISIL ViewCube on the airports sector

ViewCube is a compilation of sector views expressed during CRISIL's webinars. These include CRISIL's own views, those of stakeholders, and those emanating from a poll done during the webinar.

## Speakers

**Ankit Hakhu**

Director, CRISIL Ratings

**Varun Marwaha**

Associate Director, CRISIL Ratings

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Section 1

# Our view



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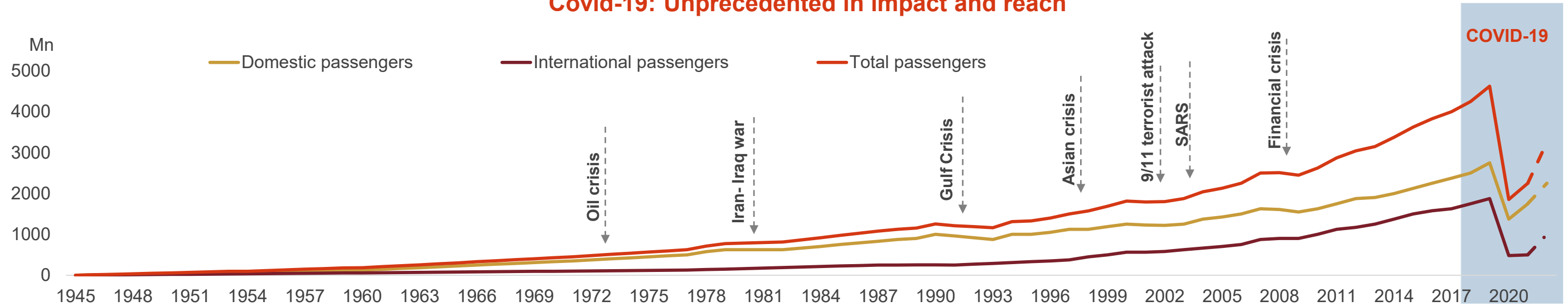
# Section 1: Industry trends



# Impact of global shocks: Quarterly recovery towards end of fiscal 2023

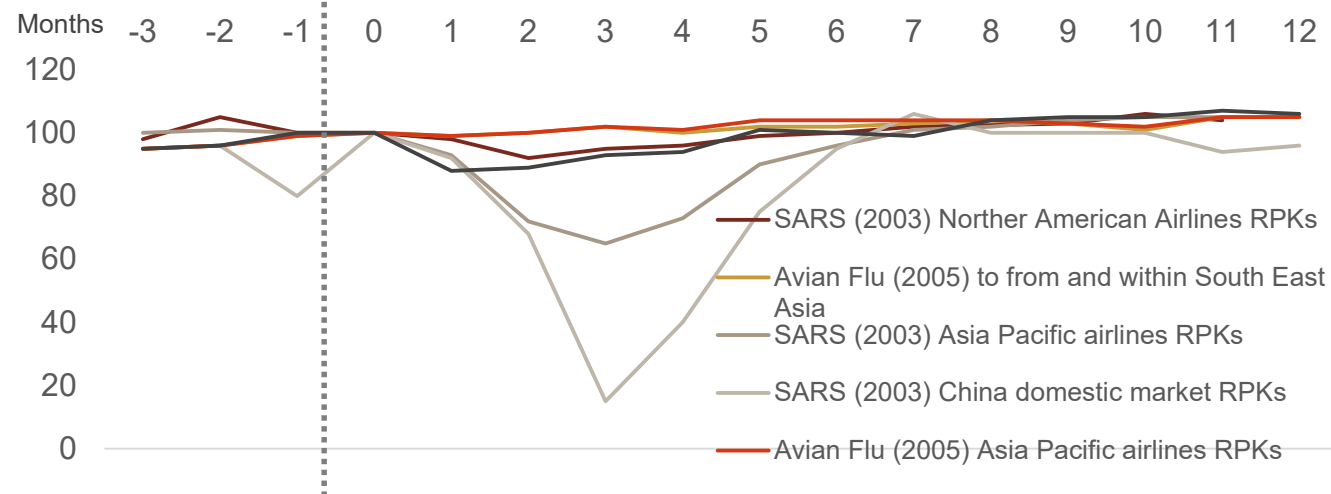
Trajectory across different markets dependent on regulatory landscape, traffic mix

## Covid-19: Unprecedented in impact and reach



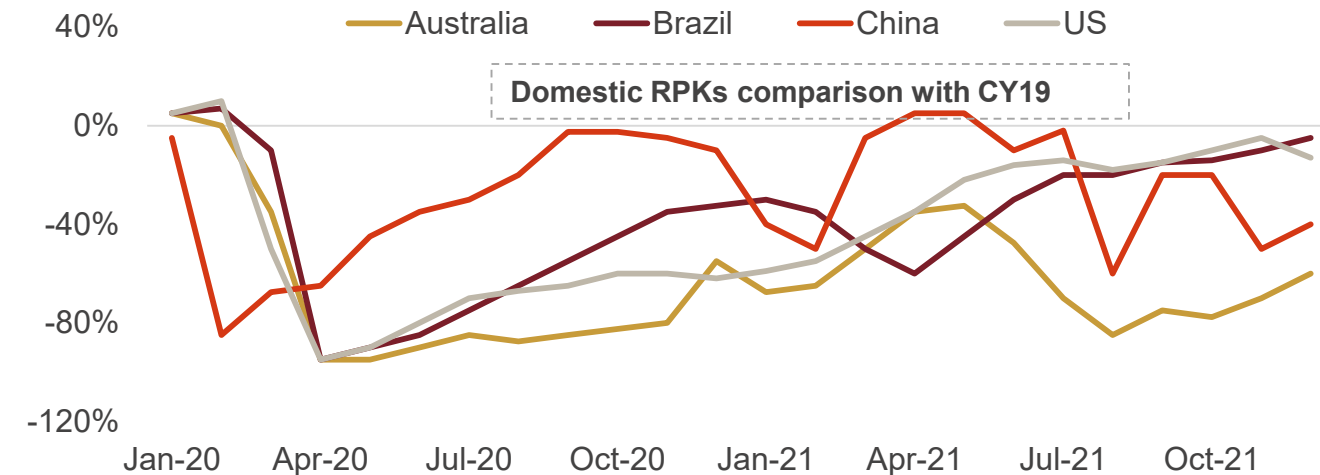
Source: ICAO, IATA

## Precedents indicate full recovery ~6 months after peak impact



Source: ICAO, IATA  
RPK: Revenue per kilometer

## Countries with lower restrictions and international traffic showing faster pick-up post recent waves

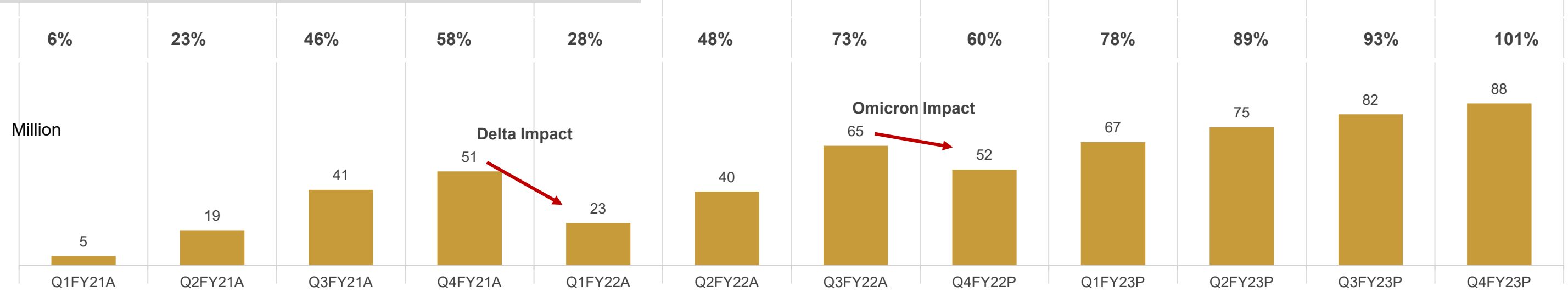


Source: ICAO, IATA

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# Increased vaccination, lifting of restrictions, higher confidence to soften impact of subsequent waves; the war in Ukraine a key monitorable

