January 17, 2023

Mayfair Hotels & Resorts Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]BBB (Stable); Assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in Mayfair Hotels and Resorts Ltd.'s (MHRL) strong presence in East India and the well-established nature of its properties, with existence for several years. The ratings also favourably factor in the healthy demand outlook for the hotel industry in the near to medium term. MHRL's consolidated operating income more than doubled to Rs. 229.2 crore in H1 FY2023 as compared to Rs. 96.9 crore in H1 FY2020, supported by improvement in demand and addition of new properties. The improved demand, stemmed from Meetings, Incentives, Conferences and Exhibitions (MICE) – both weddings and corporate events, pickup in business travel, transient passengers and leisure demand. The improved operating leverage and sustenance of cost-optimisation initiatives undertaken in the last two years have resulted in healthy improvement in operating margins and accruals. MHRL has reported an operating profit margin of 32.5% in H1 FY2023, compared to 19.7% in H1 FY2020. Notwithstanding further Covid-19 waves and exogenous shocks, the company's revenues and accruals are expected to witness healthy improvement going forward.

The rating, is however, constrained by MHRL's relatively high debt levels for its scale of operations (total debt of Rs. 593.7 crore as on September 30, 2022, including unsecured loan of Rs. 128.5 crore from the promoters) primarily due to debt-funded capex incurred in the past. While MHRL's coverage indicators have improved compared to pre-Covid levels, ICRA expects the coverage metrics to remain moderate over the medium term. MHRL's consolidated adjusted debt[1]/OPBDITA stood at 3.1 times in H1 FY2023 (as against 5.8 times in FY2020) while its interest coverage stood at 3.4 times in H1 FY2023 (as against 2.2 times in FY2020). Also, the relatively high geographic concentration with East India exposes the company's revenues and accruals to any localised downturn/unforeseen events or region-specific risks, although the well-established position of the MHRL's properties mitigates the risk to an extent.

Key rating drivers and their description

Credit strengths

Well-established position of properties in respective cities – The company has a strong presence in East India under the 'Mayfair' brand and its properties are well established, with existence for several years. Also, its four flagship properties, which contributed to ~63% of revenues in H1 FY2023, are well-established properties in Bhubaneswar, Gangtok, Raipur and Siliguri. These properties have been operational for the last several years and command an ARR premium compared to their competitors. Apart from these four properties, MHRL has seven other well-established properties spread across various locations in East India.

[1] Adjusted debt is calculated as total debt excluding unsecured loans from promoters

Healthy improvement in revenues and margins in H1 FY2023; favourable demand outlook – MHRL's consolidated operating income more than doubled to Rs. 229.2 crore in H1 FY2023 as compared to Rs. 96.9 crore in H1 FY2020, supported by improvement in demand and addition of new properties. The improved demand, stemmed from MICE events – both weddings and corporate MICE, pickup in business travel, transient passengers and leisure demand. The improved operating leverage and sustenance of cost optimisation initiatives undertaken during the last two years have resulted in healthy improvement in operating margins and accruals. MHRL has reported an operating profit margin of 32.5% in H1 FY2023, compared to 19.7% in H1 FY2020. Notwithstanding further Covid-19 waves and exogenous shocks, the company's revenues and accruals are expected to witness healthy improvement going forward.

Credit challenges

Moderate coverage metrics – The company has relatively high debt levels for its scale of operations (total debt of Rs. 593.7 crore as on September 30, 2022, including unsecured loan of Rs. 128.5 crore from the promoters) primarily due to debt-funded capex incurred in the past. On the back of healthy accruals, MHRL's adjusted debt[2]/OPBDITA improved to 3.1 times in H1 FY2023 against 5.8 times in FY2020. MHRL's interest coverage metrics also improved to 3.4 times in H1 FY2023 from 2.2 times in FY2020. ICRA expects the coverage metrics to remain moderate over the medium term.

Relatively high geographic concentration– MHRL has significant geographical concentration with its entire revenues derived from East Indian markets. Around 43% of its inventory is in Odisha (Bhubaneswar, Puri, Gopalpur and Rourkela), followed by 30% in West Bengal (Darjeeling, Kalimpong and Siliguri). The remaining inventory is in Chhattisgarh (Raipur) and Sikkim (Gangtok). The relatively high geographic concentration with East India exposes the company's revenues and accruals to any localised downturn/unforeseen events or region-specific risks. However, the well-established position of the MHRL's properties mitigates the risk to an extent.

