

March 30, 2020

## Flemingo Dutyfree Shop Private Limited: Ratings downgraded to [ICRA]BBB-/[ICRA]A3; removed from Watch with Developing Implications; Negative outlook assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	42.00	42.00	[ICRA]BBB-; Downgraded from [ICRA]BBB+&; rating removed from watch with developing implications and 'Negative' outlook assigned
Long-term/Short-term, Non-fund Based Limits	110.00	110.00	[ICRA]BBB-/[ICRA]A3; Downgraded from [ICRA]BBB+&/[ICRA]A2&; rating removed from watch with developing implications and 'Negative' outlook assigned
Long-term, Fund-based Limits ^	(14.00)	(14.00)	[ICRA]BBB-; Downgraded from [ICRA]BBB+&; rating removed from watch with developing implications and 'Negative' outlook assigned
Long-term, Unallocated Limits	58.00	58.00	[ICRA]BBB-; Downgraded from [ICRA]BBB+&; rating removed from watch with developing implications and 'Negative' outlook assigned
<b>Total</b>	<b>210.00</b>	<b>210.00</b>	

\*Instrument details are provided in Annexure-1

^Sub-limit of long-term/short-term non-fund based limits

&: Rating under Watch with Developing Implications

### Rationale

The revision in the rating of Flemingo Dutyfree Shop Private Limited (FDSPL) and assignment of Negative outlook<sup>1</sup>, factors in a sharp reduction in air traffic on account of various restrictions implemented by the Government of India, along with various embargoes implemented by most countries due to the ongoing coronavirus outbreak, which is expected to create significant pressure on its revenue generation capability. In February 2020, the company's sales for all the airports, witnessed a decline of ~20-25% with a disproportionate drop estimated in March 2020, a situation which is unlikely to reverse in the near-term. As per the management, it has invoked the force majeure clause and is in discussion with concerned airport authorities to grant waivers/discounts on the concession costs to reduce their financial burden. Considering the fixed nature of costs, the company's profitability is expected to be under pressure in the current scenario. Moreover, significant increase in net loans and advances given to Group companies at a consolidated level (Rs. 289.1 crore as on October 31, 2019 vis-à-vis Rs. 177.8 crore as on March 31, 2018) continue to temper the ratings. As communicated by the management to ICRA, the sale of Poland business has been completed and is likely to result in a reduction in scale of operations and associated debt levels.

The ratings continue to factor in the company's diversified geographical presence at the consolidated level through multiple models in the duty-free business and the extensive experience of the promoters in the international duty-free

<sup>1</sup> FDSPL's rating was under watch with developing implications as in October 2019, an investment agreement was signed by Flemingo International Limited BVI (subsidiary of FDSPL) with the Polish Airports State Enterprise (PPL) to sell its 80.68% shareholding in Baltana Duty Free (through PHZ Boltana SA).

industry. The ratings note the long-term operating licence for duty-free shops at 11 airports in India and one airport in Sri Lanka and availability of a wide range of product offerings of deluxe brands to a captive audience of international travellers at its airports of operation.

## Key rating drivers and their description

### Credit strengths

**Promoter's experience in duty-free business in India and in international markets** – FDSPL is a part of the Flemingo Group (Flemingo International (BVI) Limited is the holding company), which operates several duty-free shops in India as well as in international markets, thereby bringing in significant operational experience.

**Diversified geographical presence through multiple models in duty-free business** – FDSPL's consolidated operations cover the duty-free retailing and distribution businesses in India, Sri Lanka, Dubai and Europe. It derives revenues from multiple sales channels, including airports, in-flight sales and other channels (including stores at seaport, border-crossing and downtown diplomatic/military duty-free locations). The operations consist of different store formats where it sells a wide range of products such as liquor, fashion accessories, tobacco products, chocolates and other food products.

