

January 12, 2024

## GMR Hospitality and Retail Limited: Rating reaffirmed for term loans and upgraded for working capital facility; Outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund based -Term loans	146.08	145.00	[ICRA]AA (CE) (Stable); reaffirmed and outlook revised to Stable from Positive
Long Term-Fund based - Working capital facility (Cash credit)	5.00	5.00	[ICRA]AA (Stable); rating upgraded from [ICRA]AA- (Stable)
<b>Total</b>	<b>151.08</b>	<b>150.00</b>	

Rating Without Explicit Credit Enhancement

[ICRA]AA

\*Instrument details are provided in Annexure-I

Note: 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 its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

### Rationale

#### For the [ICRA]AA (CE) (Stable) rating

The rating for the Rs. 145-crore term loan facilities of GHRL is based on the strength of the corporate guarantee extended by the parent GHIAL for the rated facilities, besides its standalone credit considerations. The above rating has been reaffirmed at [ICRA]AA (CE) with the outlook revised to Stable from Positive. The CE rating is one notch lower than the rating of the guarantor and is constrained, given the absence of pre-default invocation and a well-defined payment mechanism in the corporate guarantee deed. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor (GHIAL).

For arriving at the rating of GHIAL, ICRA has consolidated the financials of GHIAL and its subsidiaries, namely GMR Air Cargo and Aerospace Engineering Limited, GMR Hyderabad Aviation SEZ Limited, GHRL, and GMR Hyderabad Aerotropolis Limited. ICRA has taken into consideration the strong linkages of GHIAL and its subsidiaries through common management, operational linkages, track record of timely and need based financial support, and strategic importance of GHRL to GHIAL's operations. ICRA has taken a note of the presence of cross-default clauses in the loan agreements of GHIAL as well as GHRL, which further strengthens linkages.

#### 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). If the rating of the guarantor or the unsupported rating of GHRL 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

- » Net debt /EBITDA is to be less than 4.0 times;
- » During the currency of the loan, the guarantors will not, without the bank's permission formulate any scheme of amalgamation/ reconstitution or change in management control;
- » The borrower shall not declare dividend for any year except out of profits of the current year and accumulated profits of past years subject to no default in repayment obligation to the bank.

## For [ICRA]AA (Stable) Rating

The rating upgrade for GMR Hospitality and Retail Limited (GHRL or company) factors in the upgrade in the credit rating of the parent, GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA+ (Stable)) along with the healthy improvement in the GHRL's earnings profile. ICRA notes that GHRL has a monopolistic position as the sole operator of duty-free business at the Hyderabad International Airport. The rating favourably factors in GHRL's close operational and financial linkages with GHIAL, given the common management and track record of timely financial support from GHIAL. Moreover, as per ICRA estimates GHRL accounts for around 30% of GHIAL's consolidated non-aero revenues in FY2024, indicating its strategic importance for its parent entity. In FY2023, the duty-free and hotel divisions witnessed a significant growth in revenues by around 128%, in line with an increase in passenger traffic. The duty-free business contributes to more than 75% of GHRL's revenues and has surpassed the pre-Covid revenues in FY2023 on the back of 139% YoY growth in international passenger traffic. Further, the duty-free revenues are likely to witness healthy revenue growth in FY2024, on the back of continued growth in passenger traffic. The revenues of the duty-free business are closely linked to growth in international traffic, and the division benefits from the healthy increase in international traffic at the airport. The hotel division witnessed year-on-year (YoY) growth in revenue per available room (REVPAR) of 83% in FY2023, thereby resulting in an improvement in EBITDA. Further, as per ICRA estimates, the EBITDA for the hotel division is expected to improve to around 36%-38% in FY2024 from around 33% in FY2023.

GHRL has low leverage with a total debt to OPBDITA of 2.8 times and an adequate interest coverage ratio of around 4.0 times in H1 FY2024, which are expected to improve to 1.4 times and 9.1 times in FY2025 as per ICRA's estimates.

The rating strengths are offset by the inherent cyclical and seasonality in the hospitality industry, which exposes GHRL's revenues to risks associated with economic slowdown and exogenous shocks. However, sustained growth in the passenger traffic should support sequential improvement in its financial metrics. GHRL is currently undertaking a capex with an outlay of Rs. 50 crore towards the construction of a transit hotel within the airport premises. Timely completion of this project with a healthy ramp-up in the occupancy levels will be key rating monitorable.

The Stable outlook reflects ICRA's expectation that GHRL's credit profile will benefit from the steady increase in passenger traffic, its monopolistic position and the strong credit profile of the sponsor.

## Key rating drivers and their description

### Credit strengths

**Strong sponsor with demonstrated track record of financial support** – The rating takes support from the strong profile of the sponsor – GHIAL (rated [ICRA]AA+ (Stable)). GHRL has close operational and financial linkages with GHIAL, given the common management and track record of timely financial support. The rating for the term loan facilities is based on the strength of the unconditional and irrevocable corporate guarantee provided by GHIAL.