% indicates air traffic as a percentage of corresponding FY19 quarter



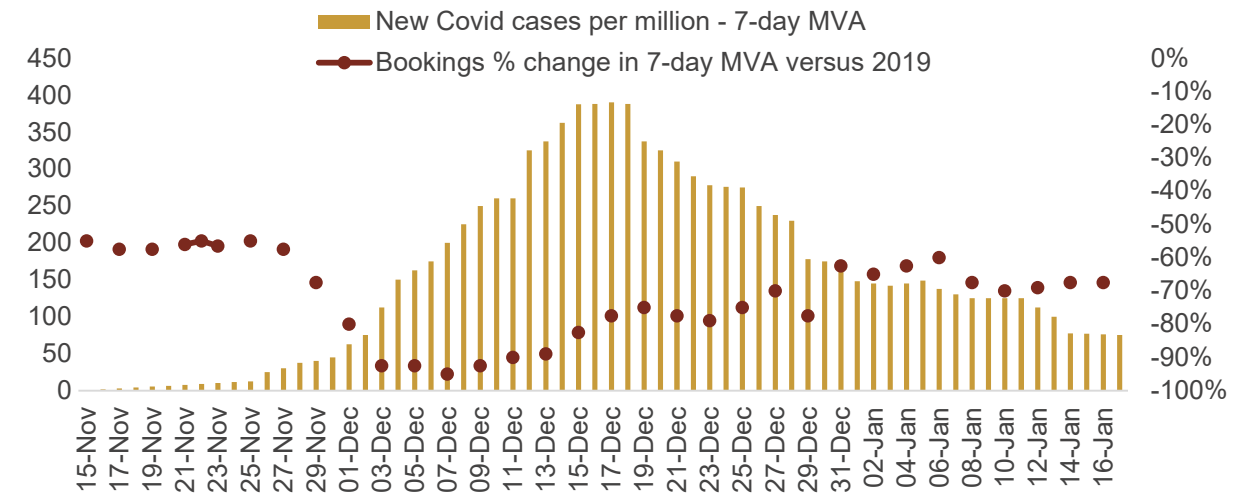
Source: AAI, CRISIL

## Assumptions on mobility, vaccinations and economy

- No major lockdowns or travel bans likely because of any further Covid waves. Lockdowns, if any, will be largely localised and milder than those in Jan-Feb 2022
- **Downside risks:**
  - Any further Covid-19 wave, leading to a severe lockdown as seen in April-May 2021, could push back recovery trajectory by 4-6 months, hurting any ground gained in international traffic
  - Material escalation in geo-political conflicts or sharp increase in oil prices, leading to fuel price rising materially above \$100 per barrel

## Increasing willingness, confidence to travel

### Bookings post Omicron (as seen in South Africa)

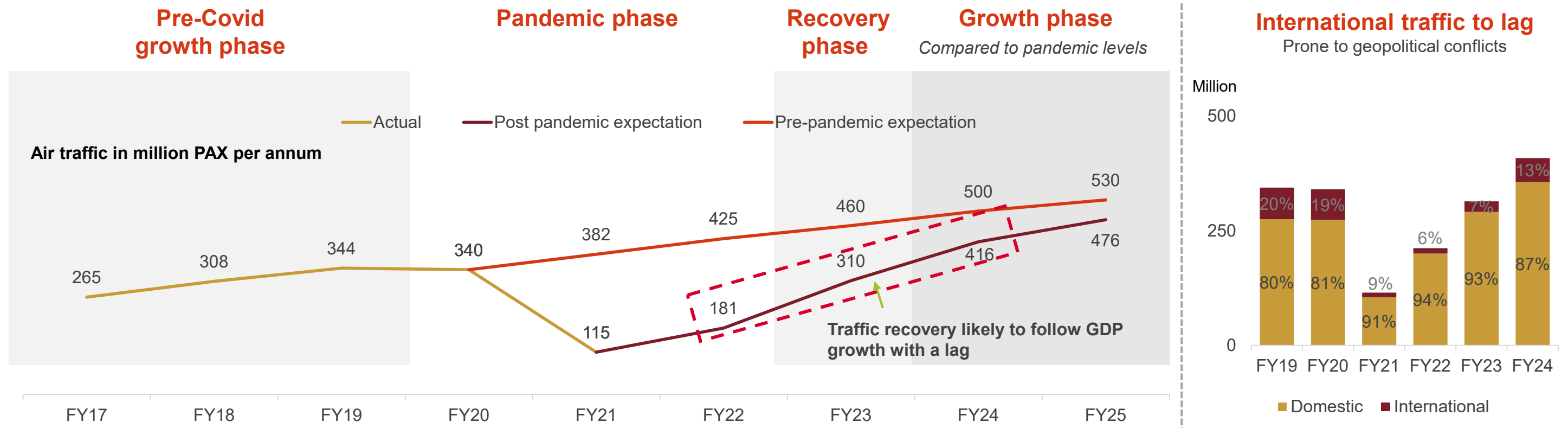


Source: IATA  
MVA: Moving average

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# Annual traffic to reach pre-pandemic volume run rate this fiscal

Remains sensitive to any further Covid wave and the war in Ukraine



Source: Airports Authority of India (AAI), CRISIL

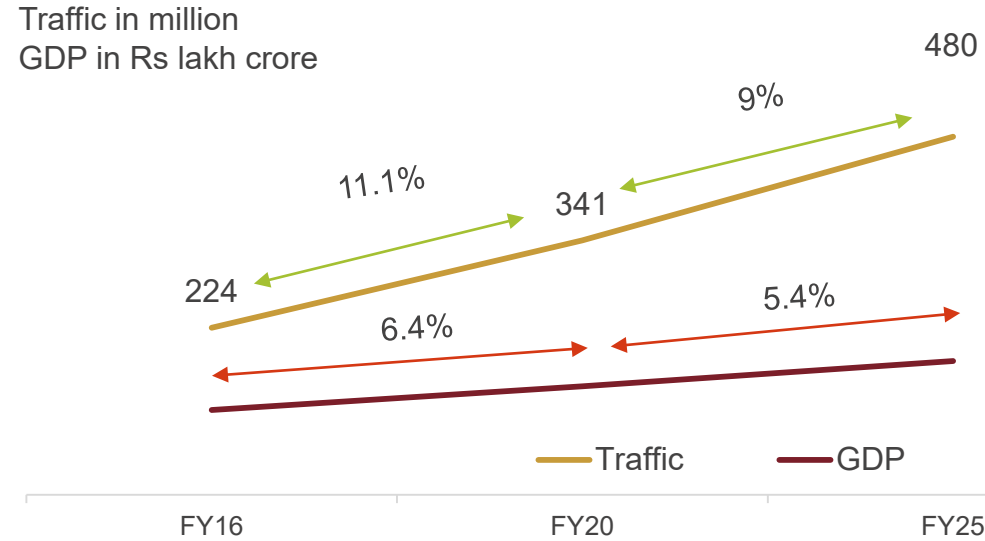
- Air traffic at around 53% of fiscal 2019 volume in fiscal 2022; largely held back by the impact of the Delta wave in the first half of the fiscal
- Lower impact of the Omicron variant, increasing confidence among people, ongoing vaccination drive and push from government expected to boost air traffic to the fiscal 2019 volume in fiscal 2023
- Movement till date and projections largely in line with those shown in the CRISIL webinar in July 2021
- High growth in traffic expected in fiscals 2024 & 2025 due to pent-up demand for international leisure travel and long-term fundamentals



