

July 17, 2017

## Flemingo Dutyfree Shop Private Limited

### Summary of rated instruments

Instrument*	Rated amount (in Rs. crore)	Rating action
Term Loans	80.00 (reduced from 85.00)	[ICRA]A- (Stable); reaffirmed
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	191.35 (reduced from 194.00)	[ICRA]A- (Stable) / [ICRA]A2+; reaffirmed
Long-term, Fund Based Limits ^	(19.00) (reduced from 24.00)	[ICRA]A- (Stable); reaffirmed
Long-term, Unallocated Limits	7.65 (earlier nil)	[ICRA]A- (Stable); reaffirmed

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

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) assigned to the Rs. 80.00 crore<sup>1</sup> (reduced from Rs. 85 crore) term loan facilities and the Rs. 7.00 crore long-term, fund based limits of Flemingo Dutyfree Shop Private Limited ('FDSPL' or 'the company')<sup>2</sup>. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 8.00 crore short-term, fund based / non-fund based limits of FDSPL. ICRA has further reaffirmed the ratings of [ICRA]A- / [ICRA]A2+ assigned to the Rs. 191.35 crore (reduced from Rs. 194.00 crore) long-term / short-term, non-fund based limits of the company. ICRA has also reaffirmed a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 7.65 crore unallocated limits of the company. The outlook on the long-term rating is 'Stable'.

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the operations of FDSPL, 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 among the entities, although each of the entities is independently managed by a professional team.

The reaffirmation of ratings continues to factor in the diversified geographical presence of FDSPL at the consolidated level through multiple models in the duty-free business, the longstanding experience of the promoters in the international duty-free industry, the long-term operating license for duty-free shops at 11 airports in India, and availability of a wide range of product offerings of prestigious and deluxe brands to a captive audience of international travellers at its airports of operation. The ratings have also factored in the renewal of license for operating duty-free shops at Colombo International Airport in March 2017 for the next five years. ICRA has noted that the increase in combined retail area in Indian operations—from

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

998 sq. m. to 1,916 sq. m. (in new licenses awarded in Q4 FY2016)—has facilitated in attracting new and leading brands across categories, offering greater retail space to the existing brands, leading to an increase in footfalls, and therefore in revenues.

The ratings are, however, constrained by the subdued operating performances in Poland, Turkey (in-flight duty-free) and South Africa (together accounting for 42% of consolidated revenues, but only for 16% of consolidated operating profit in CY2016), and the volatile nature of profit margins in the duty-free business, which is a function of gross margin received from the brands and the concession fee (revenue share; typically with minimum monthly or annual guaranteed payments) with the licensing authority. Renewal of duty-free licences across 10 airports in India in Q4 FY2016, along with increased retail space, resulted in increase in concession fee payable to the Airports Authority of India (AAI) in FY2017. As the company had to invest in setting up the shops to monetise the higher retail space, the revenue growth in FY2017 has not been in line with the increase in concession fee, thus resulting in lower operating margin. An increase in sales at its outlets would trigger operating leverage and improve profitability. ICRA expects profit margins of its India operations to improve over the near to medium term, with most of its renewed retail spaces being fully operational and driven by healthy growth in international tourist traffic. The emphasis of the Government of India on tourism and the various policy initiatives to boost tourist arrivals and airline infrastructure will boost the company in the long-term.

The domestic duty-free operations also witnessed increase in capital intensity in the last two years on account of sizeable security deposits given to AAI towards the new licenses. This coupled with capital expenditure towards refurbishment of outlets under FDSPL's standalone operations led to increase in debt levels in FY2017 for standalone entity. The consolidated debt, however, has declined in FY2017 due to scheduled repayments at Flemingo International Limited, Dubai, an 84.8% subsidiary of FDSPL. FDSPL's consolidated financial risk profile remains healthy characterised by comfortable capital structure, moderate profitability, adequate liquidity supported by steady operating cash flows, and moderate debt coverage indicators. Moreover, the company has large advances receivable from the business ventures of the promoters; early refund of the same will aid it in reducing its debt and improving its liquidity position. Furthermore, ICRA derives comfort from the financial flexibility enjoyed by the company on account of the improved revenue visibility of the domestic and Sri Lanka operations over the longer term, as well as due to the company being a part of the Flemingo Group, which has emerged as one of the leading duty-free retail operators in the Indian sub-continent.

## **Key rating drivers**

### **Credit strengths**

- Increase in combined retail area in Indian operations, from 998 sq. m. to 1,916 sq. m.; new license awarded in Q4 FY2016 has facilitated in attracting new brands across categories, leading to increase in footfalls and revenues
- Promoters' experience in duty-free business in India as well as international markets
- Diversified geographical presence at the consolidated level through multiple models in the duty-free business
- Healthy consolidated financial risk profile characterised by comfortable capital structure and moderate debt coverage indicators
- Tourism promotion by the Government is expected to increase inbound travellers, while Indian leisure tourists travelling abroad have also increased, resulting in higher footfalls
- Natural hedge against foreign currency movement risk with a majority of sales and purchases in the same foreign currency; however, risks related to translation effects of balance sheet exist

