

Rating Rationale

Brickwork Rating assigns “BWR BBB- (SO)” for GMR Enterprises Pvt. Ltd proposed structured Non-Convertible Debentures Issue of ₹ 270 Crores with tenor upto 3 Years and 6 Months

NCD Issue Rating: BWR BBB-(SO)

Outlook : Stable

Brickwork Ratings (BWR) has assigned **BWR BBB-(SO) (Pronounced BWR Triple B Minus [Structured Obligation]) (Outlook: Stable)** Rating¹ for **GMR Enterprises Pvt. Ltd’s** (“GEPL” or the ‘Company’) proposed structured NCD Issue for an amount of ₹ 270 Crores

GMR Holdings Pvt. Ltd is getting merged with GMR Enterprises Pvt. Ltd (GEPL). The company has informed having received the final order of the high court on 9 Aug 2016 for the same. Accordingly, for any future reference to other ratings for GMR Holdings Pvt. Ltd NCD Issues/BLR Facility, GMR Enterprises Pvt. Ltd’s rationale to be referred hereafter.

Other Outstanding Ratings#

The following outstanding rating[#] has also been reaffirmed:

Instruments	Amount (₹ Cr)	Issue Date	Rating	Rating History
NCD	₹ 200 Cr*	Dec 2014	BWR BBB (SO) (Stable) (Reaffirmed)	BWR BBB (SO) (Stable) (June 2016)
NCD (PP-MLD)	₹ 900 Cr	April 2015	BWR PP-MLD BBB-(Stable) (Reaffirmed)	BWR PP-MLD BBB-(Stable) (June 2016)
Non Fund Based: Bank Guarantee (Long Term)	₹ 300 Cr	Jan 2015	BWR BBB(Stable) (Reaffirmed)	BWR BBB (Stable) (June 2016)

*Amount reduced from ₹ 300 Crs to ₹ 200 Crs due to prepayment.

BWR has essentially relied upon the audited financial results of GEPL and GMR Infrastructure Ltd upto FY15, unaudited results of FY16 (considering merger), projected financial figures (considering merger) for FY17 & FY18, term sheet of the transaction shared with us, and information/clarification provided by the issuer.

The rating factors, inter alia, GEPL’s promoters’ extensive experience in the infrastructure industry, its professional management, successful track record of large project execution by subsidiaries/SPVs, financial flexibility of the group alongwith measures such as stake sale being undertaken in Energy and Highway verticals, and the underlying security coverage in the form of GMR Infrastructure Ltd (GIL) share pledge. The rating, however, is constrained by high debt (significantly against pledge of GIL shares) and hence interest burden and continued losses, limited revenue sources in the form of dividend/investment income as GEPL is a holding company of the group and not an operating company, current business scenario on account of prevailing economic conditions being faced by GIL and its operating subsidiaries/SPVs resulting in fall in the share price of GIL, and dependence on refinancing and/or raising additional debt for servicing.

¹ Please refer to BWR website www.brickworkratings.com for definition of the rating assigned

Background

The Company was originally incorporated on 5th June, 2007. GEPL is now the key holding company for the entire GMR group. GMR Holding Pvt. Ltd (alongwith one more group entity GMR Projects Pvt. Ltd) is getting merged with GMR Enterprises Pvt. Ltd in order to consolidate the group holding companies. Post completion of merger, GEPL will have ~47.64% shareholding in GIL.

Mr. G. M. Rao is the Chairman of the GMR Group. Mr. G. M. Rao is a well-known industrialist and founder Chairman of GMR Group of companies and GMR Varalakshmi Foundation, the corporate social responsibility (CSR) arm of the Group. Post completion of merger, four family trusts will have 25% shareholding each in GEPL.

Issue Details

GEPL proposes to issue Structured NCDs of ₹ 270 Crores with tenor upto 3 years and 6 Months. The issue is secured by way of security cover of 2.5 times cover by pledge of listed equity shares of GIL. If the security Cover falls below 1.875 times, then Issuer would be required to make cash top up within 3 Business Days such that the security cover is reset to 2.5 times.

Additionally the issuer is required to ensure semiannual share topup for the accrued redemption premium. Coupon payments are due semiannually while NCD's shall be redeemable at Maturity. The issuer is required to maintain DSRA for coupon payments due semiannually. GEPL proposes to utilize the proceeds of the proposed NCD issue for refinancing of existing loans of the issuer or any other group companies & General corporate purpose.

Other terms are standard ones that are normally stipulated for such issues.

Financial Performance (GIL)

For FY16, on a consolidated basis, GIL Reported total income from operations of ₹ 13358 Crores. The consolidated net loss for FY16 was ₹ 2161 Crores (after minority interest).

GIL's current stock price is around ₹ 13.10, with low of ₹ 9.75 and high of ₹ 18.55 during the past one year. For major part of the last quarter, the share was trading in the range of Rs. 11 to 14.

Financial Performance (GEPL)

As per unaudited financials (considering merger) of FY16, GEPL's Total Operating revenue stood at ~₹ 31.91 Crores. The Company has been incurring losses, mainly due to high interest and finance costs. GEPL's total debt stood at ₹ 3040.28 Crores in FY16. GEPL, being a holding company, has non-current investment of ₹ 5898.93 Crs in GIL and other group companies. GIL is a listed company of the group, which is an important entity is controlling various operating entities which are involved in the infrastructure business indicated above.

Rating Outlook

The rating has essentially factored the issue structure and established track record of GMR group and ongoing measures being taken by the group to improve liquidity. Adherence to the terms of the issue, completion of merger, continued adherence to the contractual obligations as an airport operator and subcontractee, and strengthening of the financial position of GEPL/GIL, improvement of liquidity issues especially of energy vertical entities will be the key rating sensitivity.

The rating is also subject to the issuer sharing with us the executed documents relating to the transaction as per term sheet provided to us and their compliance with the requisite terms of the issue, regulatory and legal requirements.

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For GMR ENTERPRISES PRIVATE LIMITED



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