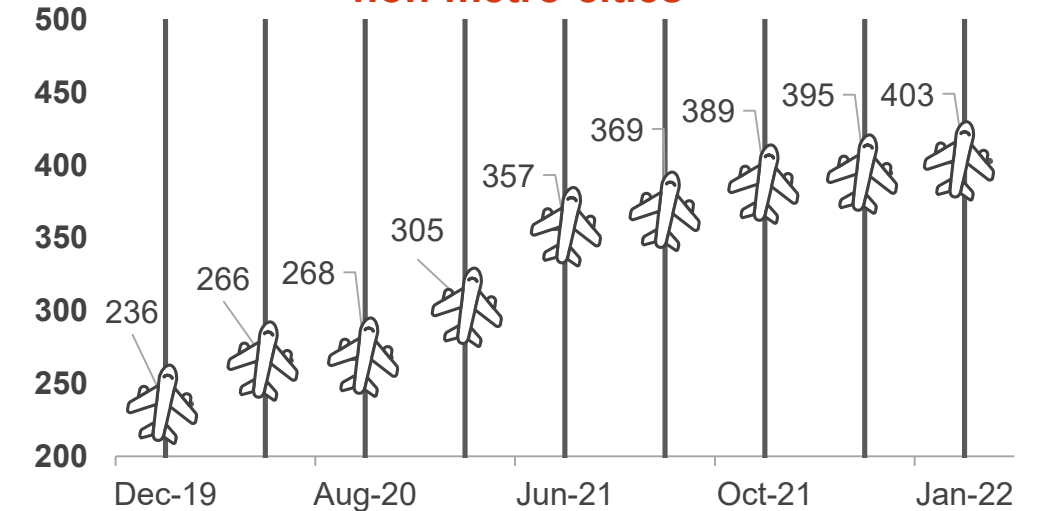
# Strong impetus for long-term growth

Economic growth, infra development, new supply and government focus

## Multiplier effect of economic growth/ GDP on air traffic



## Supply development/ increased penetration to non-metro cities



- 65 airports operationalised under UDAN/RCS out of 100 targeted by 2024

Source: Ministry of Civil Aviation

## Infrastructure development

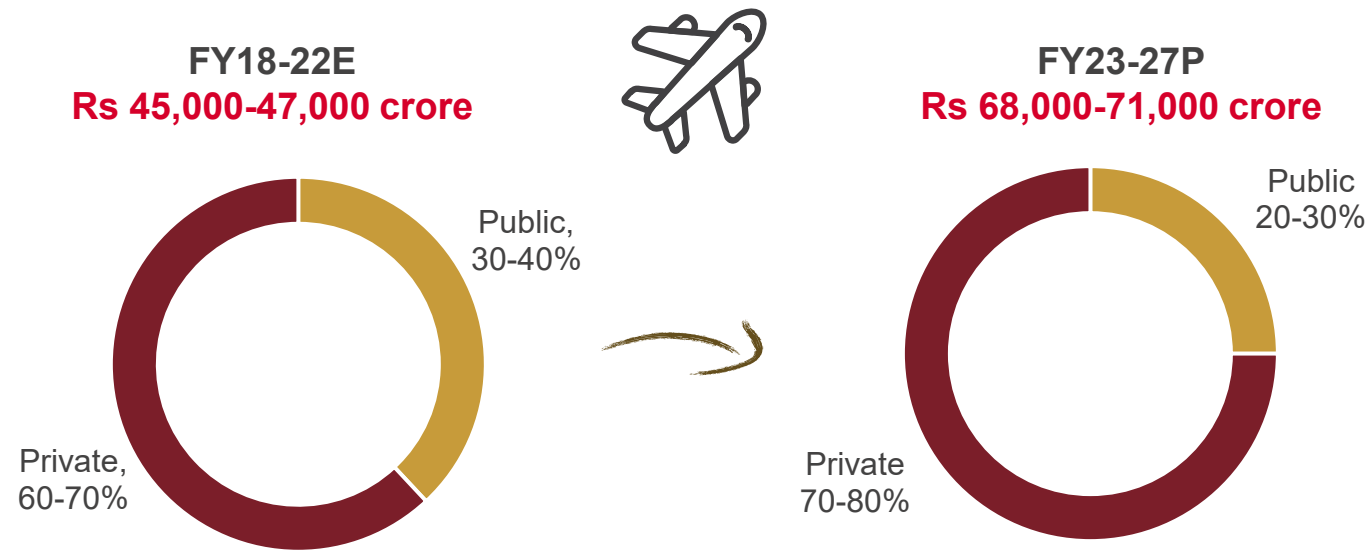
- Increased public spending for upgrade of old airports, building new airports in small cities
- Private sector participation through National Monetisation Pipeline (NMP)
- Schemes such as International Air Connectivity Scheme to develop routes

Reducing cost gap with rail travel and advantage of time saved in distances over 500 km

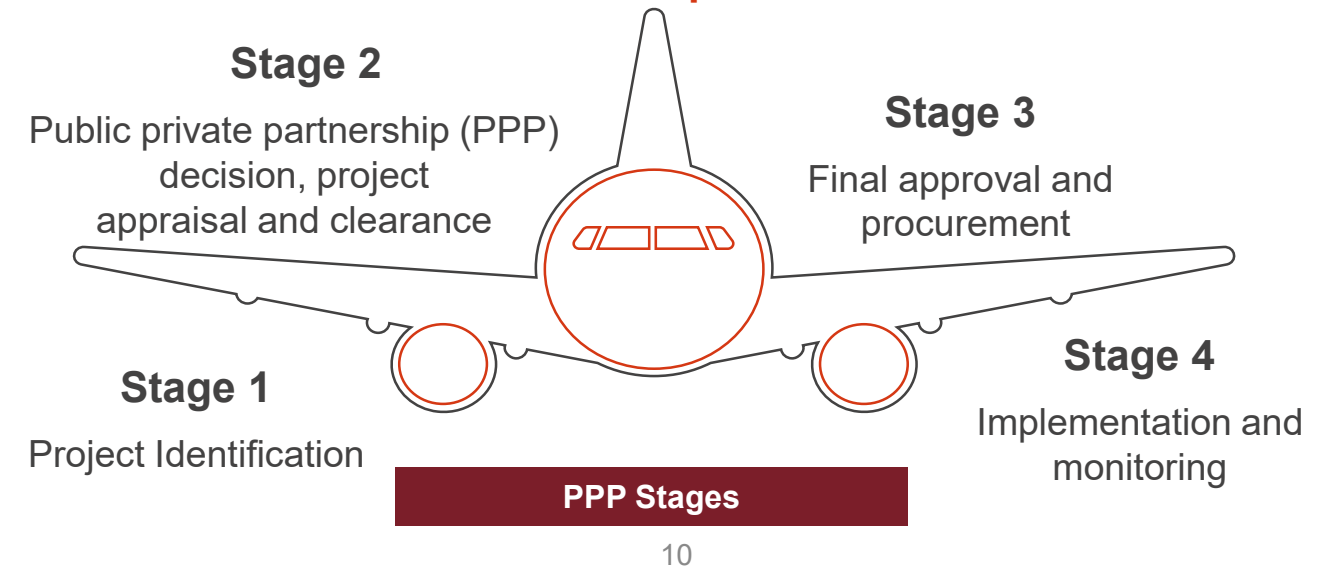
# Capex intensity to increase over the next five years

Private sector to account for two-thirds of capex; NMP to keep trend going beyond

Capex to increase 1.5 times over the next five years; private participation expected at 70-80%



NMP expected to contribute materially to capex beyond current estimation period



21 greenfield airport projects have received in-principal approval from the government; Majority of these projects/ airports (barring Phase 1) are at Stage 2 which takes maximum time (1-4 years based on past experience)

