

GVK City Private Limited

July 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities – Lease Rental Discounting (LRD)*	25.00	CARE BBB (SO); Stable (Triple B[Structured Obligation]; Outlook: Stable	Assigned
Total facilities	25.00 (Rs. Twenty Five crore only)		

Details of instruments/facilities in Annexure-1

*The rating assigned to the LRD facilities of GVK City Private Ltd is based on the comfort derived from presence of structured payment mechanism by way of escrowing cash flows of both GVK City Private Ltd and Indira Constructions.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of GVK city private Limited takes into account experienced promoters & management team, locational advantage, lease expiry dates are spread out in the existing agreements, thereby minimizing vacancy risk, presence of escrow payment mechanism, long term agreements with anchor tenants and upfront creation of Debt Service Reserve Account (DSRA). The ratings also factor in increasing trend of income from lease rental/facility charges, high occupancy rates & reputed clientele and adequate liquidity position. The ratings is however, constrained by risk of non-renewal of lease agreements from existing tenants after lock in period, moderate competition from other players and risk of withdrawal of funds by promoters.

The ability of the company to renew the leases at present/escalated rentals in timely manner is key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team:

GVK One mall is operated and managed by GVK City Private Ltd and Indira Construction (a partnership firm). Mrs Indira Krishna Reddy and Mr G V Krishna Reddy have significant shareholding and controlling stake in GVK City Private Ltd and Indira Constructions. 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, petrochemicals and biotechnology etc. Mrs. G. Indira Krishna Reddy has over three decades of experience in the fields of 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 of the GVK Group. Qualified and experienced professionals support GVK One mall operations.

Prominent location advantage albeit moderate competition

GVK one mall (high end mall) is located in Road No 1 Banjara hills, one of the prime locations in Hyderabad. The location attracts 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 other players within a circumference of 2 km.

Satisfactory lessee profile characterized by reputed client base:

The company has leased out 89% mall area of about 3.02 lakh sq feet to a wide range of client base. The mall is occupied by about 75 tenants of whom top 5 clients are occupying 52% of the total mall. Shoppers Stop and Inox are the anchor tenants occupying around 36%. The other known clients include Hard rock café, Funzone, Marks & Spenser, etc.

Stable increase in the rental and facility charges income

The revenue from rental income/facility charges and common area maintenance contributes around 76% (73% in FY18) and 18% (17% in FY18) respectively in FY19. Other stream of revenues such as promotional activities and advertisements etc contributes about 24% in FY19 (27% in FY18). Further, the overall operating income (combined revenue of GVK City P Ltd and Indira Constructions) was marginally increased by 4% from Rs.49.36 crore in FY18 to Rs.51.45 crore in FY19 due to fewer renewals of rental/facility agreements during the year.

LRD payment mechanism with upfront DSRA in place

All the revenue streams such as lease rental, facility charges, common area maintenance, promotional activities and advertisements are routed through lead bank escrow account. As per the sanction letter, from the escrow account, post the

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

payment of taxes and statutory dues, the debt payment is recovered by the bank. Any excess amount is made available to GVK City only after loan is serviced. 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 by way of fixed deposit (lien marked) for Rs.0.86 crore.

Key rating weakness**Withdrawal of funds**

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. However, as per the terms of the facility, excess funds available in the escrow account of the company shall be made available only after the payment of bank dues for the loans availed by the Indira Constructions and GVK city.

Steady source of income from lease rental of retail space, though risk of non-renewal of lease after agreement period remains

GVK One mall having a leasable area of 3.40 lakh sqft commenced operations in May 2009. 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 already entered into a 9 years lease agreement (with an escalation clause 12%-15% after every 3 years in rentals) with 75 brands (89% occupancy). The expiry dates of the lease agreements are spread over the years. However, the risk pertaining to shop tenants exiting out of the same after the end of the lock in period remains.

Industry Outlook:

The overall trend in the real estate market towards rentals is firming up on account of increase in demand and more enquiries converting into closures. The property prices have remained stable in most of the cities and many good deals are being offered by the developers to clear their high inventory. While rising tenant demand would contribute to a decrease in vacancy levels, large amount of supply is expected to continue to pressurize rentals in certain micro markets. The positive outlook for demand in the office space segments for Hyderabad is partially offset by increasing supply of space that could lead to pressures in pricing.

Liquidity: Adequate

The liquidity position of the company is adequate characterized by sufficient net cash generation of Rs.21.77 crore to meet working capital requirements and refurbishments of mall. Further, post withdrawn of capital, after meeting the debt obligations, and maintaining DSRA the company had a cash and bank balance of Rs.1.63 crore in FY19.

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, Indira Constructions has provided shortfall undertaking to the lenders of GVK City Private Ltd and the entire cashflows of the mall is escrowed to single lender, who has extended loans to GVK City P Ltd and Indira Constructions.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

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.

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.

GVK City Private Ltd (Financials)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	7.04	6.98
PBILDT	4.36	4.30
PAT	2.50	2.54
Overall gearing	0.79	1.32
Interest Coverage	15.16	21.69

Indira Constructions (Financials)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	42.62	44.47
PBILDT	29.41	31.31
PAT	17.37	15.82*
Overall gearing	0.00	0.40
Interest Coverage	NM	NM

*NM: Not meaningful; * Corporate tax rate of 33.38% is considered

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	March 2024	25.00	CARE BBB (SO); 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	25.00	CARE BBB (SO); Stable	-	-	-	-

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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