**Healthy improvement in earnings profile and leverage** – In FY2023, the duty-free and hotel divisions witnessed a significant growth in revenues by around 128%, in line with the increase in passenger traffic. The duty-free business contributes to more than 75% of GHRL's revenues and has surpassed the pre-Covid revenues in FY2023 on the back of 139% YoY growth in international passenger traffic. Further, the duty-free revenues are likely to witness healthy revenue growth in FY2024, on the back of continued growth in international passenger traffic. The hotel division witnessed YoY growth in REVPAR of 83% in FY2023, thereby resulting in an improvement in EBITDA. Further, as per ICRA estimates, the EBITDA for the hotel division is

expected to improve to around 36%-38% in FY2024 from around 33% in FY2023. GHRL has low leverage with total debt to OPBDITA of 2.8 times and an adequate interest coverage ratio of around 4.0 times in H1 FY2024, which are expected to improve to 1.4 times and 9.1 times in FY2025 as per ICRA's estimates.

**Sole operator of duty-free business at Hyderabad airport** – The duty-free business is directly related to international passenger traffic at the Hyderabad international airport in which it is operating. GHRL is the sole operator of duty-free shop at the Rajiv Gandhi International Airport, in Hyderabad, and benefits from the healthy international traffic at the airport.

### Credit challenges

**Inherent cyclicity and seasonality in the hospitality industry** - The company is exposed to inherent cyclicity and seasonality in the hospitality industry, which exposes GHRL's revenues to risks associated with economic slowdown and exogenous shocks. However, the higher passenger traffic should support sequential improvement in its financial metrics in the medium term.

### Liquidity position

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

The liquidity position of the guarantor (GHIAL) is adequate, with an assignable cash balance of around Rs. 630 crore (excluding liquidity earmarked for capex of Rs. 1,256 crore, and restricted cash) as on September 30, 2023. Additionally, the company had a cushion of Rs. 150 crore of working capital limits as on September 30, 2023. Further, the cash flow from operations would be sufficient to service the repayment obligations of around Rs. 108 crore in FY2024 and Rs. 132 crore in FY2025.

#### For the [ICRA]AA (Stable) rating: Adequate

GHRL's liquidity position is adequate with unencumbered cash balance and liquid investments of around Rs. 60 crore as on September 30, 2023. The company has repayment obligation of Rs. 14.8 crore in FY2024 and Rs. 21.5 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations.

### Rating sensitivities

#### Positive factors

#### For the [ICRA]AA (CE) (Stable) rating

ICRA could upgrade the rating if there is a significant improvement in the scale and earnings while maintaining robust debt protection metrics on a sustained basis and improvement in the credit profile of the parent.

#### For the [ICRA]AA (Stable) rating

ICRA could upgrade the rating if there is a significant improvement in the scale and earnings while maintaining robust debt protection metrics on a sustained basis and improvement in the credit profile of the parent.

**Negative factors** – The rating could be downgraded if the credit profile of the guarantor deteriorates or the linkage with the parent company GHIAL weakens, or if there is any significant decline in the earnings of the company, adversely impacting its liquidity position on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a>
Parent/Group support	Parent Support – GHIAL. The rating factors in the expected financial support from GHIAL to GHRL to protect its reputation from the consequence of a subsidiary's distress. GHIAL has also provided an unconditional and irrevocable guarantee.
Consolidation/Standalone	The rating is based on the company's standalone financial profile

## About the company

GMR Hospitality and Retail Limited (GHRL), a 100% subsidiary of GHIAL, owns and operates a five-star business hotel at GMR Hyderabad Airport, within 2 km from the passenger terminal. The hotel division was initially a part of GHIAL and was subsequently demerged into GHRL w.e.f. April 01, 2009. The hotel is managed by the Accor Group under the Novotel brand. Hyderabad Duty Free Retail Limited, a 100% subsidiary of GHIAL, which has been operating duty-free outlets at the international arrivals/departures of GHIAL since July 2010 has been merged with GHRL as per the National Company Law Tribunal's order dated April 18, 2017 with the appointed date of April 1, 2016.