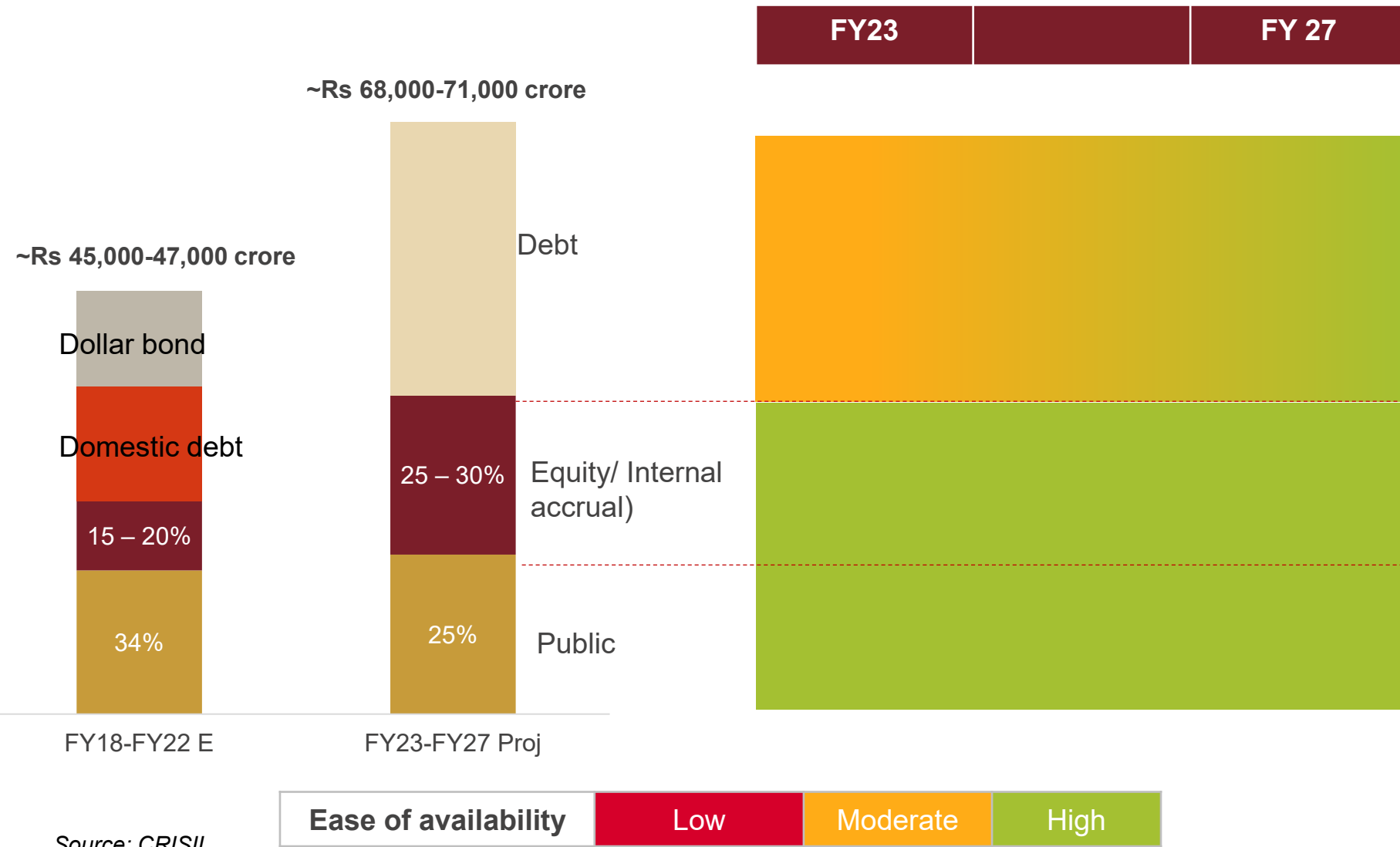
More than 80% of private capex is coming from ongoing or projects bid out in the previous period

Privatisation plan	FY22	FY23	FY24	FY25
<ul style="list-style-type: none"> <li>Tirupati</li> <li>Kushinagar</li> <li>Kangra</li> <li>Aurangabad</li> <li>Jabalpur</li> <li>Hubli</li> <li>Gaya</li> </ul>	<ul style="list-style-type: none"> <li>Bhubaneshwar</li> <li>Varanasi</li> <li>Amritsar</li> <li>Trichy</li> <li>Indore</li> <li>Raipur</li> </ul>	<ul style="list-style-type: none"> <li>Calicut</li> <li>Coimbatore</li> <li>Nagpur</li> <li>Patna</li> <li>Madurai</li> <li>Surat</li> <li>Ranchi</li> <li>Jodhpur</li> </ul>	<ul style="list-style-type: none"> <li>Chennai</li> <li>Vijaywada</li> <li>Tirupati</li> <li>Vadodara</li> <li>Bhopal</li> <li>Hubli</li> </ul>	<ul style="list-style-type: none"> <li>Imphal</li> <li>Agartala</li> <li>Udaipur</li> <li>Dehradun</li> <li>Rajamundhry</li> </ul>

Source: AAI, AERA, NMP, Ministry of Civil Aviation, CRISIL

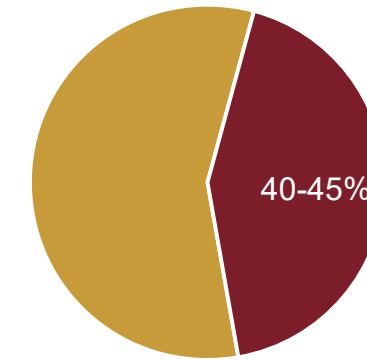
# Funding for investment unlikely to be a constraint

Domestic debt environment to continue support



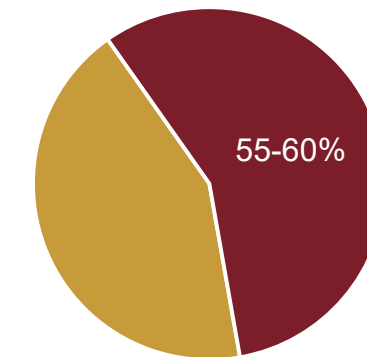
**Confidence on capex remains high given progress status and low implementation risks**

Private capex - Brownfield



- Low implementation risk with large portion having land and regulatory approvals

Private capex - Greenfield



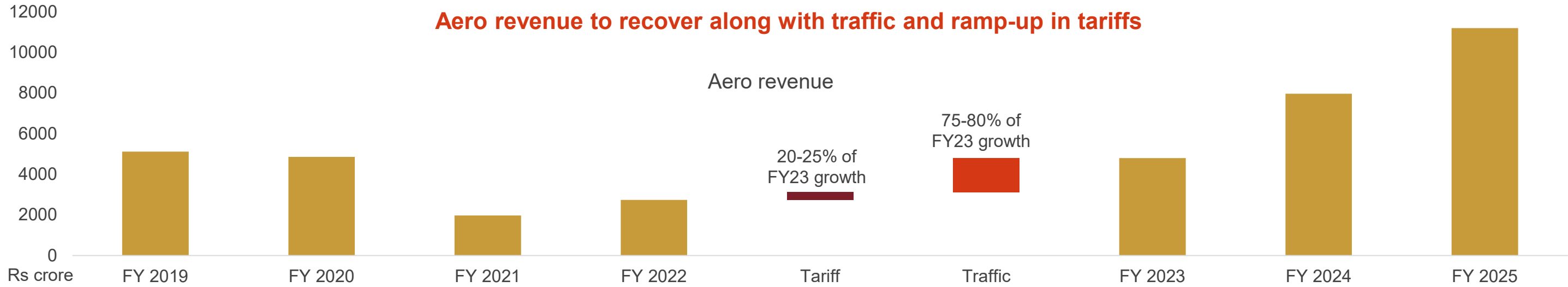
- Signing of Concession Agreement and handover of land completed for over 75% of projects, leading to low implementation risk
- Demand risk assessed to be low on account of supportive regulations, ensuring strong market position

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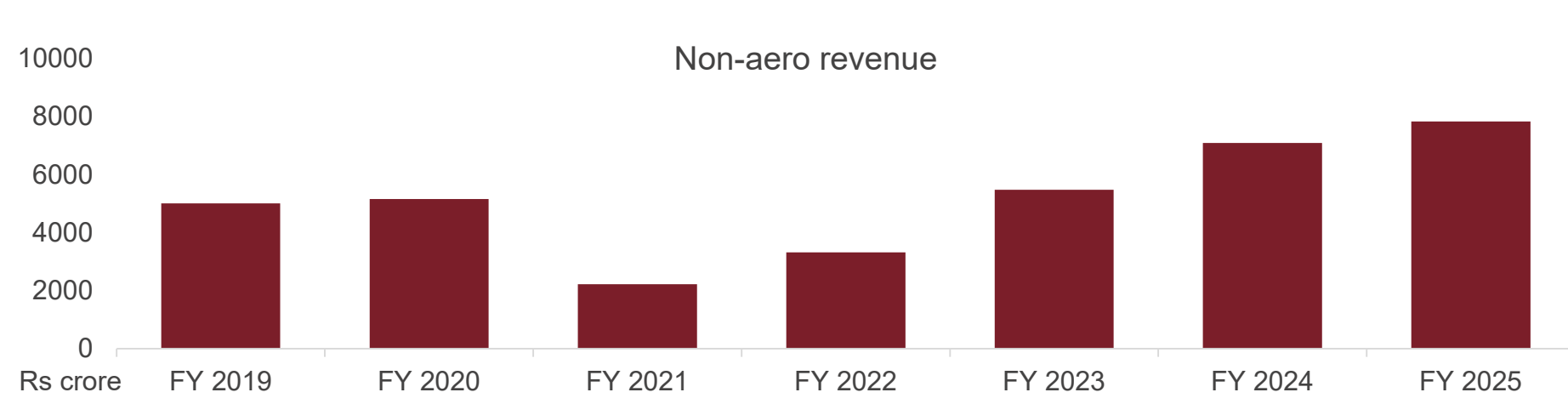
## Section 2: Credit perspective

