

Press Release

GMR Infra Services Limited

June 25, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Non-Convertible Debenture (NCD)	700.00	IVR BBB- (SO)/Stable Outlook (IVR Triple B Minus [Structured Obligation] with Stable Outlook)*
	Total	700.00	

**SO rating fully backed by an unconditional and irrevocable guarantee of GMR Infrastructure Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from diversified portfolio of GMR group, comfortable security cover and term sheet executed with marquee investors for investment in GMR group's airport assets. The rating however is constrained by no cash flow in the underlying business of GISL, illiquidity risk of shares of GAL and stressed financial profile of GIL. Ability to successfully consummate the equity infusion transaction and ability to monetise GAL shares in case of an eventuality are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Diversified portfolio of the GMR group and its track record

The company is a part of the diversified GMR group. It is held by GIL, the holding company of the group, through its subsidiary GMR Infra Developers Limited. The group was promoted by Mr. G.M. Rao in 1978. It has grown from being a small firm to a conglomerate having presence in businesses such as airports, energy, transportation, urban infrastructure and construction. It has a proven track record of successfully operating its various businesses and raising funds as and when needed.

Term sheet executed with marquee investors for investment in GMR group's airport assets

GMR group has executed a binding term sheet with Tata group, GIC Singapore and SSG Capital Management for infusing equity at the GMR group totalling ~Rs.8,000 crore. The fund would be primarily utilized to pare debt at the GMR group level (~Rs.7,000 crore) and infusion of ~Rs.1,000 crore (primary infusion) in the airport assets/business of the group. This is a key factor driving the company's ability to service the NCD.

Comfortable security cover

The security for the NCD issue is a pledge of 51% of GAL shares (held by GIL and GISL), corporate guarantee of GIL and pledge of 100% shares of GISL. As GAL is a well performing company with the value of business having been estimated at Rs.22,500 crore (including earn-outs), the aforesaid security cover provides a significant comfort for servicing of the NCDs being rated although the fact of shares being unlisted cannot be denied. It may be highlighted that the valuation of pledged GAL shares provides a 4.25x cover (pre Tata-GIC investment) against the total external debt of the company of Rs.2,700 crore (including loan from a commercial bank).

Key Weaknesses

No cash flows in the underlying business (GISL)

GISL is an investment company of the GMR group and has no operations of its own. The company has been servicing its debt obligations – interest on bank loan by way of financial support (ICDs) received from GIL. The company is having no operation and thereby no cash flow of its own, could be a weakness as regards its ability to service its debt obligations. However, the same is negated due to the fund infusion from investors.

Illiquidity risk – Shares of GAL

Shares of GMR Airports Limited are the primary security for the NCD issue. The shares are not listed and hence, there is an element of illiquidity, although, GAL has been recently valued at ~Rs.22,500 crore (including earn-outs). However, the promoters of the company are resourceful to repay the rated debt obligations.

Stressed financial profile of the group holding company – GIL

GIL (on a consolidated basis) continues to have a stressed financial profile reflected by low profitability and debt coverage metrics. The company has reported book loss in the last three financial years, primarily driven by high interest cost (on account of high debt burden) and share of loss in associates resulting in low debt service coverage indicators. While, stressed debt coverage position combined with volatility in margin appears as a weakness, adequate share cover from the valuation of pledged GAL shares provides comfort for servicing of the NCD issue.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology – Financial Institutions (NBFCs and HFCs)

Rating Methodology for Structured Debt Transaction (Non- Securitisation Transaction)

Liquidity

The rating primarily derives comfort from infusion of fund from marquee investors, which is likely to be used for the redemption/repayment of part of external borrowings of the company. Further, there is a cover of 3x (post Tata-GIC investment) by way of exclusive pledge of GAL's shares in addition to corporate guarantee by GIL which shall act as a cushion for NCD servicing. This is so even after considering element of illiquidity of GAL's shares in view of such shares being unlisted.

About the Company

GSISL was incorporated in 2016. It is an investment company, which is a subsidiary (99.99% shares held) of GMR Infra Developers Limited (GIDL) and a step down subsidiary of GIL. GSISL holds a 16.93% stake in GMR Airports Limited – the holding company for the airports business of the GMR group (acquired from PE investors in October 2018).

Financials (Standalone)

GISL is an investment company for the GMR group. The financials of the company are not meaningful as there was hardly any operation, and hence the indicators are not presented here.

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	NCD	Long Term	700.00	IVR BBB-(SO)/Stable Outlook	IVR A2 (SO) (Jan 1, 2019)	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook*
Long Term Instrument-NCDs	--	18% p.a. compounded quarterly (23% p.a. after 12 months)	May 2022	700.00	IVR BBB-(SO)/Stable Outlook

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