March 05, 2024

GMR Hospitality and Retail Limited: Rating reaffirmed for existing bank facilities, provisional rating assigned for Rs. 133 crore proposed non-convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	145.00	145.00	[ICRA]AA(CE) (Stable); reaffirmed
Long-term – Fund-based – Working capital facility (Cash credit)	5.00	5.00	[ICRA]AA (Stable); reaffirmed
Proposed Non-convertible Debentures (NCD)	0.00	133.00	Provisional [ICRA]AA+(CE) (Stable); Assigned
Total	150.00	283.00	

Rating in the absence of pending actions/documents	[ICRA]AA
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 Provisional [ICRA]AA+ (CE) (Stable) rating

ICRA has assigned a long-term provisional rating of [ICRA]AA+ (CE) (Stable) for the Rs. 133-crore proposed NCDs of GMR Hospitality and Retail Limited (GHRL). The assigned rating is provisional (as denoted by the prefix 'Provisional' before the rating symbol) and would be converted to final upon allotment of the proposed non-convertible debentures, execution of debenture trustee deed and corporate guarantee agreement. The provisional rating is based on the strength of the corporate guarantee extended by GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA] AA+ (Stable)), the parent of GHRL. 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 the linkages.

Adequacy of credit enhancement

The rating for the Rs. 133-crore proposed NCDs is based on the credit substitution approach, whereby the rating of the guarantor has been translated to the rating of the said instruments. The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a pre-default invocation and a well-defined payment mechanism. Given these attributes, credit substitution approach has been applied for assigning the ratings for the proposed NCDs and the guarantee provided by GHIAL is adequately strong enough to result in an enhancement in the rating of the said instrument to Provisional [ICRA]AA+ (CE) against the rating of [ICRA]AA without explicit credit enhancement. If the rating of the guarantor were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well.

Salient covenants of the Proposed NCD facility

- Net debt /EBITDA to not exceed 4.0 times;
- Debt Service Coverage Ratio (DSCR) to be greater than 1.15 times during the tenure of the rated facility
- During the tenor of the NCDs, the guarantor shall directly or indirectly hold 100% of the shareholding and ensure management control at all times;
- Restricted payments clause for payment of dividends, extension of investments/loans/advances, etc, in the event the financial covenants are not fully complied with, and stipulated reserves are not maintained, among others.

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 a Stable outlook. 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).

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 adequate, however the credit enhancement is constrained, given the absence of pre-default invocation and a well-defined payment mechanism in the corporate guarantee deed resulting in the rating of [ICRA]AA (CE) to the said instrument. 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 reaffirmation for GHRL factors in the strong credit profile of the parent, GHIAL, along with the healthy improvement in the GHRL's earnings profile. It has a monopolistic position as the sole operator of duty-free business at the Hyderabad International Airport. The rating favourably notes 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's 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, GHRL 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, driven by 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. As per ICRA's estimates, the EBITDA for the hotel division is likely to improve to around 36%-38% in FY2024 from around 33% in FY2023.

GHRL's leverage (total debt to OPBDITA) and interest coverage ratio are expected to improve to 1.9 times and 7.2 times in FY2025 from 2.7 and 4.4 times in FY2023, respectively. However, the rating strengths are offset by the inherent cyclicality 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, funded through internal accruals, 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 will benefit from the steady increase in passenger traffic resulting in a sustained growth in operating income and strong coverage indicators, given 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 credit 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, GHRL witnessed a significant revenue growth of 128%, in line with the increase in its 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, driven by continued growth in international passenger traffic. The hotel division witnessed YoY growth in REVPAR of 83% in FY2023, thereby resulting in an improvement in operating profits. Further, as per ICRA estimates, the operating margin for the hotel division is expected to improve to around 36%-38% in FY2024 from around 33% in FY2023. GHRL's leverage (total debt to OPBDITA). Its interest coverage ratio is likely to improve to 1.9 times and 7.2 times in FY2025 from 2.7 and 4.4 times in FY2023 respectively.

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, wherein 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 cyclicality and seasonality in hospitality industry – The company is exposed to the inherent cyclicality 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

GMR Hyderabad International Airport Limited (Guarantor): 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.

GMR Hospitality and Retail Limited: 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

For the Provisional [ICRA]AA+ (CE) (Stable) rating

Positive factors – ICRA could upgrade the rating if there is an improvement in the credit profile of the guarantor, GHIAL.

Negative factors – ICRA could downgrade the rating if there is any deterioration in the credit profile of the guarantor, GHIAL.

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

Positive factors – 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	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry ICRA's policy on assigning provisional ratings
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

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Execution of corporate guarantee agreement
2. Execution of debenture trustee deed
3. Receipt of executed documents including signed final term sheet of the NCDs

The provisional rating indicates the final rating that is likely to be assigned to the company after the completion of the pending items mentioned above, ceteris paribus.

Validity of the provisional rating

In case the borrowing facility to which a provisional rating has been assigned is subsequently availed, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/ documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of availing the borrowing facilities. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in. If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the NCD issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

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	167.8
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:

The NCD structure has a put option available for the lenders within 120 days from the end of the fifth and tenth year from the date of allotment of NCDs, which if materialises, could expose the company to refinancing risk. If the company is unable to get adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

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		
					Mar 05, 2024	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) (Stable)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@; outstanding	[ICRA]AA (CE) @
2	Working capital facilities	Long term	5.0	0.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA(CE) (Stable) withdrawn and [ICRA]AA- (Stable) assigned simultaneously	[ICRA]AA (CE) (Stable)	-	-	-	-
3	Proposed NCD*	Long term	133.0	0.0	Provisional [ICRA]AA+ (CE) (Stable)	-	-	-	-	-	-	-

@placed on Watch with Negative Implications

** yet to be placed*

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
Long-term – Proposed NCD	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)**
-	**Proposed NCD***	-	-	-	133.0	**Provisional [ICRA]AA+ (CE) (Stable)**

Source: GHRL
** yet to be placed*

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

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

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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

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