### Credit challenges

**Business volumes strongly linked to prospects of travel and tourism industry; any reduction in passenger traffic or average spend per passenger likely to affect profitability; significant deterioration in the near-term is expected considering the impact of coronavirus outbreak** – The prospects of duty-free outlets are strongly linked to the travel and tourism industry with a direct correlation to international traffic and the average spend per passenger (SPP). Furthermore, with licence costs (minimum monthly/annual guarantee or revenue share clause) being fixed in nature, the profitability is directly linked to sales. However, any decrease in average SPP at the outlets, along with degrowth in passenger traffic, could adversely impact the profitability. The sharp reduction in air traffic, at present, on account of various restrictions implemented by the Government of India, along with various embargoes implemented by most countries, is expected to create a substantial pressure on its revenue generation capability in the near-term. In February 2020, the company's sales for all the airports, witnessed a reduction of ~20-25% with a further steep decline observed in March 2020.

**Modest consolidated financial profile characterised by moderate operating margins and debt coverage indicators** – On a consolidated basis, the company's total borrowings increased to Rs. 493.7 crore as on March 31, 2019 from Rs. 392.3 crore as on March 31, 2018 primarily due to the increase in borrowings in PHZ Boltana SA (subsidiary of FDSPL) for setting up nine duty-free concession shops at Warsaw, Poland airport and funding support extended to its Group companies. However, as of February 2020, as communicated by the management, post-sale of the Poland business, its debt levels have reduced to Rs. 283.1 crore. On a standalone basis, FDSPL has shown a steady decline in its borrowings from Rs. 80.2 crore as on March 31, 2019 to Rs. 64.3 crore as on September 30, 2019 (which further reduced to Rs. 52.8 crore as on March 8, 2020). In FY2019, the company's operating margin witnessed a marginal decline to 5.5% in FY2019 from 5.8% in FY2018 on a consolidated basis, mainly on account of lower margins from its Sri Lanka duty-free operations. Further, even though its standalone operating income (OI) remained stagnant at Rs. 489.8 crore in FY2019, its OPBDITA margins improved to 7.6% in FY2019 (vis-à-vis 4.7% in FY2018) primarily owing to higher growth in duty-free sales compared to high sea sales. The adjusted OPBDITA (adjusted for linearisation and amortisation on security deposit) stood at Rs. 135.0 crore in FY2018 and Rs. 144.0 crore in FY2019. Consequently, the adjusted total debt/OPBDITA stood at 2.9 times as on March 31, 2018 and 3.4 times as on March 31, 2019 (adjusted for linearisation and amortisation on security deposit). Given the revenue and profitability pressures, the company's debt protection metrics are likely to remain under pressure in the near-term.

**Significant loans and advances to Group companies** – As on March 31, 2019, on a consolidated basis, FDSPL has given net loans and advances of Rs. 260.1 crore to its Group companies (which increased from Rs. 177.8 crore as on March 31, 2018). Apart from this, FDSPL, on a standalone basis, has given corporate guarantees for debt taken by subsidiaries, mainly Dubai. ICRA notes that the timely receipt of advances given to Group companies will help in reducing the overall debt levels and improving its liquidity position.

### Liquidity position: Stretched

For FDSPL, the licence costs (minimum monthly/annual guarantee or revenue share clause) are fixed in nature and the profitability is directly linked to its sales. With creation of significant pressure on the company’s revenue generation capability, its liquidity position is expected to be stretched and would primarily depend on various discounts/waivers received on the license costs in the coming months. Further, its working capital utilisation levels remained high during October 2018 to September 2019. ICRA notes that timely receipt of advances given to the Group companies (Rs. 260.1 crore as on March 31, 2019) will help in reducing the overall debt levels and improve its liquidity position.

### Rating sensitivities

**Positive triggers** – ICRA could upgrade FDSPL’s rating if the company demonstrates a sustained improvement in its profitability with resumption in air traffic leading to improvement in its credit risk profile and if there is a material reduction in loans and advances to the Group companies.

**Negative triggers** – Negative pressure on FDSPL’s rating could arise in case of continued stretched liquidity in view of sharp reduction in air traffic due to the coronavirus outbreak lead to low footfalls. The consequent decline in revenues and profitability severely constraining the company’s debt servicing capability remain a rating concern.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Retail Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of FDSPL. As on March 31, 2019, the company had 55 subsidiaries and one associate, which are all listed in Annexure-2.

