GMR’s competitive flight plans

Fresh from a demerger and with a French partner, GMR Airports is readying itself to take on the Adani group for leadership in India’s airports business

SUSHIKA DESHMUKH
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Hyderabad-based GMR group has been the king of India’s airport infrastructure business, handling over 100 million passengers a year in India and abroad. Its two operational airports in India — Delhi and Hyderabad — handled nearly a fourth of the 340 million Indian airline passenger market in FY20.

So last month, listening to a long-standing demand by its investors, GMR infrastructure demerged its non-airport business (energy and highways) from the airport business, transforming the company into India’s only listed pure play airport company.

The timing is just right, since the group is getting ready to compete with the Adani group, which has emerged as a major airport operator in India.

The demerger makes sense in other ways, it has helped GMR rope in French airport major ADP, which operates the Paris-Charles De Gaulle airport and 24 others across the world, to take a 49 per cent stake in GMR Airports Ltd for Rs1,030 crore in July. The money will help the company service its debt, improve cash flows, and provide a exit to some PE investors.

The tie-up will also help cut the group’s corporate debt, which accounts for 26 per cent of the total debt of Rs26,000 crore. Analysts say the plan is to bring it down to zero by monetising more assets before the demerger is completed.

“Besides aiming at deleveraging and value unlocking, the demerger will create a platform for increased participation in upcoming privatisation opportunities in India and south and central Asia, given the French airport operator’s global experience in developing and accessing funds,” said Anupama Arora, vice-president and sector head corporate ratings at IICRA.

Certainly, GMR needs all the muscle it can get to take on an aggressive competitor. Last year, the Adani group came from nowhere to win bids to manage and operate six airports (among them Lucknow, Jaipur, Mangalore), grabbing them by offering the Airports Authority of India a hefty revenue per passenger. And the big feather in the cap came just a few weeks ago when the Adani group bought out GVK to take control of the lucrative and India’s second largest airport, Mumbai. With this, the Adani group is already sitting on an equivalent number of passengers as does GMR in the country — that too, in no time.

Meanwhile, GMR has charted out a four-pronged strategy to keep ahead in the game. While the group declined to comment, most analysts say the long-term upside in the business (besides the pandemic) is huge, which is why international players such as ADP and Zurich Airports (which has won the bid for the new Jesus airport in Uttar Pradesh) are betting on India.

GMR estimates that passenger growth in India will be up by 3.4 times between 2020 (340 million) and 2027 (1.1 billion), which could take care of Delhi’s demand in the next five years, after which the new airport in Jewar would kick in. Of course, it might have to tinker with its demand projections thanks to Covid-19 but after a dismal few months, utilisation is inching up.

The other third area on which GMR is concentrating is to leverage its land banks near its airports to develop under the agreement for long-term lease rentals. It has over 2,200 acres across airports, but usage has been minimal.

In Hyderabad it is planning to use the 1,400 acres for three projects — a logistics park, education (it is in discussion with an international university and school) and hospitality. In Goa, where the group builds in a new airport, the plan is to use the land for a convention centre, amusement park and some hotels. But as usual Delhi is the big one, it has 230 acres and more than half has been leased out, especially to set up the Aerocity with hotels and commercial space.

The focus now is to create a central business district, and attract the big companies. The first big step in this direction has been its agreement with Iliart, who will be constructing 7.10 million square feet of commercial space. Delhi International Airports Ltd (DIAL)’s joint venture with Aai, plans to wait until this space comes on to the market before going ahead with other deals, brokering a gauge price discovery.

The Iliart deal has already helped GMR increase its share from real estate rentals from 1.8 per cent of revenues in FY19 to 76 per cent in FY20. The question is how far this plan will work given plummeting real estate values and delays in project construction, but the more immediate challenge for GMR is to take on the Adani in the upcoming government plan to offer six more airports to the private sector. Estimates put the addressable pipeline of opportunity for these bids at over 44 million passengers a year, with many of the airports expected to be among the country’s fastest growing (Vunnaluru, for instance, is expected to grow over 26 per cent in the next three years).

Can GMR, armed with a global partner and improved balance sheet, be more aggressive in its bidding this time?

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**PLANE FACTS**

GMR’s airports business consolidated numbers

<table>
<thead>
<tr>
<th>FY 2020 (In Tmillion)</th>
<th>Gross revenues</th>
<th>PBT</th>
<th>PAT</th>
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<tr>
<td></td>
<td>20,628</td>
<td>5,124</td>
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*After profit share in JV’s and associates

**PAASSENGER CAPACITY**

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Final</th>
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<tbody>
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<tr>
<td>Cebu</td>
<td>10</td>
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*Capacity to be increased by 2021

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*Note: Figures are based on IGI, BIA, BLR, BOM, NRJ, SBI and VAI. Thomas Cook and Mehra Group share for BIA and SBI.

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*Source: GMR

That’s because India is an under-penetrated market — average trips per capita is expected to go up from 0.6 to 1.0 trips per capita by 2020. Arora adds that two stable and mature airport assets and a few under construction will stand the group in good stead.

GMR Airports’ top priority is to expand its capacity at existing properties — it has a mixed or (installed) annual capacity of 300 million passengers across its existing airport portfolios, but its current operational capacity is just a third of that.

In Hyderabad it handles nearly double the number of passengers than the airport’s capacity of 12 million. So it has put in Rs2,900 crore for a threefold expansion to 33 million but can take it up to 60 million.

In Delhi, the company is investing Rs2,500 crore to nearly double the annual capacity to 110 million. Its current capacity of 66 million is less than the number of passengers it handles on the ground. And it can expand the capacity to 120 million, which is what the Adani group is readying itself to do with its planned new airport.