

---

## Rating Rationale for GVK Airport Developers Pvt. Ltd.’s Secured Bond Issue of INR 690 crore or INR 6.9 billion

---

<b>Bond Issue Rating</b>	<b>BWR AA-(SO)</b>
--------------------------	--------------------

Brickwork Ratings has assigned BWR AA-(SO) (Pronounced BWR Double A minus (Structured Obligation)) for GVK Airport Developers Private Limited’s (“GVKADPL”) Secured Bond issue of INR 690 crore, having a tenor of 366 days. ‘BWR AA-(SO)’ 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 value of the securities/collateral for the Bond issue, additional security in the form of guarantee by the Holding Company- GVK Power and Infrastructure Ltd. and the management quality of the issuers.

BWR has essentially relied upon the information/ clarification provided by the issuer, valuation of collateral being provided by the issuer and audited financial results of the holding company of the promoter group.

### 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% equity stake in Mumbai International Airport Pvt. Ltd. (MIAL) and is the largest stake holder. GVKAHPL has since acquired 12% stake in Bangalore International Airport Ltd. (BIAL) from Unique (Flughafen Zürich AG) Zurich Airport. GVKAHPL has further negotiated to acquire 17% of L&T’s stake in BIAL. Thus GVKAHPL stake in BIAL will go up to 29%

### Details of the issue

GVKADPL, has raised about INR 690 crore through current issue of secured Bonds, with a tenor 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 are secured by pledge of over 72% of the 36.63% equity stake in MIAL held by the group as also pledge of almost the entire stake of 29% in BIAL in the process of being acquired by GVKAHPL (12% stake in the process of being acquired from Unique (Flughafen Zürich AG) Zurich Airport and 17% proposed to be 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 INR 3300 crore. The bonds are also 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 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.

The legal process of the transactions is being vetted by a reputed firm of solicitors.

### **End use of Funds**

The funds raised through the 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 22.25 million passengers and handles around 480,000 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 by 2013. MIAL has got rights to manage the Airport for 30 years with an option of managing it for another period of 30 years.

In FY09, MIAL generated total revenue of INR 955.10 Crores with a net profit of INR 85.27 crores as compared to INR 856.83 Crores and INR 110.03 Crores respectively in FY08. The revenue consists of 39.71% aeronautical income and the balance 60.29% from non-aeronautical, cargo operations, and interest and dividend.

GVKAHPL's holdings of 36.63% stake in MIAL have been valued at about INR 2940 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 INR 2110 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 2009 are attached in Annexure III & IV.

## **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, L&T, 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 FY09, BIAL generated total revenue of INR 315.20 Crores. It however incurred a net loss of INR 126.20 crores. Its net-worth decreased to INR 237.90 crore in FY09 from INR 273.05 crore in FY08.

Currently, there is a movement of 296 aircraft and 9 million passengers at BIAL. BIAL is expected to increase its capacity to 40 million passengers and 1,000 aircraft 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 acquisitions underway for 29% stake in BIAL have been valued at about INR 1206 crore on a discounted cash flow basis. In this regard, 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 BIAL for the period of FY2009 are attached in Annexure V & VI.

### **Event of Default**

The 'event of default' would be when the payment of interest or principal is not made on the due date. In the event that the issuer misses the payment of interest or principal, it gives the right to the Debenture Trustee after serving a notice to the issuer to immediately enforce the securities and take appropriate action as per the powers vested with the Trustee to protect the interests of the investors.

The event of default would also occur when the issuer fails to comply with the terms/ covenants of the agreements/deeds/documents etc or to carry out necessary rectification within 7 days of notice for compliance from the Debenture Trustee.

### **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 69.2% to revenues in FY09 while roads contributed 28.39%. 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 12 subsidiaries and 2 associate companies including MIAL. MIAL is currently developing the Mumbai International Airport and has achieved considerable progress since it was taken over in 2006. MIAL has also a limited right of first refusal for the proposed Navi Mumbai Airport.