Moderate scale of operations; revenues exposed to exogenous shocks – MHRL is a moderate player in the Indian hospitality industry with an inventory of 841 keys as on September 30, 2022, and operations across nine locations in East India. Akin to other players in the industry, the company is exposed to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when MHRL's performance was significantly impacted by the pandemic.

Liquidity position: Adequate

The company's liquidity is adequate, supported by healthy cash flow from operations stemming from uptick in hotel demand. The company has also had minimal working capital utilisation in the last 12 months, against a sanction of Rs. 10.0 crore. Going forward, MHRL has cumulative capex plans of Rs. 118 crore during H2 FY2023 and Rs. 63 crore in FY2024 for expansion of its Gopalpur property and constructing new hotels at Jharsuguda, Odisha. The capex is likely to be funded through a combination of term loans and internal accruals; the company has undrawn term loans of Rs. 139.0 crore as on September 30, 2022 for the same. Further, the company has term loan repayment commitments of Rs. 31 crore in H2 FY2023, Rs. 73 crore in FY2024 and Rs. 85 crore in FY2025, respectively on its sanctioned loans. MHRL enjoys strong financial flexibility and lender comfort, and this is expected to continue going forward as well. Further, ICRA expects the promoters to extend adequate and timely financial support going forward as well, as and when required, for meeting MHRL's operating and financial commitments.

Rating sensitivities

Positive factors – A sustained improvement in the company's scale and earnings resulting in reduction in debt and improvement of credit metrics could lead to an upgrade. Specific debt metrics include adjusted debt/OPBDITA less than 2.5 times on a sustained basis.

[2] Adjusted debt is calculated as total debt excluding unsecured loans from promoters

Negative factors – Negative pressure on MHRL's ratings could arise from weakening operating performance leading to sustained pressure on its earnings, profitability or cost overrun in the upcoming project and withdrawal of unsecured loans from promoters, leading to weakening of debt coverage metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's consolidated financial profile

About the company

Mayfair Hotels & Resorts Limited currently has 11 properties with a cumulative inventory of 841 keys, under the 'Mayfair' brand. Around 295 keys are in Odisha (Bhubaneswar, Puri, Gopalpur and Rourkela), followed 275 keys in West Bengal (Darjeeling, Kalimpong and Siliguri). Chhattisgarh (Raipur) and Sikkim (Gangtok) have 178 keys and 93 keys respectively. The company is expanding its Gopalpur property by adding another 48 keys and a banquet hall. Also, MHRL is also building 2 properties at Jharsuguda with cumulative inventory of 90 keys. All the hotels are in the standalone entity, except Mayfair Spa Resorts & Casino, Gangtok (which is part of Mayfair Hotels & Resorts (Sikkim) Private Limited (MHRSPL), MHRL's subsidiary) and Mayfair Tea Resorts, Siliguri (which is part of Lotus Projects (P) Ltd (LPPL), MHRL's associate). The company is promoted by Mr. Dilip Ray, a former Union Minister, and his family members.

Key financial indicators (audited)

Consolidated	FY2021	FY2022	H1FY2023
Operating income	167.9	318.6	229.2
PAT	- 21.4	11.0	
OPBDIT/OI	9.8%	24.6%	32.5%
PAT/OI	-12.8%	3.5%	
Total outside liabilities/Tangible net worth (times)	4.4	4.3	
Total debt/OPBDIT (times)	32.8	6.9	4.0
Adjusted debt/OPBDIT (times)	24.9	5.3	3.1
Interest coverage (times)	0.5	1.9	3.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Jan 17, 2023	-	-	-	-
1	Issuer ratings	Long term	-	-	[ICRA]BBB (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	-	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Mayfair Hotels and Resorts Ltd	100.00%	Full Consolidation
Mayfair Hotels and Resorts (Sikkim) Pvt Ltd	100.00%	Full Consolidation
Lotus Projects (P) Ltd (LPPL)	50.00%	Equity method

Source: Annual Report

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