

GMR Hospitality and Retail Limited

March 14, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	122.97	120.16	[ICRA]AA (SO) (Stable); Reaffirmed
Fund based – Working capital facilities	5.00	0.00	[ICRA]A+ (Stable); Withdrawn
Non Fund Based – Bank Guarantee/ Letter of Credit	25.00	0.00	[ICRA]A1; Withdrawn
Unallocated Limits	5.82	0.00	[ICRA]A+(Stable)/[ICRA]A1; Withdrawn
Total	158.79	120.16	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation is based on the strength of an unconditional and irrevocable guarantee provided by GMR Hyderabad International Airport Limited (GHIAL, rated at [ICRA]AA(Stable)) for the rated bank facilities of GMR Hospitality and Retail Limited (GHRL). The [ICRA]AA(SO) rating addresses the servicing of the rated facilities to happen as per the terms of the underlying loan and the guarantee arrangement and the rating assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower.¹

Outlook: Stable

The outlook may be revised if there is a change in the outlook of the guarantor, GHIAL.

Key rating drivers - Guarantor

Credit strengths

Robust growth in traffic: GHIAL witnessed robust traffic growth over last five years both in terms of passengers and air traffic movement (ATM) – passenger traffic grew at a CAGR of 20.2% during FY2014-FY2018 to 18.2 mn and ATMs grew at a CAGR of 14.2% to 150,000 during the period – with 21% growth in passenger traffic and 14% growth in ATM; GHIAL also witnessed highest growth among the major private airports in FY2018.

Healthy financial performance: GHIAL's financial performance continued to remain healthy with robust cash accruals and strong liquidity position of the company as reflected by a liquid surplus of Rs. 1400.4 crore as on September 30, 2018. During FY2018, GHIAL had refinanced its existing loans with a 350 mn USD denominated bonds, which has a bullet

¹ The rated instrument does not involve a structured payment mechanism

repayment with a tenure of 10 years. This would aid in generating adequate internal accruals to support the ongoing capex programme.

Current monopolistic position: Being the only airport in Hyderabad city and major international airport for the states of Telangana & Andhra Pradesh.

Support from GoTS and modest revenue sharing mechanism with GoI: Financial support from the GoTS in the form of development grant and interest free loans with deferred payment terms, modest revenue-sharing terms with the GoI are also comforting factors.

Cash flow ring-fencing: The company has strong cashflow ring-fencing by virtue of the joint ownership of GHIAL by AAI and GoTS, presence of AAI and GoTS nominees on GHIAL's board and other covenants in the concession agreement, shareholders agreement, and bonds indenture.

Credit challenges

Large capex programme exposes GHAL to execution risks: GHIAL is in the process of more than doubling its existing capacity at a total estimated cost of Rs. 6,385 crore over FY2018-FY2023 (including contribution towards metro project) which is proposed to be funded through a mix of debt and internal accruals in the ratio of 70:30. While the quantum of capex is higher than earlier, the cost per sqm is largely in line with the earlier plan. GHIAL is exposed to execution risks as the capex for expansion is in nascent stages of execution and the company's ability to execute the large capex programme within the budgeted costs and timelines would be important.

Exposure to regulatory risks: In the light of AERA's normative approach for capex, uncertainty in terms of allowable capex exists; therefore, GHIAL's ability to get the capex approved by AERA will remain critical. Given the significant delays in tariff orders in the past, timely tariff orders from the regulator which adequately compensates for the forex, CGF and prior period entitlement is important. ICRA expects the yield per passenger to reduce by more than 50% from current levels in tariff order for second control period. However, the projected cash flow cover is expected to remain comfortable.

Funding support to group companies: In FY2018, GHIAL extended Rs. 32 crore support to GAEL for its debt servicing and in October 2018 GHIAL acquired 49% equity and preference shares held by Menzies Aviation Cargo for Rs. 60 crore in subsidiary HMA CPL. The total funding requirement (equity and loans & advances) for GHAL Limited towards commercial property development is expected to be Rs. 420 crore in a phased manner over next four years.

Revenue generation remains exposed to movements in aviation traffic: As per the tariff determination methodology, any shortfall in aeronautical revenue generation as compared to the levels estimated at the time of tariff fixation is compensated for by way of a true-up, though with a lag. Thus, any shortfall in aeronautical revenues in the medium term remains a credit risk.

Liquidity Position: Guarantor

The liquidity position of the company is strong as reflected by liquid surplus of Rs. 1059.0 crore as on December 31, 2018. While a major portion of this is expected to be deployed towards ongoing capex, the accrual generation is expected to remain robust going forward.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent Support - GMR Hyderabad International Airport Limited The assigned rating draws comfort from guarantee extended by parent company GHIAL
Consolidation / Standalone	Standalone

About the company:

GMR Hospitality and Retail Limited (GHRL), a 100% subsidiary of GHIAL, owns and operates a 305 room five-Star business hotel at the GMR Hyderabad Airport, within ~2 km from the passenger terminal. The hotel division was initially part of GHIAL and was subsequently demerged into GHRL w.e.f. April 01, 2009. The hotel is being managed by the Accor Group under the Novotel brand. Hyderabad Duty Free Retail Limited, a 100% subsidiary of GHIAL, that 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 order dated April 18, 2017 with appointed date as April 1, 2016.

Guarantor's profile:

GHIAL operates the Rajiv Gandhi International Airport at Shamshabad in Hyderabad. It commenced commercial operations on March 23, 2008. The company's sponsors include GMR Airports Limited (63% holding), Malaysia Airport Holdings Berhad (MAHB) (11%), Airports Authority of India (AAI) (13%), and Government of Telangana State (13%). GHIAL has a 30-year concession for the development, maintenance and operation of the Shamshabad airport, which is extendable for 30 years at its option and another 30 years on mutual agreement. The airport was constructed at a total cost of Rs. 2920 crore with an initial handling capacity of 12 million passengers per annum. The master plan envisages a terminal capacity of 40 million passengers per annum, by the end of the 30-year term of the concession agreement.

Key financial indicators (Standalone) - Guarantor

	FY2017 Audited	FY2018 Audited
Operating Income (Rs. crore)	1105.4	1252.0
PAT (Rs. crore)	434.8	602.7
OPBDIT/OI (%)	72.6%	70.6%
RoCE (%)	28.0%	25.3%
Total Debt/TNW (times)	3.4	2.5
Total Debt/OPBDIT (times)	2.9	3.2
Interest coverage (times)	4.0	4.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				March 2019	Apr 2018	Mar 2018	Jul 2017	Nov 2016	Aug 2016	Aug 2015	
1	Term Loans	Long Term	120.16	120.16	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA (SO) (Stable)	[ICRA]AA- (SO) (Stable)	[ICRA]A+ (SO) (Stable)	[ICRA]A- (SO) (Stable)
2	Cash Credit	Long Term	5.00	-	[ICRA]A+ (Stable); Withdrawn	[ICRA]A+ (Stable)	NA	NA	NA	NA	NA
3	Bank Guarantee	Short Term	25.00	-	[ICRA]A1; Withdrawn	[ICRA]A1	NA	NA	NA	NA	NA
4	Unallocated Limits	Long Term/Short Term	5.82	-	[ICRA]A+ (Stable)/ [ICRA]A1; Withdrawn	[ICRA]A+ (Stable)/ [ICRA]A1	NA	NA	NA	NA	NA

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	September 2016	9.5%	April 2030	120.16	[ICRA]AA (SO) (Stable);

Source: GHRL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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