

Flemingo Dutyfree Shop Private Limited

Instrument	Amount (Rs. Crore)	Rating Action
Term Loan	85.00	[ICRA]A- (stable)/assigned
Long-Term, Fund Based Limits	7.00	[ICRA]A- (stable)/reaffirmed
Short-Term, Fund Based/Non-Fund Based Limits	8.00	[ICRA]A2+/reaffirmed
Long-Term/Short-Term, Non-Fund Based Limits	194.00 (enhanced from 180.00)	[ICRA]A- (stable)/ [ICRA]A2+/ reaffirmed
Long-Term, Fund Based Limits *	(24.00)	[ICRA]A- (stable)/ reaffirmed

* sub-limit of Long-Term/Short-Term, Non-Fund Based Limits

ICRA has assigned a long term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 85.00 crore term loan facility and reaffirmed the long term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 7.00 crore long-term, fund based limit of Flemingo Dutyfree Shop Private Limited ('FDSPL' or 'the company'). ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 8.00 crore short-term fund based/non-fund based limit of FDSPL. ICRA has also reaffirmed the ratings of [ICRA]A-[ICRA]A2+ (pronounced ICRA A minus/ ICRA A two plus) to the Rs. 194.00 crore (enhanced from Rs. 180.00 crore) long-term/short-term non-fund based limits of the company. The outlook on the long-term rating is 'Stable'.

For arriving at the ratings, ICRA has taken a view on the consolidated operations of Flemingo Dutyfree Shop Private Limited, which operates in the field of duty free retail (travel retail) and distribution in India (directly as well as through domestic subsidiaries) and across the globe (through its overseas subsidiaries and step-down subsidiaries). There are significant operational and financial linkages amongst the entities, though each of the entities is independently managed by a professional management team.

The reaffirmation of ratings factors in the diversified geographical presence at the consolidated level through multiple models in the duty free business, longstanding experience of the promoters in the international duty free industry, significant reduction in business risk in the domestic operations with the company retaining duty free licenses at most of the airports where it had duty free operations, stabilisation of operations at Poland which is the largest contributor to the consolidated revenues, and availability of wide range of product offerings of prestigious and deluxe brands to a captive audience of international travellers at its airports of operation. During Q4 FY2016, Airport Authority of India (AAI) concluded fresh tenders to award duty free licenses at its eleven airports (Flemingo group was the incumbent operator at these airports) across the country. FDSPL, along with its 100% subsidiary Flemingo DFS Private Limited (FDFSPL), won the licenses for ten (out of eleven) airports – licenses are valid for seven years (10 years in case of Trichy airport), thereby maintaining business continuity. Some of these licenses are to manage larger retail area than before (combined concession area has increased from 998 square meter to 1,916 square meter), which is expected to drive revenue growth of the Indian operations as the company's ability to attract new and leading brands across categories improves while also being able to offer larger retail space to the existing brands at the airports.

The ratings are, however, constrained by the weaker operating performance of Turkey and African businesses, the risks associated with the company's ability to retain operating licenses at the key airports (license for operations at the Colombo International Airport is about to expire in July 2016), expected pressure on the standalone operating profit margins on account of minimum annual guarantee clauses and higher revenue share to AAI in the new licenses in India, and moderate financial risk profile of the company. The consolidated financial risk profile of the company is characterised by moderate capital structure and debt coverage indicators; weakening operating performance and ensuing large short-term debt repayments under an overseas subsidiary (backed by FDSPL's standalone operations) have stretched the debt coverage indicators currently. The domestic duty free operations (under FDSPL and FDFSPL) witnessed increase in capital intensity on account of recently won tenders which required the company to provide sizeable security deposits. This coupled with capital expenditure plans under FDSPL's standalone operations and the support required to be provided to the overseas subsidiary for the redemption of its short term debt obligations shall stretch the cash flows of the standalone entity and increase the company's reliance on external debt. Further, timely refund of large advances to business ventures of the promoters remains critical towards improvement in liquidity position in light of large debt repayments due during the current year, at the consolidated level.

However, ICRA derives comfort from the financial flexibility enjoyed by the company on account of the improved revenue visibility of the domestic operations over the longer term and also due to the company being a part of the Flemingo Group, which has emerged as one of the leading travel retail operators in the world.

Company Profile

Flemingo Dutyfree Shop Private Limited ('FDSPL') is a duty free retailer which, as part of its standalone business, operates duty free shops in nine international airports operated by Airports Authority of India (AAI). These airports are Chennai, Trichy, Calicut, Mangalore, Goa, Kolkata, Lucknow, Amritsar and Ahmedabad. The licenses for operating at all these airports were won in the recently concluded tender process carried out by AAI and are valid till March 2023 (license at Trichy is valid till November 2025). Apart from these, the company also operates duty free shops in four seaports namely Kolkata, Mumbai, Mundra, and Paradip ports, for which it has a non-exclusive but long-term licenses. FDSPL's consolidated operations (i.e. through subsidiaries and step down subsidiaries) cover duty free retailing and distribution businesses spanning India, Europe (Poland, France, Germany, the Netherlands and Belgium), Sri Lanka, Dubai (Jebel Ali), South Africa and Turkey. The Flemingo Group also has operations in other parts of the globe (mainly in Africa, Latin America, Caribbean countries, and the Far East), which are grouped under Flemingo International (Mauritius) Limited, a fellow subsidiary of FDSPL. The UK operations are under group holding company Flemingo International (BVI) Ltd

The Flemingo Group, through its holding company – Flemingo International (BVI) Limited, holds 79.9% equity stake in FDSPL with the remaining stake being held by Mr. Viren Ahuja, Mr. Arjun Ahuja, Mr. Karan Ahuja (the promoters of the Group) and Symbolic Infra Projects Private Limited.

Recent Results

As per the provisional FY2016 results, on a standalone basis, the company has achieved a net profit of Rs. 16.14 crore on an operating income of Rs. 350.38 crore as against a net profit of Rs. 22.18 crore on an operating income of Rs.362.62 crore in FY2015.

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