

December 31, 2021

GMR Hyderabad Aviation SEZ Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	57.30	55.20	[ICRA]AA (CE) (Negative); reaffirmed
Total	57.30	55.20	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+
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*Instrument details are provided in Annexure-1

Note: The letters CE, in parenthesis, suffixed to the rating symbol stand for 'credit enhancement'. The CE suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating of [ICRA]AA (CE) for the term loan programme of GMR Hyderabad Aviation SEZ Limited (GHASL) rating is based on the strength of the corporate guarantee provided by GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA (Negative)), the parent of GHASL. The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor GHIAL.

For arriving at the ratings of GHIAL, ICRA has consolidated the financials of GHIAL and its subsidiaries, namely GMR Hyderabad Aerotropolis Limited, GMR Hyderabad Aviation SEZ Limited, GMR Air Cargo and Aerospace Engineering Limited, GMR Hospitality and Retail Limited, GMR Hyderabad Airport Assets Limited and GMR Aero Technic Limited.

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by GHIAL is strong to result in an enhancement in the rating of the said instrument to [ICRA]AA (CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor or the unsupported rating of GHASL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » DSCR shall not fall below 1.05x during the tenor of the loan
- » During the currency of the loan, the guarantors will not, without banks permission formulate any scheme of amalgamation/ reconstitution or change in management control
- » If the rating of the sponsor falls below A+, the interest rate shall stand increase by 0.25% for each notch of downgrade
- » No profits to be withdrawn without meeting the instalment payable under the term loan. Also, dividends should only be declared after meeting the bank dues

Key rating drivers and their description

Credit strengths

Corporate guarantee from GHIAL – The rating takes support from the strong profile of the sponsor – GMR Hyderabad International Airport Limited (rated [ICRA]AA (Negative)). The rating for the bank facilities of Rs. 55.20 crore is based on the strength of unconditional and irrevocable corporate guarantee provided by GHIAL.

Reputed tenant profile - GHASL has stable cash flow, reflected in tied-up lease rental agreements for 73.3 acres as on March 31, 2021. Its tenants are reputed entities, such as GMR Air Cargo and Aerospace Engineering Ltd, Cronus Pharma Specialities India Pvt Ltd, Casper Pharma Pvt Ltd, Safran Engineering Services and Cyient DLM Pvt Ltd. The tenant agreements have a lock-in period of two-eight years and lease tenure of 15-51 years with a rent escalation clause of about 5% annually.

Credit challenges

High tenant concentration and vacancy risks – GHASL has high tenant concentration, with the top five tenants occupying 85% of the total leased area. The top customer accounts for 25% of the total leasable area. This exposes the company to high market risks in case of any of these tenants vacating their areas. This risk is partially mitigated by the lock-in period of 2-8 years and the long-term lease agreements.

Liquidity position: Adequate

For the [ICRA]AA (CE) (Negative) rating: Adequate

The liquidity position of the guarantee provider (GHIAL) is adequate, with assignable cash balance (excluding bond proceeds earmarked for capex, ICDs and investments in commercial papers) of Rs. 314.5 crore¹ as on September 30, 2021. At consolidated level, GHIAL has low debt repayment obligations Rs. 33.6 crore and Rs. 41.9 crore in FY2022 and FY2023, respectively. The pending capacity expansion capex for FY2022 and FY2023 will be funded through the encumbered cash balance earmarked for capex and the current available liquidity.

For the [ICRA]A- rating: Adequate

The liquidity position of GHASL is adequate with unencumbered cash balance of Rs. 19.5 crore as on March 31, 2021. The company has repayment obligation of Rs. 13.4 crore in FY2022 and Rs. 15.8 crore in FY2023 which can be comfortably serviced through existing liquidity and estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the credit profile of the guarantor improves.

Negative factors – The ratings could be downgraded if the credit profile of the guarantor deteriorates or the linkage with the parent company GHIAL weakens or if cancellation of the lease agreements resulting in weakening of debt metrics on a sustained basis.

¹ As on September 30, 2021, bond proceeds (parked for capex) amount to Rs. 1710.0 crore, Rs. 582.0 crore is invested in commercial papers, Rs. 240.0 crore is extended as ICDs to group entities and Rs. 59.5 is restricted cash; remaining Rs. 314.5 crore is assignable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Support – GHIAL. The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company, GHIAL.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

GMR Hyderabad Aviation SEZ Limited (GHASL) is a wholly-owned subsidiary of GHIAL. Of the total land available with GHIAL, 1,500 acres is demarcated for commercial development; of this, 277 acres has been leased out to GHASL for commercial development.

Key financial indicators (GHASL)

	FY2020	FY2021
	Audited	Audited
Operating Income (Rs. crore)	17.5	19.3
PAT (Rs. crore)	-4.4	-0.4
OPBDIT/OI (%)	47%	58%
PAT/OI (%)	-25%	-2%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	3.5
Total Debt/OPBDIT (times)	8.9	7.2
Interest Coverage (times)	1.3	1.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 30, 2021 (Rs. Crore)	Date & Rating on	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019	
				Dec-31-2021	Oct-09-2020	May-22-2020	Apr-09-2020	Dec-20-2019	Dec-28-2018	
1 Term Loans	Long term	55.20	55.20	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@; outstanding	[ICRA]AA (CE)@	[ICRA]AA (CE) (Stable)	[ICRA]AA (SO) (Stable)	

@placed on watch with negative implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Axis Bank	Term Loans	July 2017	-	April 2030	55.20	[ICRA]AA(CE)(Negative)

Source: GHASL

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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