Delhi Duty Free Services Private Limited

September 1, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	167.01 (Reduced from 176.75)	CARE A+; Positive (Single A Plus; Outlook: Positive)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long Term / Short Term Bank Facilities	24.80	CARE A+; Positive / CARE A1 (Single A Plus; Outlook: Positive/ A One)	Revised from CARE A; Stable / CARE A2+ (Single A; Outlook: Stable / A Two Plus)
Total Bank Facilities	**191.81 (₹ One Hundred Ninety-One Crore and Eighty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Delhi Duty Free Services Private Limited (DDFS) factors in improvement in operational and financial performance of the company during FY22 (refers to the period from April 01 to March 31) and Q1FY23 (Unaudited; Q1 refers to the period from April 01 to June 30) characterised by healthy improvement in total operating income and profitability. The improvement was largely on account of healthy year-on-year and month-on-month improvement in international passenger traffic. During March 2022, the international travel has been opened by Government of India (GOI) as COVID-19 pandemic recedes leading to improvement in revenue and profitability of the company. The ratings continue to derive strength from its monopolistic position as the exclusive operator of the large duty-free space at Indira Gandhi International Airport (IGIA) and the long-standing experience of its international promoter in duty free retailing. The ratings also continue to take comfort from the company's healthy capital structure and strong liquidity position. The ratings, however, continue to remain constrained by minimum monthly guarantee (MMG) obligation towards concessioning authority and the concentration risks, both in terms of the high proportion of revenue derived from liquor and tobacco and its entire revenue being derived from IGIA. The ratings are further constrained by the competitive nature of industry with strong linkage of the company's business volumes with the prospects of the travel and tourism industry.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely revival in passenger footfall at the stores of the company to pre-covid levels resulting in sustained improvement in the total operating income to above Rs.1300 crore and sustained EBITDA Margin of more than 15%

Negative factors – Factors that could lead to negative rating action/downgrade:

- Slower than envisaged ramp-up in international passenger traffic numbers
- Depletion in liquidity buffers of the company on account higher than envisaged cash outflow in the form of dividend and/or loans and advances resulting in stretched liquidity position of the company
- Any higher than envisaged debt funded capital expenditure resulting in deterioration of overall capital structure

Outlook: Positive

The revision in outlook to 'Positive' takes into account CARE's expectation of further improvement in the international passenger traffic at DIAL on month-on-month basis which is expected to reach to pre pandemic levels by the end of FY23 which shall result in further improvement in overall financial risk profile of the company going forward. The outlook may be revised to 'Stable' in case of lower than expected recovery in international passenger traffic.

Detailed description of the key rating drivers

Key rating strengths

Improvement in income and profitability of the company during FY22 and Q1FY23 owing to recovery in international passenger traffic

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The financial performance of the company improved during FY22 with a growth of ~137% in total operating income over FY21. TOI reported during FY22 stands at Rs.645.95 crore as against Rs.272.23 crore during FY21. Similarly, EBITDA and PAT also improved significantly during FY22 and stands at Rs.101.50 crore & Rs.188.34 crore respectively as against negative EBITDA of Rs.21.65 crore and net loss of Rs.30.13 crore during FY21. The company has received GST refund of Rs.180.43 crore during FY22 which has boosted the liquidity of the company. Since sales and purchase made by the company is free of GST. However, company has to pay GST on various expenditures done during the ordinary course of business like rent of the premises, concession fees or MMG etc.

Improvement in capital structure and debt coverage indicators
The company's capital structure continues to remain comfortable with low outstanding term debt of Rs.9.01 crore and very low utilization level of working capital borrowing as on March 31, 2022. The overall gearing improved to 0.21x as on Mar 31, 2022, as against 0.49x as on March 31, 2021. The company does not have any debt funded capex plans in the near term. Interest coverage stood at 9.35x and Total Debt/GCA stood at 0.36x in FY22. Going forward, any deterioration in the capital structure of the company marked by increase in overall gearing shall be a key monitorable.

Location advantage and exclusivity agreement
The fortunes of a duty-free operator are directly related to the international passenger traffic at the airport in which it is operating. DDFS is the sole operator of duty-free shops located at the Terminal T3 of IGIA in Delhi. DDFS benefits from the fact that IGIA is the busiest airport in India, and among the busiest airports in the world. As per the concession agreement, there is exclusivity provided to DDFS for the sale of items falling under the category of liquor and tobacco (the two items contributed about 68% of the total sales in the last three years). As the two categories elicit high rates of duty in India, DDFS has a natural advantage and is a preferred destination for purchase by arrival passengers.

Long standing experience of one of the promoters
DDFS is jointly promoted by Delhi International Airport Limited (DIAL), AerRianta International (ARI) through Yalorvin Limited and GMR Airports Limited (GAL). The management team has rich experience in handling the duty-free business in the global and domestic markets. ARI is a wholly owned subsidiary of the Dublin Airport Authority, Ireland. It manages airports' retail business at a number of airports in Middle East, Cyprus, India, Canada, Eastern Europe, Russia, Ukraine, the Caribbean and China.

