

July 21, 2023

GMR Hyderabad Aviation SEZ Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	110.00	172.00	[ICRA]AA (CE) (Positive); reaffirmed/assigned
Total	110.00	172.00	

Rating Without Explicit Credit Enhancement

[ICRA]AA-

*Instrument details are provided in Annexure I

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 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

The rating of [ICRA]AA (CE) for the term loan programme of GMR Hyderabad Aviation SEZ Limited (GHASL) is based on the strength of the corporate guarantee provided by GMR Hyderabad International Airport Limited (GHIAL, rated [ICRA]AA (Positive)), the parent of GHASL. The Positive 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 Air Cargo and Aerospace Engineering Limited, GHASL and GMR Hospitality and Retail Limited. ICRA has considered the strong linkages of GHIAL and its subsidiaries through common management, operational linkages, track record of timely and need-based financial support, and the strategic importance of GHASL to GHIAL's operations. ICRA notes the presence of cross-default clauses in the loan agreements of GHIAL further strengthening the linkages.

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has the other relevant attributes specified in ICRA's methodology for considering a credit enhancement. Moreover, the corporate guarantee incorporates post default payment mechanism. 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]AA- without explicit credit enhancement. The rating factors in strong linkages between the company and the guarantor. 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 1.1 times during the tenor of the loan;
- During the currency of the loan, the guarantors will not, without lenders permission formulate any scheme of amalgamation/ reconstitution or change in management control;

- If the rating falls below AA-, the interest rate shall increase by 0.25% for each notch of downgrade for the initial loan facility of Rs. 110 crore; similarly, if the rating falls below A, the interest rate shall increase by 0.25% for each notch of downgrade for the new loan facility of Rs. 62 crore;
- Debt service reserve account to ensuing three months principal plus interest obligation to be created within two business days/at the time of disbursement.

Key rating drivers and their description

Credit strengths

Corporate guarantee from GHIAL – The rating takes support from the strong profile of the sponsor – GHIAL (rated [ICRA]AA (Positive)). The rating for the bank facilities of Rs. 172.0 crore is based on the strength of the unconditional and irrevocable corporate guarantee provided by GHIAL.

Reputed tenant profile – GHASL has stable cash flow, reflected in lease rental agreements for 104.3 acres as on March 31, 2023. The tenants are reputed entities, such as GMR Air Cargo and Aerospace Engineering Ltd, Safran Aircraft Engines Hyderabad Private Limited, Cyient DLM Private Limited, Schneider Electric India Private Limited, Amara Raja Batteries Limited, and Skyroot Aerospace Private Limited, among others. 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 around 60% of the total leased area. The top five customers account for around 30% of FY2023 revenues. This exposes the company to high market risk in case of any of these tenants vacating their areas. This risk is partially mitigated by the lock-in period of 2-8 years, long-term lease agreements and the top tenant being a group company.

Modest scale of operations – GHASL has modest scale of operations with revenues of around Rs. 57 crore in FY2023. The revenues are expected to increase to more than Rs. 75 crore in FY2024. The company's ability to increase lease tie-ups, and thereby increasing the scale of operations will be a credit monitorable.

Liquidity position: Adequate

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

The liquidity position of the guarantor (GHIAL) is adequate, with unencumbered cash balance (excluding inter-corporate deposits and investments in commercial papers) of Rs. 1140.1 crore as on March 31, 2023. It has low debt repayment obligations Rs. 119.4 crore in FY2024. The pending ongoing terminal expansion works will be funded through the cash balance earmarked for capex and the current available liquidity.

For the [ICRA]AA- rating: Adequate

GHASL's liquidity position is adequate with unencumbered cash balance and liquid investments of Rs. 63.7 crore as on March 31, 2023. It has repayment obligation of Rs. 5.0 crore in FY2024 and Rs.9.3 crore in FY2025, which can be comfortably serviced through the estimated cash flow from operations.

Rating sensitivities

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

Negative factors – The rating could be downgraded if the credit profile of the guarantor deteriorates or if there is any weakening of the linkage with the parent company (GHIAL), or reduction in occupancy/lease rentals thereby weakening its debt metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support Rating Methodology for Debt Backed by Lease Rentals
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 company's standalone financial profile

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. Out of this, 277 acres has been leased out to GHASL for commercial development.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	40.5	57.4
PAT (Rs. crore)	4.1	14.2
OPBDIT/OI (%)	44%	55%
PAT/OI (%)	10%	25%
Total outside liabilities/Tangible net worth (times)	3.6	3.8
Total debt/OPBDIT (times)	5.2	3.8
Interest coverage (times)	2.6	2.9

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

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the Past 3 Years						
		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	
					Jul 21, 2023	Dec 16, 2022	Jul 29, 2022	Dec 31, 2021	Oct 09, 2020	May 22, 2020
1 Term loans	Long-term	172.00	120.30	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Positive)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE) (Negative)	[ICRA]AA (CE)@	[ICRA]AA (CE)@

@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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-I	May 2022	7.60%*	March 2034	110.00	[ICRA]AA(CE) (Positive)
NA	Term loan-II	Nov 2022	9.15%*	March 2034	62.00	[ICRA]AA(CE) (Positive)

Source: Company;

* As of June, 2023

[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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