GVK City Private Limited

March 19, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	4.22 (Reduced from Rs.25 Crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**4.22 (Rs. Four crore and Twenty-two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings of the bank facilities of GVK City Private Limited (GVK City) factors experienced promoters and management team, location advantage, lease expiry dates are spread out in the existing agreements, thereby minimizing vacancy risk, presence of structured payment mechanism, long term agreements with anchor tenants and Upfront creation of Debt Service Reserve Account (DSRA). The ratings also factor in significant reduction of loan by way of unsecured loans from promoters, high occupancy rates & reputed clientele and adequate liquidity position. The ratings are however, constrained by of decrease in income from lease rental for 11MFY21 (1st April to 28th February), partnership nature of the firm, risk of withdrawal of capital by the promoters, risk of non-renewal of lease agreements from existing tenants after lock in period and moderate competition from other players.

Rating Sensitivities

- ***Positive Factors - Factors that could lead to positive rating action/upgrade:*** The ability of the company to renew the leases at present/escalated rentals in a timely manner.
- The ability of the company to lease out the balance unleased area and derive continuous stream of lease rentals.
- ***Negative Factors- Factors that could lead to negative rating action/downgrade:***Any deterioration in risk profile on account of decline in revenue beyond 30%

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team**:** GVK City Private Ltd is promoted by Mr. G V Krishna Reddy, his wife Mrs. Indira Krishna Reddy and daughter Mrs. Shalini Bhupal. Mr. G V Krishna Reddy is a first-generation industrialist with more than five decades of experience and the founder of the GVK Group, which has businesses in energy, urban infrastructure, transportation, particle boards, hospitality, petrochemicals, biotechnology and finance sectors. He is currently serving as CMD of GVK Power and Infrastructure Limited (GVKPIL; CARE D), flagship Company of GVK group. Mrs. G. Indira Krishna Reddy is a Director of Company. She has over three decades of experience in the fields of finance and hospitality and management. She is currently serving as the Managing Director of Taj GVK Hotels & Resorts Limited apart from being the Director on the boards of various other companies in the GVK Group. Promoters of the company are supported by the team of qualified and experienced professionals.

Prominent location advantage albeit moderate competition**:**

GVK one is located in Road No 1 Banjara hills, one of the prime locations in Hyderabad. This is a prominent business location with a high demand for branded stores, multiplexes, restaurants, etc in this area. The mall location is easily accessed via the Rajiv Gandhi International Airport and the area is well-connected and accessible via roads. However, the mall faces moderate competition from in and around malls in a circumference of 2 km.

Satisfactory lessee profile characterized by reputed client base: The company has leased out 87% mall area of about 3.40 lakh sq feet (excluding Indira constructions area) to a wide range of client base. The mall is occupied by about 75 tenants of whom top 5 clients are occupying 46% of the total mall area. Shoppers Stop and Inox are the anchor tenants and occupy about 34% of total area with two decades of lease period beginning from May 2009. The other prominently known clients include Hard rock café, Funzone, Marks & Spenser, etc.

Steady source of income from lease rental of retail space, though risk of non-renewal of lease after agreement period remains: GVK City Private Limited's leasable area of 3.40 lakh sq.ft. commenced operations in May 2009.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

It has attracted various brands and eating junctions like Shoppers stop, Marks & Spenser, Tommy Hilfiger Arvind Fashions, Tata Starbucks, Liberty foods etc. On an average, the company has entered into a 6 years lease agreement (with an escalation clause 12%-15% after every 3 years in rentals) with 75 brands (87% occupancy) with a lock in period of 6 months. Lease agreements currently expired and under renewal discussions for about 10% of the leased area representing 10% of the total revenue. Over the next 5-year period, the company has lease contracts expiring, representing about 26% of the leased area generating 25% of the total lease rental. The established business operation of the tenants along with long presence on the property space reduces the vacancy risk to an extent. However, the risk pertaining to shop tenants exiting out of the same after the end of the lock in period remains.

Lease Rental Discounting payment mechanism with upfront Debt Service Reserve Account in place: As per the agreement with the lessors and the bank, the lessees are bound to deposit the rent into the escrow account from which the interest and instalments will be repaid. As per the sanction letter, from the escrow account, post the payment of taxes and statutory dues, the debt payment is recovered by the bank. This significantly reduces the risk of default or delay in servicing of debts. Further, a DSRA amount equivalent to one-month interest and principal is already maintained with the lender in the form of fixed deposit to an extent of Rs.0.54 crore.

Prepayment of Loans through infusion of funds by promoters**:** On account of Covid-19 outbreak led to lockdown measures imposed by government, GVK City & Indira Constructions availed moratorium on interest and principal payments from lenders for the period March-2020 to August-2020 to address the cash flow mismatch. Subsequently, the promoters have infused unsecured loans to the extent of Rs 24.29 crore, thereby repaid entire debt outstanding in Indira Constructions and reduced significant amount of debt in GVK City including moratorium loans. On-account of part-prepayment, the lender has reduced the tenor of the loan without changing the monthly debt obligation of Rs 0.53 crore, thereby the last repayment instalment falls due in November 2021 against the original scheduled last instalment month of March 2024.