### **Shareholding**

As on FY09, Promoters and promoters group have aggregate holdings of 60.94% in GVKPIL, FIIs hold of 17.85% and Banks, FI and Mutual funds hold of 8.24% and the others holds 12.97%.

### **Financial performance**

GVKPIL is one of the major players in the Infrastructure industry. The group's consolidated income has slightly increased from INR 531.90 in FY08 crore to INR 533.96 crore in FY09. Its income from operation has increased from INR 469.98 crore in FY08 to INR 531.77 crore in FY09. However other income has decreased from INR 61.92 crore in FY08 to INR 20.18 crore in FY09. PAT has decreased by 20% from INR 135.46 crore to INR 107.56 crore during the same period mainly due to increase in cost of fuel. Total borrowed funds of the Company has gone up from INR 1291 crore in FY 08 to INR 2980 crore in FY 09. Net-worth also grew from INR 2186 crore in FY08 to INR 2322.88 crore in FY09. There are negligible contingent liabilities for GVKPIL.

---

Consolidated financial performance and key ratio analysis of GVKPIL for the period 2007 to 2009 are shown in Annexure I & II.

### **Aviation Industry**

The aviation industry in India over the last 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 2009. 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.

A fifth of the losses of airlines globally to the tune of \$ 8.5 billion as estimated by the International Air Transport Association (IATA) were contributed by India which is high considering that India accounts for only 2% of the world traffic. Moreover, decline in airline traffic impacted aero revenues of most airports.

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.

Global oil prices had reached a high of \$147 a barrel during FY09 and this had increased the cost of aviation fuel. Airline industry suffered huge losses for reasons brought out earlier including higher fuel cost. Though the fuel costs came down later during FY09, any further

increases in ATF prices will adversely affect the industry and thus will impact airport developers.

MIAL airport is expected to reach its threshold capacity of 40 million passengers by 2013. 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 decline in air traffic experienced in 2008-09 and the consequent impact on BIAL's revenues. Currently, there is a movement of 296 aircraft and 9 million passengers at BIAL. BIAL is expected to increase its capacity to 40 million passengers and 1,000 aircraft in the next 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.

Copyright ©, 2009, Brickwork Ratings.

Brickwork Ratings has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. Brickwork has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. Brickwork does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by Brickwork should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. Brickwork has the right to change, suspend or withdraw the ratings at any time for any reasons.

## Analysts

**Mukesh Mahor**, Lead Analyst  
[mukesh.m@brickworkratings.com](mailto:mukesh.m@brickworkratings.com)  
Phone: 1-860-425-2742

**Milind Diwakar**, Co-Analyst  
[milind.d@brickworkratings.com](mailto:milind.d@brickworkratings.com)  
Phone: 1-860-425-2742

## Media

**Anitha G**  
[media@brickworkratings.com](mailto:media@brickworkratings.com)  
Phone: 1-860-425-2742

## Relationship contact

**Ramaswamy Annam**  
Director - Business Development  
[ramaswamy@brickworkratings.com](mailto:ramaswamy@brickworkratings.com)  
Phone: 1-860-425-2742

Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to <http://www.brickworkratings.com/scale.html>. It is clarified that the said change in the definition should not be construed as a change in the Rating.

<b>Annexure I</b>			
<b>GVK Power &amp; Infrastructure Limited</b>			
<b>Financial Performance Summary (consolidated)</b>			
<b>(Rs. In Crores)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Sales</b>	<b>533.96</b>	<b>531.90</b>	<b>423.28</b>
EBITDA	196.40	249.40	225.30
Interest & Financial charges	33.38	43.12	62.70
Depreciation	77.95	77.59	80.55
Provision for Taxes	10.03	23.85	25.00
<b>PAT (before share of profits of associate and minority interest)</b>	<b>75.10</b>	<b>104.89</b>	<b>57.14</b>
Add:-Net Share of Income from Associates	31.24	30.57	0.88
Add:-Profit on the sale of Subsidiary	1.20	0	0
<b>Profit for the year</b>	<b>107.56</b>	<b>135.46</b>	<b>58.02</b>

