Delhi Duty Free Services Private Limited

July 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	110.00 (Reduced from 135.00)	CARE AA-; Stable	Reaffirmed
Long-term / short-term bank facilities	24.80	CARE AA-; Stable / CARE A1+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Delhi Duty Free Services Private Limited (DDFS) continue to derive strength from its monopolistic position as the exclusive operator of the large duty-free space at India Gandhi International Airport (IGIA) and long-standing experience of its international promoter in duty-free retailing. Ratings further continue to take comfort from strong liquidity position and sustained healthy financial risk profile characterised by sustained growth in total operating income (TOI), profitability and debt coverage indicators. Ratings take cognisance of consistent improvement in the international passenger traffic at IGIA, New Delhi on m-o-m basis, which resulted in increased footfall at the company's stores and improved spend per passenger. In FY24 (refers to April 01 to March 31) the international air traffic in the country recovered completely from pre-COVID levels and stood at 69.7 million passengers recording a 22.5% year-on-year (YoY) growth (PY-56.9 million) and 69.5 million in FY19. However, ratings continue to remain constrained by concentration risk as the entire revenue is derived from IGIA, where it is directly linked with international passenger traffic and in terms of revenue stream with major revenue contributor being liquor, perfume and cosmetics. Ratings are further constrained by minimum monthly guarantee (MMG) obligation towards concessioning authority. Ratings also take cognisance of the near-term expiry of concession agreement, in July 2025 to operate and manage duty-free shop at IGIA. However, the company has favourable prospects of receiving the new bid, basis its long vintage and technical knowhow of the business.

CARE Ratings Limited (CARE Ratings) has withdrawn the rating assigned to term loan since the company has repaid the term loans in full and there is no amount outstanding as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing international passenger traffic levels at Delhi International Airport Limited (DIAL) on a sustained basis, resulting in increased footfall at stores with improving TOI above ₹2500 crore and sustained EBITDA margin of more than 20%.
- Successful bidding of fresh concession after expiry of current concession to operate and manage duty free shops at IGIA, New Delhi or winning of new concessions at other airports, having significant international passenger footfall and sustenance of the current financial risk profile.

Negative factors

- Depleting liquidity buffers considering cash outflow in the form of dividend and/or loans and advances resulting in stretched liquidity.
- Higher-than-envisaged debt funded capital expenditure, resulting in deteriorating overall capital structure.
- Non-receipt of fresh concession after expiry for operation and management of duty-free shops at IGIA, New Delhi or non-receipt of other concessions at international airports having significant passenger footfall.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects CARE Ratings' opinion that the company will continue to benefit from strong experience of joint venture (JV) partners and from location advantage and exclusivity agreement to operate and manage duty-free shop at IGIA.

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

Detailed description of key rating drivers:

Key strengths

Location advantage and exclusivity agreement

Fortunes of a duty-free operator are directly related to international passenger traffic at the airport it is operating in. DDFS is the sole operator (liquor and tobacco) for duty-free shops at Terminal T3 of IGIA in Delhi. DDFS benefits from IGIA being the busiest airport in India and among the busiest airports in the world. Per the concession agreement, there is exclusivity provided to DDFS for the sale of items falling under the category of liquor (liquor category contributed about 60-65% of the total sales in the last three years). As liquor category 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 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 global and domestic markets. ARI is a wholly owned subsidiary of the Dublin Airport Authority, Ireland. It manages airports' retail business across airports in the Middle East, Cyprus, India, Canada, Eastern Europe, Russia, Ukraine, the Caribbean and China.

Sustained growth in TOI, profitability and debt coverage indicators in FY24

The company has reported a growth of around 26% in its TOI to ₹1951.97 crore in FY24 from ₹1549.11 crore in FY23 considering healthy recovery in international passenger traffic, which led to strong recovery in the passenger footfall at the company's stores. The company's sales are directly linked to international passenger traffic at Delhi Airport. The spend per passenger (SPP) improved in FY24 at around ₹996 from ₹985.00 in FY23. The company reported improved profitability in absolute amount to ₹344.60 crore in FY24 from ₹325.21 crore in FY23 though moderate in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 17.65% in FY24 as against 20.99% in FY23. Moderation in PBILDT margin was owing to issue of government notification vide "28/2023" applicable from October 01, 2023, related to GST, in which, input tax credit (ITC) was disallowed on arrival stores of the company. Around 58-60% business is from arrival stores and therefore the company did not get the benefit of ITC on its business expenses of ~60%, resulting in moderation in profitability margins.