## Key financial indicators (audited)

	FY2022	FY2023	H1 FY2024*
Operating income	133.9	305.0	170.9
PAT	-10.0	50.7	15.6
OPBDIT/OI	11.5%	19.0%	17.1%
PAT/OI	-7.4%	16.6%	9.1%
Total outside liabilities/Tangible net worth (times)	2.2	1.5	1.5
Total debt/OPBDIT (times)	9.3	2.7	2.8
Interest coverage (times)	0.8	4.4	3.9

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jan 12, 2024	Dec 16, 2022	Jul 29, 2022	Dec 31, 2021	Oct 09, 2020	May 22, 2020 Apr 09, 2020
1	Term loans	Long term	145.0	125.6	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@; outstanding
2	Working capital facilities	Long term	5.0	0.0	[ICRA]AA (Stable)	[ICRA]AA(CE) (Stable) withdrawn and [ICRA]AA- (Stable) assigned simultaneously	[ICRA]AA (CE) (Stable)	-	-	-

@placed on watch with negative implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund based -Term loan	Simple
Long Term-Fund based - Working capital facility (Cash credit)	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 are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Long Term-Fund based -Term loan	September 2016	-	April 2030	145.0	[ICRA]AA (CE) (Stable)
-	Long Term-Fund based - Working capital facility (Cash credit)	-	-	-	5.0	[ICRA]AA (Stable)

Source: GHRL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 4547 4829  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**  
+91 22 6606 9912  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Vinay Kumar G**  
+91 40 4547 4829  
[vinay.g@icraindia.com](mailto:vinay.g@icraindia.com)

**M Rajashekar Reddy**  
+91 40 4547 4829  
[m.rajashekarreddy@icraindia.com](mailto:m.rajashekarreddy@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)



## ICRA Limited



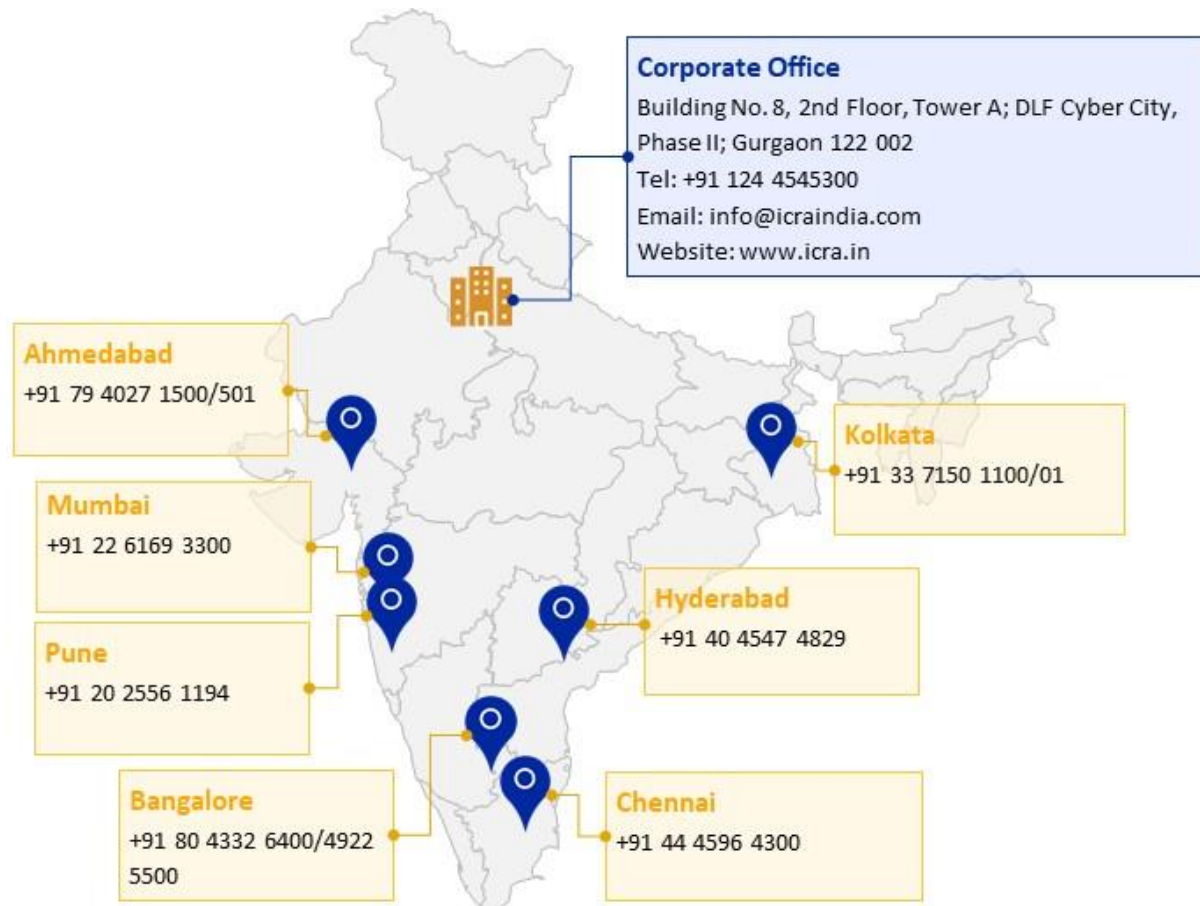
### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.