- 12 PPP airports covered, which contributed over 50% to overall national traffic in 2021
- The 12 private airports catered to over 95% of traffic in 2021, which was handled by private airports in India

# Revenue recovery to follow traffic growth and tariff ramp up



## Non-aero revenue to fully recover this fiscal driven by business travel; new airports contributing more because of better opportunities



Non-aero split FY20	Drivers
Duty free <b>22%</b>	100% international traffic
Retail <b>13%</b>	50% economic + 50% air traffic
Advert. <b>11%</b>	Overall economy
F&B <b>11%</b>	50% economic + 50% air traffic
Rentals <b>21%</b>	50% domestic + 50% international
Others <b>12%</b>	Overall economy

- Faster recovery expected
- Slower recovery expected

Aggregated for private airports considered  
Source: CRISIL







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Numbers for fiscals 2020, 2023 are not directly comparable as six new privatised airports included from fiscal 2024

# Satisfactory regulatory environment: Fiscal 2022 tariff order for two airports paves way for higher aero collections & future recuperations

## Developments on tariff order for two large PPP airports released in fiscal 2022

% Contribution		CRISIL expectation (Rs crore)	Approved tariff order (Rs crore)	
Asset base (return) 42-48%		3,700-4,000	3,800-4,100	 <u>Capex quantum recognised largely in line with expectations</u>
Depreciation 26-32%		2,600-2,800	2,100-2,300	 Differs on account of delay in capitalisation and difference in operating life assumptions
Operating expenses 28-34 %		3,700-4,000	2,500-2,800	 Expected to be trued up on actuals in next control period
Others (incl true up) 12-18%		(1,700-1,900)	(1,100-1,300)	
<b>Overall revenue realisation</b>		<b>8,400-8,600</b>	<b>7,500-7,700</b>	

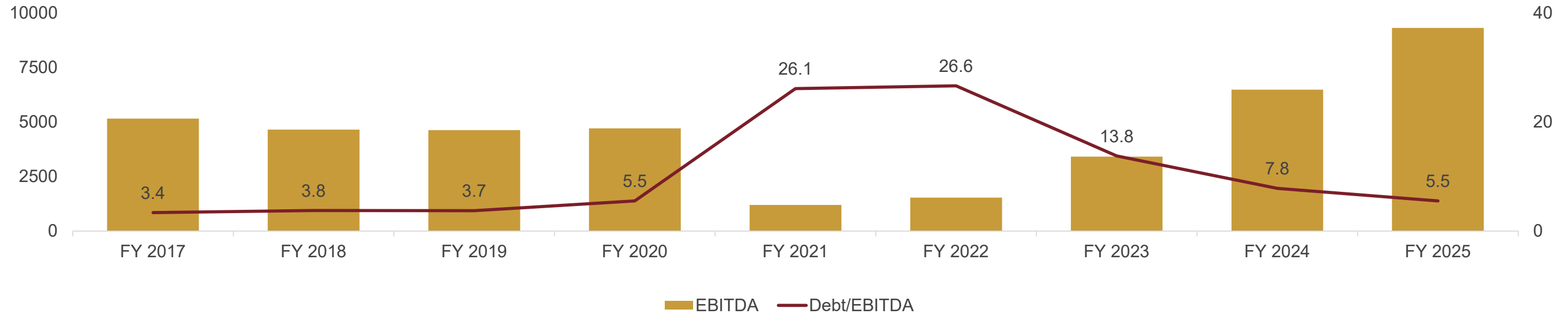
Aggregated for private airports considered  
Source: CRISIL, AERA

**Satisfactory recognition of ongoing capex and true-ups of previous control periods (financing and operating expenses) pave way for recoveries in the next period given the lower traffic in fiscals 2021 and 2022**



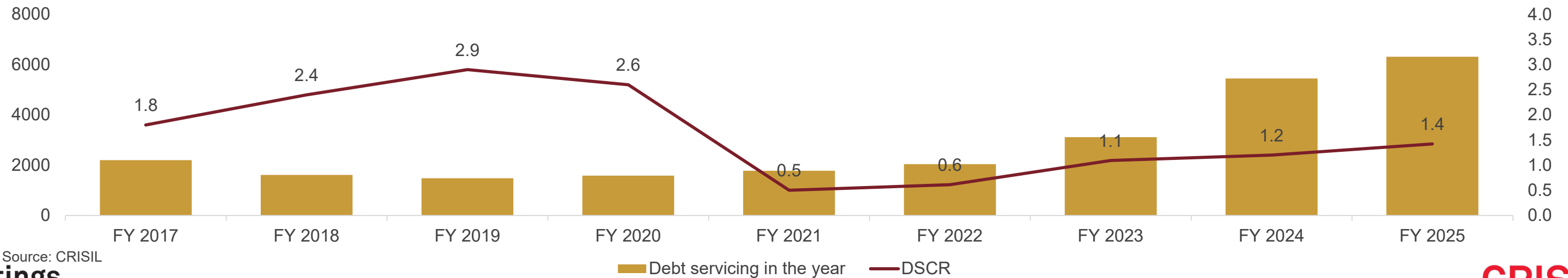
# Ebitda recovery in line with revenue recovery to bring leverage close to long-term level by fiscal 2025

**Ebitda ramp-up from traffic, tariff to bring leverage (debt to Ebitda ratio) back to long-term average**



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**Debt obligations to increase as moratoriums and IDCs end on capex debt; requisite cash flow to come from aero revenue**