Key Rating Weaknesses

Risk of withdrawal of capital by partners: Indira Constructions is a partnership firm which has the inherent risk of possibility of withdrawal of the partners' capital at the time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partner. Moreover, partnerships firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders. Before availing the debt, the partners have withdrawn around Rs.24 crore from the firm during FY18. However, for FY21, the promoters have infused Rs.9.09 crore into the firm, which was used to entirely pre-pay the outstanding loan amount.

Decline in income during 11MFY21 albeit recovery post lockdown due to covid: The revenue from rental income / facility charges and common area maintenance (GVK City & Indira Constructions) contributes around 75% (76% in FY19) and 18% (18% in FY19) respectively in FY20. Further, the overall operating income (combined) was marginally increased by 2.1% from Rs.51.45 crore in FY19 to Rs.52.53 crore in FY20 due to fewer renewals of rental/facility agreements during the year. During FY21, the company's revenues are expected to be about Rs.24.46 crore (53% decline) on account of closure of the mall during lock-down period. Further upon re-opening, the mall witnessed lower foot-fall due to delay in permission to open movie theatres and social distancing norms. The mall generated an average monthly rental of Rs.0.73 Cr for the 9MFY21 and Rs.2.47 Cr for Jan-21 and Rs.2.74 Cr for Feb-21, which is about 75% of its pre-Covid levels.

New regulations implemented by The Greater Hyderabad Municipal Corporation (GHMC): GHMC has implemented new regulations in April-2020, which requires all Hoardings above 15 feet from the ground to be removed after the end of the current permission period and no new renewals will be offered for the same. In conformity with the above regulations, the company has removed hoardings from its premises, which has resulted in loss of revenue (Rs.2.86 Cr generated in FY20). The management has informed that malls association is currently in discussions with the authorities to ease the restrictions without compromising on public safety.

Industry Outlook: Over the past year, Hyderabad has emerged as one of the best performing residential real estate destinations in India, complimented by strong fundamentals including government stability, infrastructure and economic drivers. The city's leading position as home to the top IT/ITeS companies has had a direct impact on the city's immense real estate growth. To keep up with increased migration to Hyderabad, the Telangana government has invested heavily in the city's infrastructure facilities and connectivity, which improve the overall real estate climate and quality of life in the city. However, on account of COVID-19, the commercial malls have been witnessing very limited footfalls and the outlook for this segment thus continues to remain negative especially with growing popularity of e-commerce. The company has informed that as of February-2021, the foot-fall is at

70% of the pre-Covid levels. Further, with the improvement in macro-economic conditions in the country, the real estate sector is expected to attain a gradual recovery. Fundamentals for the commercial real estate have improved with visible improvement in business sentiments.

Liquidity Position, Adequate: The adequate liquidity is characterized by infusion of unsecured loans by promoters to the extent of Rs 24.29 crore fully utilized towards closure of entire loan amount in Indira construction and part prepayment of loan in GVK City including the moratorium amount availed to address temporary cashflow mismatch due to impact of covid-19. Additional comfort is derived from presence of cash & bank balance of Rs 2.49 crore and DSRA balance of Rs 0.54 crore as on February 28, 2021 towards balance obligation of Rs 0.54 crore for the month of March 2021.

Analytical approach:

CARE, has taken a combined view of GVK City Private Ltd and Indira Constructions as both have common promoters with significant control & ownership, in similar lines of business and have operational linkages & fungible cash flows. While performing the credit analysis CARE has considered combined cashflows of GVK City Private Ltd and Indira Constructions. Further, Indra Constructions has provided shortfall undertaking to the lenders of GVK City Private Ltd and the entire cashflow of the mall is escrowed to the same lender.

Applicable Criteria

Criteria on assigning Outlook and Credit Ratings
CARE's policy on Default Recognition
Debt backed by Lease Rental Discounting
Rating Methodology for Real Estate Sector
Financial Ratios – Non-Financial sector
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities

About the company

GVK City Private Ltd (GVK City) was incorporated in 2003 to undertake the construction of "GVK One" shopping mall in Hyderabad. It is promoted by promoters of GVK group Mrs G. Indira Krishna Reddy having 95% and Mr G. Venkata Krishna Reddy having 5% in the company. Currently, Mr. G Venkata Krishna Reddy and Mrs G Indira Krishna Reddy hold 2.5% each of capital and Mrs Shalini Bhupal Holds 95% of the company. GVK City had entered into an agreement with Indira Constructions (GVK group), a partnership firm promoted by Mrs G. Indira Krishna Reddy, Mr G. Venkata Krishna Reddy and GVK Properties & Management Co P Ltd, for providing land for construction of GVK One mall under lease (for a period of 33 years) and for providing facilities & amenities services at the mall.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	6.97	6.68
PBILDT	4.31	5.75
PAT	2.58	1.74
Overall gearing (times)	1.31	1.07
Interest coverage (times)	19.63	2.13

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	-	-	Nov-2021	4.22	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	4.22	CARE BBB; Stable	1)CARE BBB; Stable (17-Jul-20)	1)CARE BBB (SO); Stable (04-Jul-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	Simple

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

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
mail ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. Prasanna Krishnan
Group Head Contact no.- +91-040-6793 7421
Group Head Email ID- prasanna.krishnan@careratings.com

Business Development Contact
Name: Mr. Ramesh Bob
Contact no.:+91-040-6793 7400
Email ID: ramesh.bob@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**