Research Update:

France-Based Indigo Group Outlook Revised To Stable On Financial Flexibility; 'BBB-' Ratings Affirmed

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Rating Action Overview

- Indigo Group S.A.'s car park business, which generated €527 million in revenue in 2020, suffered under extended lockdowns in the first half of 2021, but we expect a strong rebound of occupancy levels in the second half.
- Revenue from €400 million of growth investments over the last two years and balance-sheet strengthening should result in gradual deleveraging, with funds from operations (FFO) to debt higher than 9% over the next three years, versus 8.1% in 2020.
- We are therefore revising our outlook on Indigo to stable from negative and affirming our 'BBB-' ratings.
- The stable outlook reflects our expectations that the company will use strategic initiatives to maintain adjusted weighted-average FFO to debt above 9% on average over the next three years, while gradually reducing debt of EBITDA below 6.5x.
- We are correcting a previous misapplication of our Group Rating Methodology criteria, which occurred when assessing Indigo's group credit profile. At the same time, we identified an error in our treatment of the €347 million convertible bond instruments at Indigo's parent, Infra Foch Topco S.A.S. (Infra Foch). Neither correction has had an impact on the ratings.

Rating Action Rationale

Although COVID-19-related lockdowns in Indigo Group's key markets have lasted longer than we expected this year, we believe easing of restrictions and increased vaccinations will support strong traffic rebound from June. We expect the group's revenue will remain 20%-25% below prepandemic levels in 2021, similar to the 26% revenue drop in 2020, but fully recover in 2022, in part thanks to new developments and acquisitions. As in summer 2020 and since May 2021, traffic recovery has been quite rapid for Indigo Group's cark parks in France, which account for about 70% of its EBITDA. We believe the vaccination programs, which are progressing well in developed countries where Indigo mainly operates, and the consumer-led economic recovery will facilitate strong occupancy in the second half of 2021. Risks to our assumptions could arise if new restrictions are imposed or if the pandemic's impact is more prolonged in some of the hardest hit sectors, such as airports and mass transit.

We anticipate Indigo's continued expansion in key markets will support stronger credit metrics in 2022, although some execution risks remain. In our base case, we forecast FFO to debt will be higher than 9% over the next three years, up from 8.1% in 2020. Although we do not expect a full recovery in 2022 on a constant perimeter basis, we assume about €100 million of additional revenue from new developments and acquisitions, considering agreements already signed and those in the pipeline. The company completed development capital expenditure (capex) of close to €400 million in the last two years, focusing on greenfield concessions and car park ownership, and we forecast a further €400 million-€450 million will be invested in 2021-2023 in development, apart from maintenance investments and renewal capex for contracts maturing before December 2023. The group is also performing a portfolio exercise aimed at identifying a portfolio of assets or single facilities for disposal. We expect that resources from such strategic initiatives will be reinvested in the business rather than upstreamed as dividends, in line with the group's commitment to an investment-grade rating.

In correcting a previous misapplication of our group rating methodology, we have determined a 'bbb-' group credit profile at the level of Infra Foch; this resulted in no change to our rating on Indigo. We analyze the group on a consolidated basis and we now assess Indigo Group S.A., as well as its fully owned subsidiary Indigo Infra S.A.S., as core subsidiaries of their ultimate owner, Infra Foch, which is a holding company controlled by Predica (47.52%), Vauban Infrastructure Partners (33.17%), and MEAG (14.36%). Infra Foch's only asset is Indigo, and it does not have any external financial debt, apart from a €347 million convertible bond held pro rata by the ultimate shareholders. Originally, we had excluded this instrument from our leverage calculations. This was an error in our view of the instrument's permanence. The documentation for this instrument has since been amended. Accordingly, consistent with our criteria "The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities" and related guidance, we can now exclude the convertible bond from our debt calculations.

Indigo Group's business model has proven more resilient than its peers' during the pandemic. The group's contract mix is dominated by concessions, which account for about 70% of the group's EBITDA, and are predominately located in France, where they benefit from a protective framework. Since the legal environment for concessions offers better guarantees, thanks to a revision clause, Indigo Group obtained an extension of the contract terms or a decrease of royalties to compensate for revenue loss in many of its contracts. Bilateral negotiations also had a positive impact on the group's net debt position since it managed to reduce IFRIC 12 and IFRS 16 liabilities by more than €100 million, thanks to contract renegotiations or terminations. This resulted in higher flexibility in the cost base, which, combined with a milder impact on the topline from geographic diversification, allowed Indigo Group to post an S&P Global Ratings-adjusted EBITDA margin of 43.2% for 2020 after 47.9% in 2019, and we believe this will support recovery of the EBITDA margin to 46%-47% in 2021.

Outlook

The stable outlook reflects our expectations that Indigo Group can maintain adjusted weighted-average FFO to debt above 9% on average over the next three years, on the back of volume recovery, revenue from acquisitions, and a balanced financial policy. At the same time, we expect Indigo Group's strategic initiatives to optimize its assets and portfolio will gradually result in debt to EBITDA reducing toward 6.5x.

Downside scenario

We could lower the rating on Indigo if:

- FFO to debt is not sustained above 9.0x on average as a result of lengthier recovery or more aggressive financial policy;
- The group significantly changed its business mix so that exposure to non-infrastructure business--such as management contracts and short-term leases--increased to about 30% of EBITDA. This would likely cause adjusted EBITDA margins to fall below 30% and so weaken our view of the group's business risk profile, although we see this as unlikely at this stage.