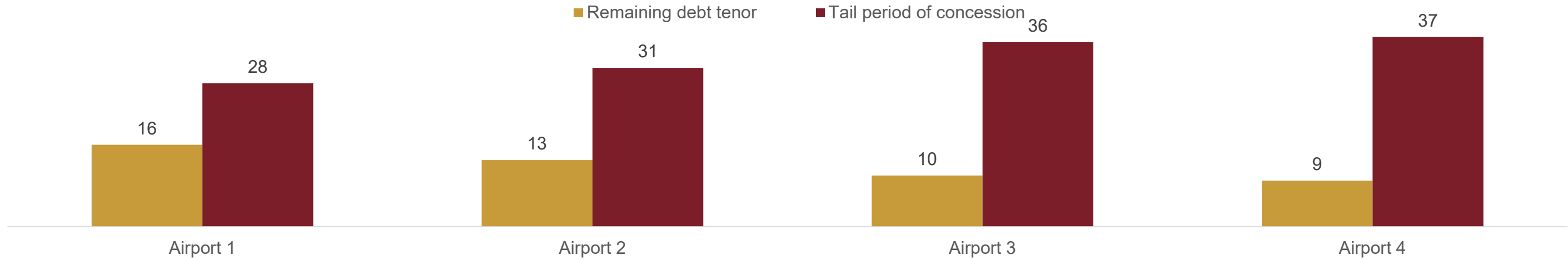
Source: CRISIL

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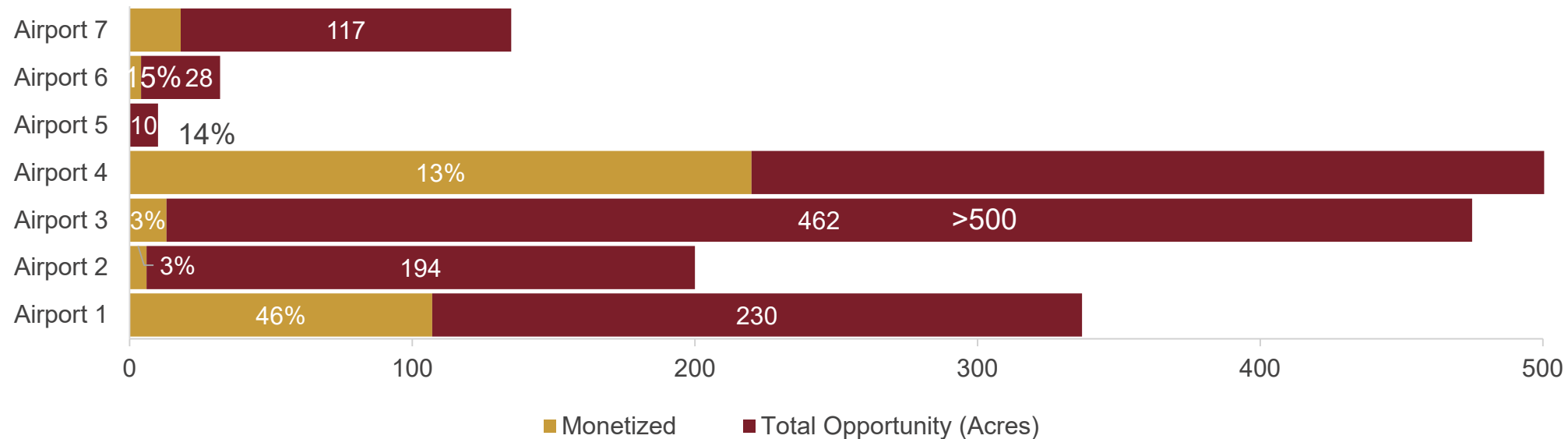
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# Strong financial flexibility supports credit profiles

Long concession tail provides flexibility to refinance debt over a longer tenure



Premium unutilised land bank of over 1,300 acre provides financial flexibility



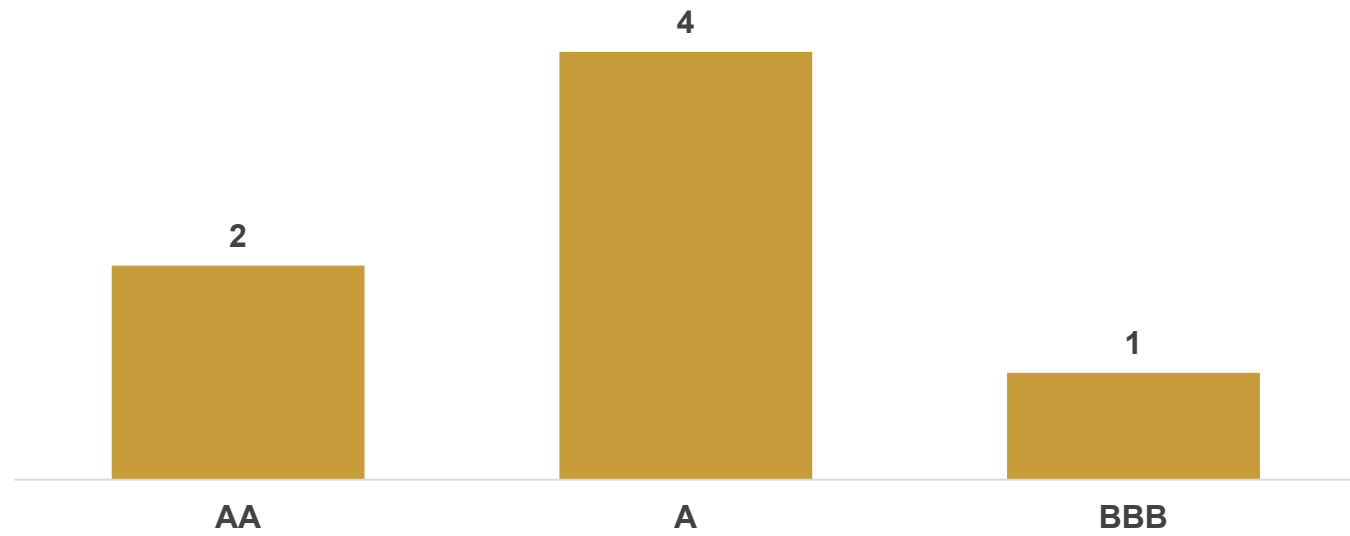
- Central location, connectivity and long lease of over 40 years
- Recurring deposits can be used as long-term funds and liquidity providers

Source: CRISIL

# Airports rated by CRISIL Ratings

High median ratings reflect business strength and financial flexibility

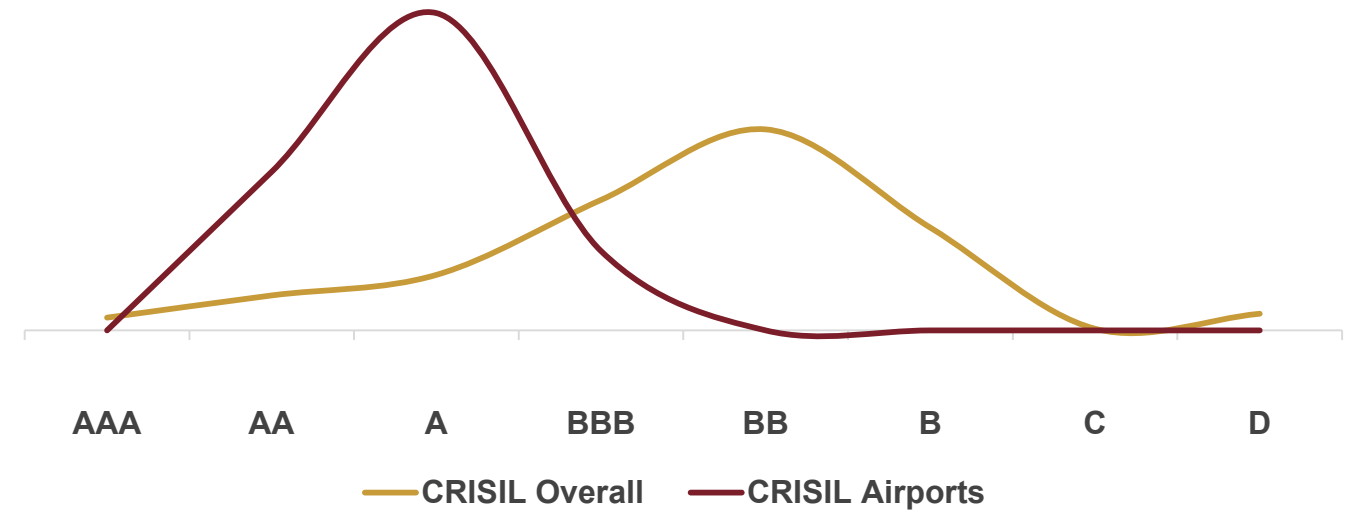
Airports ratings distribution – Private airports



Source: CRISIL

**Median credit outlook: Stable**

Ratings distribution compared with overall CRISIL Ratings portfolio



Source: CRISIL

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# Summary



**Growth:** Traffic recovery underway; pre-pandemic (fiscal 2020) level expected to be achieved by end of fiscal 2023



**Investments:** Investment to increase 1.5 times to Rs 70,000 crore over the next five-year period; private sector to drive momentum backed by NMP focus



**Funding:** Not expected to be a constraint given the flow of equity and debt seen in the past 2-3 years



**Leverage:** Private operators will operate at leverage higher than long-term average in fiscals 2023 and 2024; traffic growth and tariff hikes to restore financial metrics closer to long-term averages



**Regulatory environment:** Largely conducive. Timely release of tariff order for operators paves way for stability and recuperation of lost revenue



**Outlook & monitorables:** Stable. Monitorable: Another Covid-19 wave; growth in non-aero revenue per passenger vis-à-vis the fiscal 2020 level

## Section 2

# Their view



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# Excerpts of views from the panel discussion during the webinar (1/4)