### About the company

FDSPL is a duty-free retailer, which operates duty-free shops in 10 international airports operated by the AAI, as a part of its standalone business. These airports are Chennai, Trichy, Calicut, Mangalore, Goa, Kolkata, Lucknow, Amritsar, Chandigarh and Ahmedabad. The company also operates duty-free shops in a number of seaports in India, for which it has non-exclusive, but long-term licences. Overall, through its standalone operations and its wholly-owned subsidiary, Flemingo (DFS) Private Limited, FDSPL operates duty-free shops in nine international airports (excluding Poland business) and six seaports. FDSPL’s consolidated operations (through subsidiaries and step-down subsidiaries) cover duty-free retailing and distribution businesses in India, Sri Lanka, Dubai and Europe. The Group, through its holding company, Flemingo International (BVI) Limited, holds a 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.

## Key financial indicators (audited)

	Standalone		Consolidated	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	487.6	489.8	2,209.1	2,522.4
PAT (Rs. crore)	9.8	42.8	59.4	62.6
OPBDITA/OI (%)	4.7%	7.6%	5.8%	5.5%
RoCE (%)	7.5%	22.6%	15.9%	22.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0	3.1	3.1
Total Debt/OPBDITA (times)	4.7	2.1	3.0	3.6
Interest Coverage (times)	1.8	1.5	4.1	3.0
DSCR	1.1	2.1	3.0	2.8

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

## Any other information: None

## Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018			Date & Rating in FY2017	
						30-Mar-20	20-Dec-19	28-Sep-18	26-Feb-18	17-Jul-17
1	Term Loan	Long term	42.0	42.0	[ICRA]BBB-(Negative)	[ICRA]BBB+; &	[ICRA]A-; &	[ICRA]A-; &	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Fund Based Limits	Long term	-	-	-	-	[ICRA]A-; &	[ICRA]A-; &	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Fund Based /Non-fund Based Limits	Short term	-	-	-	-	[ICRA]A2+; &	[ICRA]A2+; &	[ICRA]A2+	[ICRA]A2+
4	Non-fund Based Limits	Long term /Short term,	110.0	-	[ICRA]BBB-(Negative)/[ICRA]A3	[ICRA]BBB+/[ICRA]A2; &	[ICRA]A-/ [ICRA]A2+; &	[ICRA]A-/ [ICRA]A2+; &	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+
5	Sub-limits, Fund Based Limits	Long term	(14.0)	-	[ICRA]BBB-(Negative)	[ICRA]BBB+; &	[ICRA]A-; &	[ICRA]A-; &	[ICRA]A-(Stable)	[ICRA]A-(Stable)
6	Unallocated limits	Long-term	58.0	-	[ICRA]BBB-(Negative)	[ICRA]BBB+; &	[ICRA]A-; &	[ICRA]A-; &	[ICRA]A-(Stable)	-

&: Rating on watch with Developing Implications

## 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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2016	-	FY2023	42.0	[ICRA]BBB-(Negative)
NA	Non-Fund Based Limits- Bank Guarantee/Letter of Credit	-	-	-	110.0	[ICRA]BBB-(Negative)/ [ICRA]A3
NA	Long-term unallocated limits	-	-	-	58.0	[ICRA]BBB-(Negative)
NA	Sub-limits, Long-term, Fund Based	-	-	-	(14.0)	[ICRA]BBB-(Negative)

Source: Flemingo Dutyfree Shop Private Limited  
&: Rating on watch with Developing Implications