Key rating weaknesses
High cost by way of minimum monthly guaranteed obligation towards license fee
As per the licence agreement, DDFS is required to pay to DIAL a monthly licence fee; marketing fee of 1% of the sales and Rs. 921/sqmt towards airport services charges. There is a provision of minimum monthly guarantee (MMG) in the agreement, which ensures fixed payment to DIAL in case revenue share payable is less than MMG. The MMG is calculated @ US$ 2.18 per projected passenger and the same is paid in advance to DIAL on 7th of every month. However, until now, the risk has been partially mitigated by consistent growth in spend per passenger levels owing to which the license fee has been paid in line with the applicable revenue share, and thus effectively a variable charge. Further, since the onset of the pandemic and subsequent fall in international passenger traffic, DIAL had waived off MMG payment until June 2022. But from July 2022 onwards, Company is paying higher of MMG or applicable revenue share.

Geographical concentration risk with entire revenue being derived from Delhi International Airport
DDFS derives its entire revenue from IGIA reflecting geographical concentration risk. The revenues are directly linked to air passenger traffic which may be impacted from upcoming airports in the region. Besides, the licence term for a major area is 15 years which would expire in July 2025. The revenues are directly linked to air passenger traffic which may be impacted from upcoming airports in the region.

Exposure towards group company
Company has made an inter corporate deposit of Rs.67 crore with one of its group companies i.e., GMR Airport Developers Limited at an interest rate of 8% p.a. As per agreement, GMR Airport Developers Limited shall repay the loan within 2 years from the date of agreement i.e. (January 22, 2022) or at demand. Further developments in this regard, pertaining to the timely receipts of the funds and going forward any higher than envisaged exposure towards group companies shall remain a key rating monitorable.

Liquidity: Strong
The liquidity profile of the company is strong with free cash and bank balance of Rs.58.70 crore as of July 31, 2022. Going forward, company has low term debt obligation as against expected healthy GCA. Further, the company has Rs.100 crore of

sanctioned fund-based limits which had average utilization at ~14.00% during the last 12 months ended May 2022. The current ratio for the company stood at 1.52x as on March 31, 2022. Further, the comfortable capital structure provides sufficient headroom for the company to borrow in case of any exigency.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail

About the company

DDFS is a joint venture among Delhi International Airport Limited (DIAL; holding 49.9% stake), AerRianta International (ARI; through its subsidiary Yalorvin Limited holds 33.07% stake) and GMR Airports Limited (GAL, holding 17.03% stake, rated 'CARE A-; Negative/ CARE A2+. The company entered into the agreement with DIAL to develop duty free shops at Terminal 3, Indira Gandhi International Airport (IGIA) in Delhi. The operations of the company commenced on July 28, 2010, and the agreement involves setting up and operating the duty-free outlets spread across the departure and arrival sections. The total concession area is divided into three sections of 4,700 square metres (sqmt), 352 sqmt and 93.60 sqmt. (The main area of 4,700 sqmt is operational since beginning and concession is valid for 15 years and approval for extension of concession of the area having 352 sq mt and 93,60 sq mt recently received by the company for Co-terminus to main license agreement.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	272.23	645.95	321.87
PBILDT	-21.65	101.50	64.57
PAT	-30.13	188.34	54.50
Overall gearing (times)	0.49	0.21	0.15
Interest coverage (times)	-2.24	9.35	39.13

A: Audited, UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	June 2023	9.01	CARE A+; Positive
Fund-based-Long Term		-	-	-	100.00	CARE A+; Positive
Non-fund-based-LT/ST		-	-	-	24.80	CARE A+; Positive / CARE A1
Non-fund-based-Long Term		-	-	-	58.00	CARE A+; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	9.01	CARE A+; Positive	-	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)	1)CARE A+; Negative (07-Oct-20)	1)CARE AA-; Negative (25-Mar-20) 2)CARE AA-; Stable (05-Apr-19)
2	Fund-based-Long Term	LT	100.00	CARE A+; Positive	-	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)	1)CARE A+; Negative (07-Oct-20)	1)CARE AA-; Negative (25-Mar-20) 2)CARE AA-; Stable (05-Apr-19)
3	Non-fund-based-LT/ST	LT/ST*	24.80	CARE A+; Positive / CARE A1	-	1)CARE A; Stable / CARE A2+ (24-Mar-22) 2)CARE A; Negative / CARE A2+ (02-Jun-21)	1)CARE A+; Negative / CARE A1 (07-Oct-20)	1)CARE AA-; Negative / CARE A1+ (25-Mar-20) 2)CARE AA-; Stable / CARE A1+ (05-Apr-19)
4	Non-fund-based-Long Term	LT	58.00	CARE A+; Positive	-	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)	1)CARE A+; Negative (07-Oct-20)	1)CARE AA-; Negative (25-Mar-20) 2)CARE AA-; Stable (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple
2	Non-fund-based-Long Term	Simple
3	Non-fund-based-LT/ST	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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