<b>Annexure II</b>			
<b>GVK Power &amp; Infrastructure Limited</b>			
<b>Financial Key Ratios (consolidated)</b>			
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Debt -Equity	1.30	0.60	2.63
Interest Coverage	6.78	6.72	3.51
DSCR	1.38	2.40	1.60
Net-Worth (Crore)	2322.88	2186.59	595.57
Profitability Margin	20.94%	28.82%	14.56%
ROCE	1.57%	3.59%	3.65%
Net Cash Accruals	6.23%	16.50%	8.97%
Current Ratio	3.16	16.42	4.87
Cash Flow from Operation (Crore)	157.10	44.80	143.80

<b>Annexure III</b>		
<b>Mumbai International Airport Private Limited</b>		
<b>Financial Performance Summary</b>		
<b>(Rs. In Crores)</b>	<b>2009</b>	<b>2008</b>
<b>P&amp;L account</b>		
<b>Sales</b>	<b>955.11</b>	<b>856.83</b>
EBITDA	255.39	218.02
EBIT	215.44	192.63
<b>PAT</b>	<b>85.28</b>	<b>110.03</b>
<b>Balance Sheet</b>		
Shareholders Funds	686.27	400.95
Loan Funds	1470.13	950.01
DTL	56.70	28.53
<b>Total Sources of Funds</b>	<b>2213.10</b>	<b>1379.49</b>
Fixed Assets	2033.02	1049.37
Investments	42.60	200.81
Net Current Assets	137.48	129.31
<b>Total Application of Funds</b>	<b>2213.10</b>	<b>1379.49</b>

<b>Annexure IV</b>		
<b>Mumbai International Airport Private Limited</b>		
<b>Financial Key Ratios</b>		
<b>(Rs. In Crores)</b>	<b>2009</b>	<b>2008</b>
Net-worth	686.27	400.95
Debt	1470.13	950.01
Debt-Equity	2.14	2.37
PAT Margin	8.93%	12.84%
RoCE	9.73%	13.97%
Interest coverage	1.41	3.74
DSCR	0.88	0.58
Net Cash Accruals	9.00%	14.00%
Cash from Operations	246.37	190.08

<b>Annexure V</b>			
<b>Bangalore International Airport Limited (Financial Performance Summary)</b>			
<b>Balance Sheet</b>		<b>P&amp;L</b>	
<b>(Rs. In Crores)</b>	<b>2009</b>		<b>2009</b>
Gross Block	2036.40	<b>Gross Revenue</b>	<b>315.20</b>
Accu. Depreciation	110.10	Aero Revenue	183.00
Net Block	1926.30	Aviation concession Revenue	40.50
Net Current Assets	-112.00	Non Aero Revenue (including Cargo)	90.70
Cash	166.10	other income (Interest income)	1.00
<b>Total Assets</b>	<b>1980.40</b>	Less: AAI share	12.60
<b>Liabilities</b>		<b>Total Net Revenue</b>	<b>302.60</b>
Share Capital	384.60	O&P Cost	157.70
Reserves	-146.70	<b>Total Expenditure</b>	<b>157.70</b>
<b>Total Net-worth</b>	<b>237.90</b>	EBIDTA	144.90
Gross Loans	1412.00	EBIDTA margin	46%
Deferred Tax Liability		Depreciation	110.10
State Support (Interest Free Loan)	330.50	Interest Expense	102.90
Working Capital Loan		Hedging cost	2.50
<b>Total Liabilities</b>	<b>1980.40</b>	Loss/gain on ECB restatement	54.0
		<b>PBT</b>	<b>-124.60</b>
		<b>PAT</b>	<b>-126.20</b>

<b>Annexure VI</b>		
<b>Bangalore International Airport Limited</b>		
<b>Financial Key Ratios</b>		
	<b>2009</b>	<b>2008</b>
Debt -Equity	5.94	4.48
Interest Coverage	0.86	-
DSCR	0.06	0.03
Net-Worth (crore)	237.90	273.05
Profitability Margin	-40%	-12.50%
RoCE	-7%	-1%
Net Cash Accruals	-1%	-2%