## Eminent panelists



**Sundeep Malik**  
Portfolio Management  
Zurich Airport International



**Hari Marar**  
Managing Director and CEO  
Bangalore International  
Airport Ltd



**Prakash Tulsiani**  
Chief Executive Officer  
Mumbai International Airport Ltd

### On trajectory of domestic traffic

- Over the three waves of Covid-19, the recovery rate has improved. Also, milder infection and, consequently, high confidence to travel are positives for recovery
- Impact of the third wave was mild, with traffic recovering to ~80% of pre-pandemic levels in the first half of March 2022
- Over the long term, growth drivers are increased rate of air travel; air travel is expected to become one of the predominant modes of travel in the country and increase in transfer traffic at airports
- Barring a severe Covid-19 wave, by end-fiscal 2023, domestic traffic is expected to surpass pre-pandemic levels, with recovery in traffic on existing routes and commencing of operations from new routes

### On trajectory of international traffic

- Past two years were challenging. But global traffic is expected to recover to pre-pandemic levels by fiscal 2024
- Markets with higher share of domestic travel will see faster recovery than those with higher international traffic
- Lifting of restrictions will be one of major drivers; traffic has recovered rapidly in some regions that lifted restrictions in February 2022
- Closure of airspace because of the Russia-Ukraine war and volatility in crude oil prices may, however, affect international traffic recovery





# Excerpts of views from the panel discussion during the webinar (2/4)

## Trajectory of non-aero revenues

- For metro private airports, non-aero income forms 50-70% of the top line
- Duty-free, cargo, F&B, and retail are important components of the non-aero business
- Non-aero average spend increased to Rs 251 per pax in 2020 from Rs 71 per pax in 2017, indicating customers' willingness to spend
- Non-aero spend is likely to post high growth over the medium term with recovery in international traffic

## On NMP, privatisation and M&A, and industry consolidation over the next five years

- Incumbents and international players have significant appetite for investing in India
- As availability of funds is not an issue, achievement of monetisation pipeline is not challenging
- Creation of capacity and modernisation of airports will increase demand over the medium term
- Consolidation is likely – there will be 3-4 large players, given that the business is capital intensive and players need to have the ability to raise long-term capital at competitive rates
- Operators will look to gain economies of scale and synergies from multiple airport operations



NMP: National Monetisation Pipeline

# Excerpts of views from the panel discussion during the webinar (3/4)

## India airport sector from the perspective of an international investor

- Strong traffic growth, rising penetration levels, and monetisation pipeline under NMP are key drivers
- Well-defined and consistent regulatory framework as compared with other markets
- Long concession periods and flexibility of capex linked to demand growth ensures recovery of investments over longer duration
- Non-aero must be part of the overall passenger experience, and is becoming an important component of the Indian airport business
- Challenges have been largely mitigated as the Indian market will see considerable interest from infrastructure and pension funds, and long-term strategic investors

## On availability of capital

- External and domestic capital are available as the business has stable regulated returns
- Defined returns, healthy traffic growth, and increased spending from customers makes it a lucrative investment
- So debt market would be willing to support the airport operator business

## On regulatory regime

- Regulatory regime has matured over the past 10 years
- Timely approval of capital expenditure is a positive, given the investment planned in the sector
- Tariff orders are being released faster compared with earlier
- Area of improvement is focusing slightly more on cash flow



# Excerpts of views from the panel discussion during the webinar (4/4)

## On outlook of regional airports

- Regional connectivity scheme, UDAN, to ensure higher traffic at hub airports
- Higher disposable income, along with need to travel overseas and time-savings compared with alternate modes of transport, will drive traffic growth
- Tier-II cities, which come in pair with other airports, would create capacity and also drive traffic growth

## On impact of commodity on airports

- Construction costs could rise, resulting in cost overruns for under construction projects
- One of the safeguards being discussed with contractors is to arrive at a benchmark rate and consider additional payments if prices rise above the threshold
- While crude oil prices above \$100 will have an impact, it is the duration of prices above this mark that needs to be monitored – short-term can be managed, but long-term will impact ticket prices and, thus, traffic





## Section 3

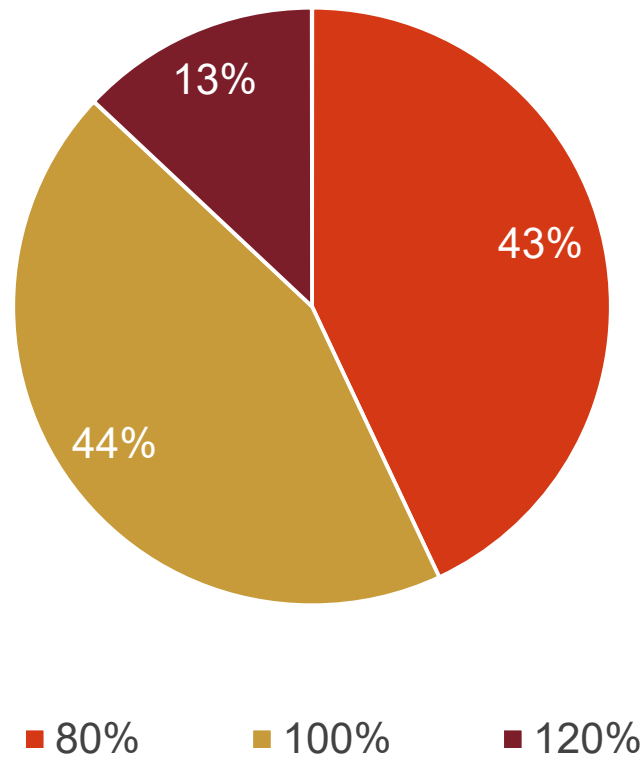
# Poll view



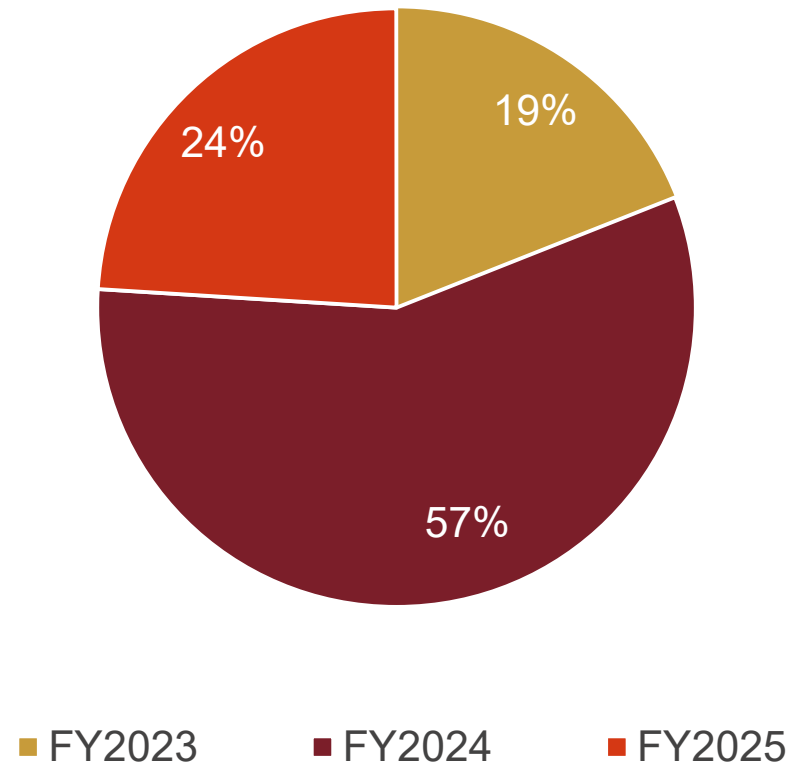
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# Results of the survey conducted during the webinar\* (1/2)