Healthy capital structure and debt coverage indicators

The company's capital structure continues to remain healthy with net-worth base of ₹553.28 crore, low outstanding term debt in the form of finance lease amounting to ₹51.40 crore and ₹37.59 crore working capital borrowing as on March 31, 2024. The company's capital structure remained comfortable with long-term debt-to-equity and overall gearing ratios of 0.09x and 0.16x, respectively, as on March 31, 2024, as against 0.15x and 0.15x respectively as on March 31, 2023, mainly considering accretion of profits. Debt-coverage indicators also remained comfortable as total debt to gross cash accruals (TD/GCA) and interest coverage ratio stood at 0.30x and 62.31x respectively in FY24. TD/PBILDT also remained comfortable at 0.26x in FY24.

Key weaknesses

High cost due to minimum monthly guaranteed obligation towards license fee

Per the licence agreement, DDFS is required to pay to DIAL a monthly licence fee; marketing fee of 1% of sales and ₹1154/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 the revenue share payable is less than MMG. The MMG is calculated at US$ 2.18 per projected passenger, which is paid in advance to DIAL on the seventh 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 effectively a variable charge.

Geographical concentration risk with entire revenue being derived from DIAL

DDFS derives its entire revenue from IGIA reflecting geographical concentration risk. The licence term for a major area is 15 years, which would expire in July 2025. Revenues are directly linked to air passenger traffic, which may be impacted from upcoming airports in the region. The company derived major revenue ~80% from liquor, perfume and cosmetics in FY24 indicating concentration risk, however this is mitigated to a large extent by wide range of product category in segments.

Risk related to non-renewal of agreement

The concession to operate and manage duty-free shops at IGIA, New Delhi is expiring in July 2025. Hence, fresh allotment is uncertain at this stage, as it might be awarded to other players depending on fresh bidding. However, the company has given security deposit of ₹240.37 crore to DIAL in accordance with terms of concession agreement. This will be returned to the company if the concession is not renewed and the company's assets at depreciated value may be taken over by a new bidder. Existing borrowings will be fully repaid well in advance. The security deposit amount can be used to settle dues, if any, after expiry of concession. However, the company has favourable prospects of receiving new bid based on its long vintage and technical knowhow of the business.

Liquidity: Strong

The company's liquidity profile is strong with free cash and bank balance of ₹24.75 crore as of March 31, 2024. Going forward, the company has no term debt obligation for FY25 and the estimated GCA for FY25 is ₹276.91 crore. The company has ₹100 crore of sanctioned fund-based limits, which had average utilisation at ~4.40% in 12-months ended April 2024. This healthy capital structure provides sufficient headroom for the company to borrow in case of exigencies. The company has received amount of ₹67 crore in April 2024, which was advanced to the group company. The company has free cash & bank balance of ~ ₹138.19 crore as on June 30, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Withdrawal Policy
Retail
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Retailing	Distributors

DDFS is a JV between (DIAL (holding 49.9% stake), ARI (through its subsidiary Yalorvin Limited holds 33.07% stake) and GAL (holding 17.03% stake, rated 'CARE A-; Stable/CARE A2+). The company entered the agreement with DIAL to develop duty-free shops at Terminal 3, IGIA in Delhi. The company's operations commenced on July 28, 2010, and 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 4,337.24 square metres (sqmt), 338 sqmt and 79 sqmt. The main area of 4,337.24 sqmt is operational since beginning and concession is valid for 15 years and approval for extension of concession of the area having 338 sq mt and 79 sq mt received by the company for co-terminus to main license agreement.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	645.95	1,549.11	1,951.97
PBILDT	101.50	325.21	344.60
PAT	188.34	266.76	231.79
Overall gearing (times)	0.19	0.15	0.16
Interest coverage (times)	9.35	51.46	62.31

A: Audited Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long Term		-	-	-	100.00	CARE AA-; Stable
Non-fund-based-Long Term		-	-	-	10.00	CARE AA-; Stable
Non-fund-based-LT/ST		-	-	-	24.80	CARE AA-; Stable / CARE A1+
Term Loan-Long Term		-	-	30-06-2023	0.00	Withdrawn

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Term Loan-Long Term	LT	-	-	-	1)CARE AA-; Stable (04-Jul-23)	1)CARE A+; Positive (01-Sep-22)	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)
2	Fund-based-Long Term	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Jul-23)	1)CARE A+; Positive (01-Sep-22)	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)
3	Non-fund-based-LT/ST	LT/ST	24.80	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (04-Jul-23)	1)CARE A+; Positive / CARE A1 (01-Sep-22)	1)CARE A; Stable / CARE A2+ (24-Mar-22)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
								2)CARE A; Negative / CARE A2+ (02-Jun-21)
4	Non-fund-based-Long Term	LT	10.00	CARE AA-; Stable	-	1)CARE AA-; Stable (04-Jul-23)	1)CARE A+; Positive (01-Sep-22)	1)CARE A; Stable (24-Mar-22) 2)CARE A; Negative (02-Jun-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the 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: Lender details

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

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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