



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

GMR SEZ Infra Services Ltd.

January 1, 2019

Rating

| Instrument / Facility | Amount (Rs.Crore) | Rating | Rating Action |
|-----------------------|----------------------|--|------------------|
| NCD- Short term | 500.0 | IVR A2 (SO) (IVR A Two [Structured Obligation]) | Assigned |

Details of Facility are in Annexure 1

Detailed Rationale

The rating derives comfort from the credit enhancement provided in the form of debt funds likely to flow in from a foreign investor, monetisation of GMR Airports Ltd. (GAL) & comfortable security cover by way of shares pledged to NCD holders, corporate guarantee of GMR Infrastructure Ltd. (GIL) and diversified portfolio of the GMR group and its track record. The rating also takes into consideration the underlying business of GMR SEZ Infra Services Ltd. (GSISL) as investment vehicle, illiquidity risk in the shares of GAL and relatively weak financial risk profile of GIL. The ability of the company to consummate the proposed transaction with the foreign investor, ability to monetise GAL shares in case of eventuality and ability to raise capital to pare debt level 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.

- **Comfortable security cover**



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The security for the proposed NCD issue is a pledge of 51% of GAL shares (held by GIL and GSISL), corporate guarantee of GIL and pledge of 100% shares of GSISL. As GAL is a well performing company with the value of business having been estimated at Rs.21,000 crore, the aforesaid security cover provides a significant comfort for servicing of the aforesaid rated NCDs. It may be highlighted that the valuation of GSISL's sole investment in GAL provides a 1.75x cover against the proposed total external debt of the company of Rs.2,000 crores.

- **Term sheet executed with a foreign investor to invest in the GMR group's Airport assets**

The GMR group has executed a non-binding term sheet with a foreign investor for infusing debt and equity at the GMR group level totalling ~Rs. 4,000 crore. The intent of the fund, is to invest in the airport assets/business of the group. The debt portion of the proposed investment will be infused in GSISL and will be utilised to repay the debt outstanding on the books of the company.

Key Rating Weaknesses

- **GSISL acts as an investment vehicle**

GSISL 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 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 expected fund infusion from a foreign investor and the fallback option on pledge of shares of GAL.

- **Illiquidity risk – Shares of GAL**

Shares of GMR Airports Limited are the primary security for the aforesaid rated NCDs. The shares are not listed and hence, there is an element of illiquidity, although, GAL has been recently valued at ~Rs. 21,000 crore.

- **Relatively weak financial risk profile of the group holding company – GIL**

GIL (on a consolidated basis) continues to have a relatively weak financial risk profile reflected by low profitability and debt coverage matrices. The company has reported book loss in the last three financial years, primarily driven by high interest cost (on account of high debt burden)



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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, the adequate share cover preceded by debt facility agreed by foreign investor brings comfort for servicing of the aforesaid rated NCDs.

Analytical Approach & Applicable Criteria

Rating Methodology – Financial Institutions – NBFCs and HFCs

Rating Methodology for Structure Debt Transaction (Non-securitisation Transaction)

Liquidity

The rating primarily derives comfort from the proposed infusion of fund from a foreign investor, which is likely to be used for the repayment of the rated NCD. Further, there is a cover of 51% share pledge of GAL’s shares which shall act as a cushion for NCD servicing in the event of deal with the foreign investor not fructifying. 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)

GSISL is an investment company for the GMR group. The financials for the company (FY18 and before) are not meaningful as there was hardly any operation, and hence the indicators are not presented here.

Status of non-cooperation with previous CRA: None

Any other information: Nil

Disclosure

Rating History for last three years:

| S. No. | Name of Instrument/Facilities | Current Rating (Year 2018-19) | | | Rating History for the past 3 years | | |
|--------|-------------------------------|-------------------------------|--------------------------------|--------|-------------------------------------|---------------------|---------------------|
| | | Type | Amount outstanding (Rs. crore) | Rating | Date(s) & Rating(s) | Date(s) & Rating(s) | Date(s) & Rating(s) |
| | | | | | | | |



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| | | | | | assigned in 2017-18 | assigned in 2016-17 | assigned in 2015-16 |
|----|--------------|------------|--------|-------------|---------------------|---------------------|---------------------|
| 1. | Proposed NCD | Short Term | 500.00 | IVR A2 (SO) | -- | -- | -- |

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 Facility

| Name of Instrument | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--------------------------------------|------------------|-----------------------------|---------------|------------------------------|--------------------------|
| Short Term Instrument – Proposed NCD | - | 19% p.a. compounded monthly | Sep 6, 2019 | 500.00 | IVR A2 (SO) |