**Credit weaknesses**

- Higher minimum annual guarantee or revenue share clause in the new India licenses awarded in Q4 FY2016 led to decline in profit margin in FY2017; however, the operating leverage in the business will lead to margin improvement as the sales grow driven by larger retail space
- Sizeable performance security deposit given to AAI for domestic operations resulted in increased capital intensity
- Weak operating performance and loss of Turkish and South African businesses
- Business volumes strongly linked to prospects of travel and tourism industry; any reduction in international flight traffic or average spend per passenger could adversely impact profitability

**Description of key rating drivers:**

FDSPL is part of the Flemingo Group ('the group'), which operates a number of duty-free shops in India as well as in international markets, thereby bringing in significant operational experience. These outlets are mostly located at departure as well as arrival terminals and sell a wide range of products such as liquor, fashion accessories, tobacco products, chocolates and other food products, among others. FDSPL's consolidated operations cover duty-free retailing and distribution businesses in India, Sri Lanka, Dubai (Jebel Ali), Europe (mainly Poland, France, Italy, Belgium, Germany, Netherlands, and Belgium), South Africa and Turkey. Business operations in India, Poland, Sri Lanka and Dubai have been the major contributors to the revenues and profitability of the company, while its South African and Turkish business operations reported losses in the last financial year.

Going forward, the growth in passenger traffic and FDSPL's ability to increase the average sales per passenger (SPP) will remain important from a credit perspective. An increase in average SPP at the outlets, along with growth in passenger traffic, would trigger operating leverage and improve profitability.

**Analytical approach:**

For arriving at the ratings, ICRA has considered the consolidated operations and financials of Flemingo Dutyfree Shop Private Limited. The rating methodologies applied are indicated below.

**Links to applicable criteria:**

**Corporate Credit Rating Methodology**

**Rating Methodology for Entities in the Retail Industry**

**About the company:**

FDSPL is a duty-free retailer, who operates duty-free shops in nine international airports operated by AAI, as part of its standalone business. These airports are Chennai, Trichy, Calicut, Mangalore, Goa, Kolkata, Lucknow, Amritsar and Ahmedabad. The licenses for operating at these airports are valid till 2023 (license at Trichy is valid till 2025). The company also operates duty-free shops in the five seaports of Kolkata, Mumbai, Mundra, Paradip and JNPT, for which it has non-exclusive, but long-term licenses. Overall, through its standalone operations and its wholly-owned subsidiary, Flemingo DFS Private Limited, FDSPL operates duty-free shops in 11 international airports and eight seaports in India. FDSPL's consolidated operations (through subsidiaries and step-down subsidiaries) cover duty-free retailing and distribution businesses in India, Sri Lanka, Dubai (Jebel Ali), Europe (mainly Poland, France, Italy, Belgium, Germany, Netherlands, and Belgium), South Africa and Turkey. The 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.

The group also operates duty-free outlets at Chhatrapati Shivaji International Airport, Mumbai, under DFS India Private Limited (rated [ICRA]BBB+(Stable)/[ICRA]A2), a fellow subsidiary of FDSPL. It also runs operations in Latin American markets under Flemingo International (Mauritius) Limited and in the UK under Flemingo International (UK) Limited, both fellow subsidiaries of FDSPL.

On a consolidated basis, FDSPL reported an operating income (OI) of Rs. 2062.23 crore and profit after tax (PAT) of Rs. 58.48 crore during FY2016. On a standalone basis, FDSPL reported an OI of Rs. 431.65 crore and PAT of Rs. 21.34 crore during FY2017 (as per provisional financials) as against an OI of Rs. 350.37 crore and PAT of Rs. 16.87 crore during FY2016.

**Table 1: Key financial indicators**

FDSPL	Standalone		Consolidated
	FY2016	FY2017*	FY2016
Operating income (Rs. crore)	350.37	431.65	2062.23
PAT (Rs. crore)	16.87	21.34	58.48
OPBDIT/ OI (%)	7.43%	3.49%	4.24%
RoCE (%)	11.06%	10.32%	-
Total Debt/ TNW (times)	0.31	0.41	1.03
Total Debt/ OPBDIT (times)	3.41	8.27	4.23
Interest coverage (times)	2.99	1.86	1.60
NWC/ OI (%)	-1%	-1%	13%

\*provisional financials; Source: Flemingo Dutyfree Shop Private Limited

Note: OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; RoCE: Return on Capital Employed; TNW: Tangible Networth; NWC: Net Working Capital

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

**Other information:** Not applicable.

**Rating history for last three years:**
**Table 2**

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
				July 2017	June 2016	-	January 2015
1	Term Loan	Long term	80.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-
2	Fund Based Limits	Long term	7.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
3	Fund Based /Non-fund Based Limits	Short term	8.00	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+
4	Non-fund Based Limits	Long term /Short term,	191.35	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+
5	Unallocated limits	Long-term	7.65	[ICRA]A-(Stable)	-	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Term Loan-1	-	-	FY2023	65.00	[ICRA]A- (Stable)
Term Loan-2	-	-	July 2020	15.00	[ICRA]A- (Stable)
Long-term, Fund Based Limits	-	-	-	7.00	[ICRA]A- (Stable)
Short-term, Fund Based/Non-Fund Based Limits	-	-	-	8.00	[ICRA]A2+
Non-Fund Based Limits-Bank Guarantee/Letter of Credit	-	-	-	191.35	[ICRA]A- (Stable)/ [ICRA]A2+
Long-term unallocated limits	-	-	-	7.65	[ICRA]A- (Stable)

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About ICRA Limited:

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