Upside scenario

We could raise the rating by one notch if the company is able to restore FFO to debt well above 10%, supported by strong volume recovery, while debt to EBITDA reduces to 6.0x-6.5x on a sustainable basis.

Company Description

Indigo Group is a France-based holding company operating more than 2.3 million parking spaces in 11 countries worldwide, including Canada, the U.S., and Brazil, although France remains the core market, where the group generates about 75% of its IFRS EBITDA. The business model focuses on off-street concession-type parking (particularly in France, Spain, and Belgium) that generates strong profitability and has an average remaining term of 28 years. Indigo enters emerging markets typically via short-term, low demand-risk contracts that require little investment but generate low margins.

Our Base-Case Scenario

Assumptions

We focus on consolidated group ratios by adding any additional debt or cash flows at the parent company, Infra Foch. We do not treat Infra Foch's convertible bond as debt and Infra Foch has no external financial debt or other operations at present. We apply a tax consolidation adjustment of €6.2 million.

- Revenue type: Hourly parking revenue and subscription revenue remaining about 25%-30% and 5%-10% below 2019 levels, respectively, in 2021.

- Revenue by country: Revenue in 2021 to be 20%-25% below prepandemic levels in France, Belgium, Luxembourg, and Switzerland; and about 25%-30% below prepandemic levels in Spain and Brazil. For both groups, we expect 2022 revenue will be higher than in 2019, thanks to traffic recovery and the contributions of new business, especially in France. We expect a lengthier recovery in Canada, still 35%-40% below prepandemic levels because of large airport exposure, although compensated by public subsidies.
- Total capex: About €550 million-€600 million over 2021-2023, reflecting investments in maintenance, renewal, and new developments, of which €140 million will be this year.
- Distributions: Annual dividends to Infra Foch of about €55 million in 2021, followed by €90 million from 2022, broadly in line with the past. We expect no distributions from Infra Foch to its shareholders in 2021, apart from €28 million of interest payments on convertible bonds.
- Debt: No new debt raised at Indigo or Infra Foch. Additional fixed concession fee and lease liabilities of about €125 million and €50 million, respectively, in 2021-2023 as a result of new concessions and leases signed.
- Our current treatment of the convertible bonds reflects our view of shareholders as long-term infrastructure investors, rather than financial sponsors, and the features of the subordination agreement. It is contractually subordinated, stapled to equity, and matures after the senior unsecured notes. Also, there are no events of default or acceleration of repayment, which support our treatment of the convertible notes as non-debt.

Key metrics

Indigo Group S.A.--Key Metrics*

	--Fiscal year ended Dec. 31--				
Mil. €	**2019a**	**2020a**	**2021e**	**2022f**	**2023f**
Revenue	717	527	530-580	700-750	750-800
EBITDA	344	228	240-270	330-360	350-380
EBITDA margin (%)	47.9	43.2	45.0-47.0	46.0-48.0	46.0-48.0
Capital expenditure	215	233	130-150	260-280	140-160
Debt	2,191	2,165	2,050	2,350	2,380
Debt to EBITDA (x)	6.4	9.5	8.0-8.5	6.5-7.0	6.5-7.0
FFO to debt (%)	11.8	8.1	9.0-10.0	10.0-11.0	10.5-11.5

*All figures adjusted by S&P Global Ratings. §2020 year-end debt consists of net financial debt of €1,689 mil. with key adjustments being €325 mil. in concession fees liabilities and €132 mil. in leases. a--Actual. e--Estimate. f--Forecast.

Liquidity

We assess Indigo's liquidity as strong, based on our expectation that liquidity sources for the next 12 months will cover uses by more than 1.5x, and that coverage will remain above 1.0x for the following year. Our assessment of Indigo's liquidity is supported by its solid relationship with banks, generally prudent risk management, and its ability to sustain high-impact low-probability events without the need for refinancing, thanks to abundant liquidity and no refinancing needs before April 2025, when a €650 million bond expires.

We expect principal liquidity sources for the 12 months to March 31, 2022, will include:

- €218 million of unrestricted cash and cash equivalents;
- A €300 million undrawn committed revolving credit facility, maturing in October 2023; and
- Cash FFO of €190 million-€200 million.

We expect principal liquidity uses for the same period will include:

- Debt maturities of about €87 million, the majority attributable to payment of fixed concession fees;
- Capex of about €150 million, reflecting maintenance for existing contracts and investments in new developments; and
- Dividends distributions to Infra Foch of about €55 million and none to ultimate shareholders apart from €28 million of interest on convertible bonds.

Issue Ratings--Subordination Risk Analysis

Indigo Group's capital structure comprises about €1.9 billion of senior unsecured debt. The 'BBB-' issue rating on Indigo Group's notes reflects that all the notes are senior unsecured and the amount of debt at the subsidiaries is limited (about €55 million).

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/--

Business risk: Strong

- Country risk: Low
- Industry risk: Low
- Competitive position: Strong

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Strong (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb-

- Group credit profile: bbb-
- Entity status within group: Core

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Related Research

- Indigo Group's 2020 Results Beat Our Expectations Amid Pandemic-Related Risks, March 25, 2021
- French Car Park Operator Indigo Group Downgraded To 'BBB-' On COVID-19 Volumes Drop; Outlook Negative, May 14, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Indigo Group S.A.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--
Senior Unsecured	BBB-	BBB-
Indigo Infra S.A.S.		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Negative/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.