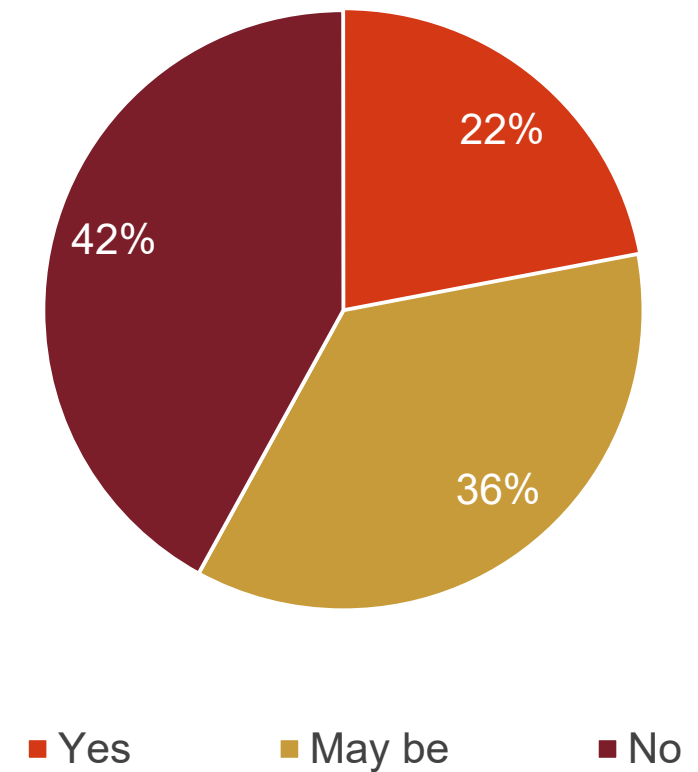
**Q1. How much air traffic will India achieve in FY 23 as compared to FY 2020 levels?**



**Q2. In which year is international air traffic expected to reach pre-pandemic levels, i.e. FY20?**



**Q3. Given the current environment, do you see any issues for airports with respect to tying up of domestic debt?**

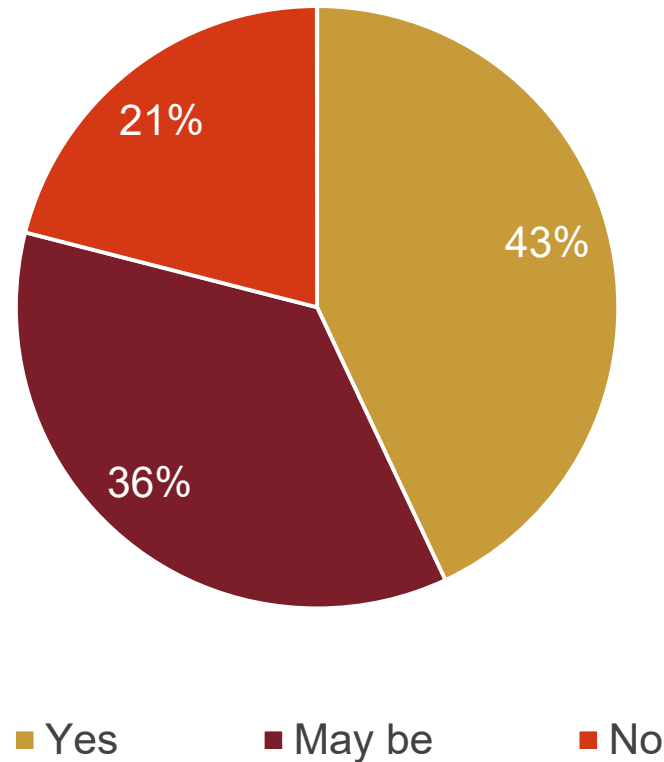


\*Attended by over 200 participants

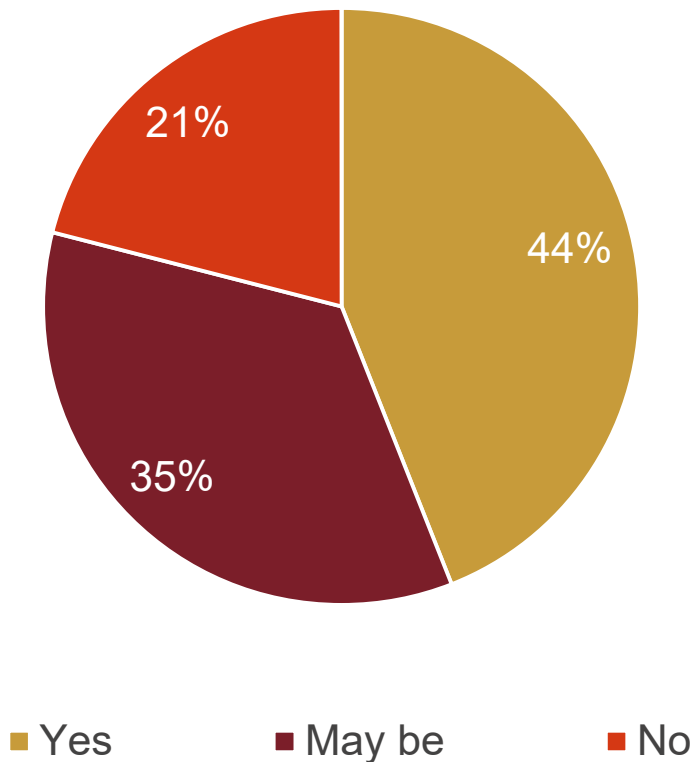
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# Results of the survey conducted during the webinar\* (2/2)

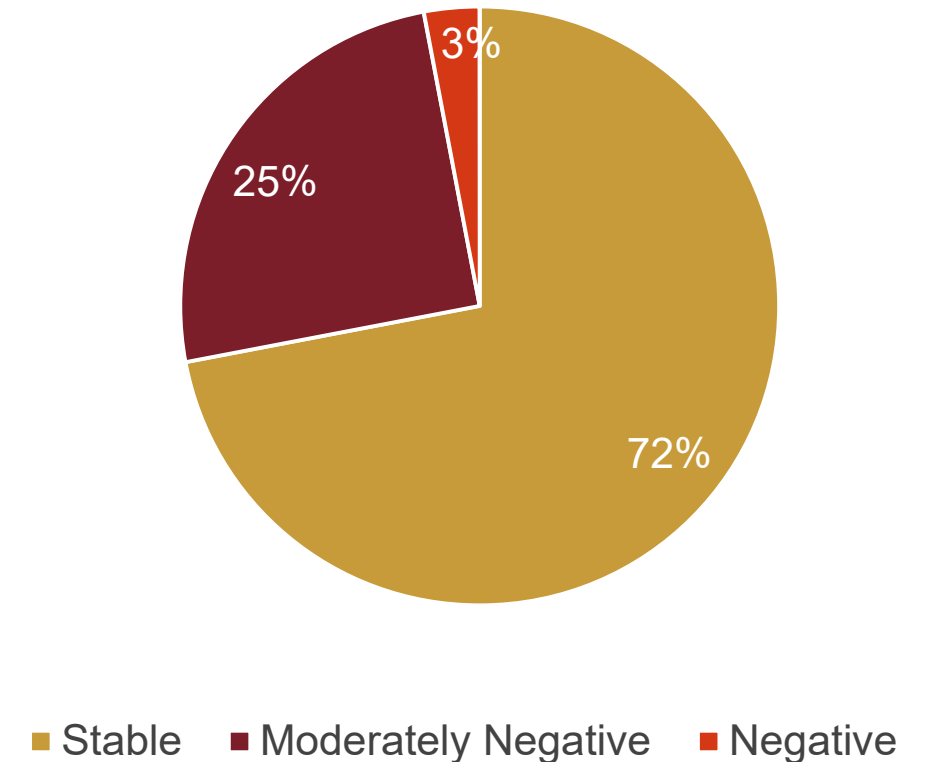
Q4. Looking at the recent tariff orders, do you believe regulatory risk has reduced in the sector??



Q5. Do you foresee cash flow issues for private airports in the near term on account of new Covid-19 waves and / or rise in crude oil prices?



Q6. According to you, what is the expected near-term outlook for the airports that are nearing completion?



\*Attended by over 200 participants

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# List of CRISIL-rated airport operators

Adani Airport Holdings Ltd
Mumbai International Airport Ltd
Navi Mumbai International Airport Pvt Ltd
Bangalore International Airport Ltd
Delhi International Airport Ltd
GMR Hyderabad International Airport Ltd
GMR Goa International Airport Ltd
Airports Authority of India

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It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

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