## Annexure-2: List of entities considered for consolidated analysis (as on December 31, 2019)

Company Name	Ownership	Consolidation Approach
<b>Subsidiaries</b>		
Flemingo (DFS) Pvt. Ltd.	100.00%	Full Consolidation
Flemingo Corporate Services Pvt. Ltd.	100.00%	Full Consolidation
Flemingo International Limited	100.00%	Full Consolidation
Flemingo Duty Free Shop Mumbai Pvt. Ltd.	100.00%	Full Consolidation
Duty Free Distribution Services Pvt. Ltd.	100.00%	Full Consolidation
International Brands Pte Ltd.	60.00%	Full Consolidation
Flemingo Duty Free Pvt. Ltd.	100.00%	Full Consolidation
IRIS EkspresGumruksuzSatisMagazalariTicaretAnonimSirketi	95.00%	Full Consolidation
Flemingo Diplomatic FZE	100.00%	Full Consolidation
Flemingo International Limitada	100.00%	Full Consolidation
Flemingo International DRC SPRL	100.00%	Full Consolidation
F I Mozambique Limitada	70.00%	Full Consolidation
Flemingo International Rwanda Ltd.	100.00%	Full Consolidation
Ashdod Holdings Ltd.	100.00%	Full Consolidation
Maymill Holdings Ltd.	100.00%	Full Consolidation
Flemingo Kosovo LLC	100.00%	Full Consolidation
P.H.Z Baltona S.A	81.00%	Full Consolidation
Baldemar Holdings Ltd.	81.00%	Full Consolidation
Flemingo Duty Free LLC	81.00%	Full Consolidation
Centrum Usług Wspólnych Baltona Sp. Z.O.O.	81.00%	Full Consolidation
Baltona Shipchangers Sp. Z.O.O.	81.00%	Full Consolidation
S. C. Gredy Company SRL	81.00%	Full Consolidation
Baltona France S.A.S.	81.00%	Full Consolidation
BH Travel Retail Sp. Z.O.O.	81.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Centrum ObslugiOperacyjnej Sp. Z.O.O.	81.00%	Full Consolidation
K W Shelf Company Sp. Z.O.O.	81.00%	Full Consolidation
Sandipiper 3 Sp. Z.O.O.	81.00%	Full Consolidation
Baltona Duty Free Estonia OU (Estonia)	81.00%	Full Consolidation
Baltona Italy S.R.L.	81.00%	Full Consolidation
Liege Airport Shop BVBA	81.00%	Full Consolidation
Flemingo International LDA	100.00%	Full Consolidation
Flemingo Middle East Ltd.	100.00%	Full Consolidation
Flemingo International Ltd. SA (LLC Company)	99.00%	Full Consolidation
Flemingo International Morocco SA	67.00%	Full Consolidation
Flemingo Distribution SARL, AU	100.00%	Full Consolidation
FlemingoPazarlamaVeDagitimTicaretAnonimSirketi, Turkey	80.00%	Full Consolidation
Flemingo International Ltd. Uganda	100.00%	Full Consolidation
Flemingo International (Zambia) Ltd.	100.00%	Full Consolidation
Flemingo International (St. Maarten) B.V., Saint Maarten	100.00%	Full Consolidation
Flemingo International Ltd. (Lebanon) SARL	98.00%	Full Consolidation
Flemingo (Lebanon) SARL	98.00%	Full Consolidation
Flemingo International (PTY) Ltd.	60.00%	Full Consolidation
Flemingo Duty Free Macau Lda	100.00%	Full Consolidation
Flemingo Food and Beverages Services B.V.	100.00%	Full Consolidation
Flemingo Boutiques B.V.	60.00%	Full Consolidation
Flemingo International (Bangladesh) Ltd.	51.00%	Full Consolidation
Flemingo International (Somalia) Ltd.	100.00%	Full Consolidation
Flemingo Bangladesh Ltd.	51.00%	Full Consolidation
Flemingo International Ltd. Laos PDR	100.00%	Full Consolidation
Flemingo International Senegal SURL	100.00%	Full Consolidation
Flemingo Dutyfree Shop Limited, Nigeria	75.00%	Full Consolidation
Flemingo International BVI SARL	95.00%	Full Consolidation
National Security Forces Holdings Ltd. Uganda	80.00%	Full Consolidation
Flemingo International Mali SARL	100.00%	Full Consolidation
Flemingo International (Denmark) ApS	100.00%	Full Consolidation
<b>Associates</b>		
Flemingo Duty Free (Mauritius) Ltd.	50.00%	Equity Method

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