

Pride Hotels Limited

March 29, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	197.10	175.47	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Long-term Fund-based Limits	25.00	16.00	[ICRA]BBB(Stable); upgraded from [ICRA]BBB-(Stable)
Short-term Non-fund Based Limits	2.00	1.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	224.10	192.47	

*Instrument details are provided in Annexure-1

Rationale

The ratings upgrade favourably factors in Pride Hotels Limited's (PHL's) sustained operating profit margins (OPMs) during the last three years at ~30-33%, backed by gradual improvement in its average room rate (ARR) and occupancy of its key properties (mainly New Delhi). The rating also considers the company's deleveraging effort through part-prepayment of term loans in the current year (FY2019), and its capital structure of 1x as on September 30, 2018.

The ratings continue to factor in the vast experience of PHL's promoters and management in the hospitality industry and the wide geographical presence of the Pride Hotel brand across 15 cities in the country. The favourable location of its hotel properties in each city, with offerings in upscale, mid-market, economy and resort segments are the positives. The ratings also factor in the stabilised operations of its most hotel properties providing a steady cash flow visibility, and the provisions of diversified revenue streams (through large banqueting/ conference facilities as well as well-positioned restaurants and bars). The ratings further draw comfort from PHL's low annual debt repayment obligations, post the refinancing of its term loans with a long tenure (11 years and 9 months) in FY2018.

The ratings, however, are constrained by the moderate scale of current operations and the pressure on occupancy and ARR at the New Delhi, Chennai and Ahmedabad hotels due to intense competition in these markets. The company's ability to consistently improve the performance of its mature room portfolio would be a key monitorable. Additionally, the successful mobilisation of funds to execute planned room additions, without incurring significant cost and/or time overruns, and the prudent planning of pace and manner of its future expansions (in order to limit the impact on its business and financial risk profiles) will remain the key rating sensitivities.

Outlook: Stable

ICRA expects PHL to continue to benefit from its geographically diversified portfolio and the improving industry scenario, besides its experienced promoters. The outlook may be revised to Positive if higher-than-expected improvement in ARR and occupancies across its portfolio strengthens the financial risk profile. The outlook may be revised to Negative if occupancies and ARR decline due to competitive pressures, or if any major capital expenditure weakens liquidity.

Key rating drivers

Credit strengths

Management's established track record of operations in hospitality industry - PHL's management is well qualified and its promoters have extensive experience in the hospitality industry. The promoters have a demonstrated track record in acquiring and turning around operations of loss-making hotels.

Diversified presence across segments; country-wide presence - PHL operates seven own hotel properties (in Pune, Nagpur, Ahmedabad, Kolkata, Bengaluru, Chennai and New Delhi) and eight hotels/ resorts on a management contract basis (in Jaipur, Dharamshala, Vadodara, Puri, Goa, Indore, Manali and Rajkot). The wide geographical reach across 15 cities in India (covering metro, tier I and tier II cities) has facilitated PHL establish a corporate customer base. Further, it has a diversified presence across upscale, mid-market, economy and resort segments.

Favourable locations near transport hubs and corporate parks ensure large catchment area - PHL's existing hotel properties are located in prime business locations, within close proximity to commercial and shopping destinations and/or airports and railway stations, offering convenience to guests. The Pride Plaza, New Delhi, the Group's largest hotel, is located at Delhi Aerocity, close to Terminal 3 of Indira Gandhi International Airport (India's largest airport). It is easily accessible from both New Delhi and Gurgaon.

F&B and MICE businesses offer diversified revenue streams - The company's properties include large banquet halls and conference rooms, along with a number of restaurants and bars. The food and beverage (F&B) business and the meetings, incentives, conferences and exhibitions (MICE) business provide a healthy diversification for the company's overall revenue growth. The F&B segment accounted for ~54% of the room revenues in FY2018.

Scale-up in operations of New Delhi property supported cash flows - The Pride Plaza, New Delhi, which commenced operations in November 2015, witnessed a considerable scale-up in operations since inception. It had an occupancy of ~67% and an ARR of ~Rs. 4,800 in 10M FY2019, leading to an ~14% YoY growth in the revenue per available room (RevPAR). This, along with PHL's prepayment of some portion of its term loans in FY2019 (to deleverage its balance sheet), supported the cash flows.

Credit challenges

Moderate scale of operations and brand recognition - PHL classifies its hotels under the brands Pride Plaza (four hotels, in the upscale segment) and Pride (three hotels, in the mid-scale segment). The hotels under management contracts are operated under the brands Pride Bizotel (economy business hotels) and Pride Resorts (catering to leisure travellers). The company is working to enhance the Pride Hotel brand image and has adopted an asset-light model (management contracts) to grow its presence. At present, with a room inventory of 1,739 across 15 cities (1,122 rooms in owned/leased properties and 617 rooms under management contracts), the scale of operations is moderate. The company's ability to grow the Pride Hotel brand equity will be critical for its future growth.

Large supply constrained operating metrics; however, low supply pipeline and robust domestic travel to drive ARR and occupancy - The company's occupancy levels remained moderate at ~67-68% in FY2018 and 10M FY2019. These were constrained by lower occupancies in the Ahmedabad, Chennai and New Delhi markets. The ARR was low at ~Rs. 3,700, constrained by competition. However, low supply pipeline in the key markets and robust domestic travel are likely to drive PHL's ARR and occupancy in the medium term.

Cyclical industry vulnerable to general economic slowdown and exogenous factors - Due to its presence in the hotel industry, the company is susceptible to risks arising from the cyclicity therein. The hotel revenues are also vulnerable to general economic slowdown and exogenous shocks (such as geopolitical crisis, terrorist attacks, disease outbreaks, natural calamities etc). Such instances include the floods in Nagpur, which affected the hotel occupancy in this location.

Liquidity position

PHL had outstanding debt of ~Rs. 203.6 crore as on September 30, 2018. The steady cash flow generation from its hotel properties is expected to support the debt repayments. The company has limited capex plans in the medium term. Further, the low annual debt repayment obligations, post the refinancing of its loans outstanding as of March 31, 2017 with long a tenure (11 years and 9 months) in FY2018, provides comfort.

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 PHL's consolidated financial statements. The company's subsidiaries and associates are enlisted in Annexure-2.

About the company

PHL, incorporated in February 1983 as Pride Hotels Private Limited, was subsequently converted to a public limited company in December 2005. PHL manages seven owned/leased hotels - namely, The Pride Hotel, Pune (112 keys), The Pride Plaza Hotel, Ahmedabad (164 keys), The Pride Hotel, Nagpur (93 keys), The Pride Hotel, Chennai (115 keys), The Pride Hotel, Bengaluru (100 keys), The Pride Hotel, Kolkata (153 keys) and The Pride Plaza Hotel, New Delhi (385 keys). PHL has classified its hotels under the brands of Pride Plaza (four hotels) in the upscale segment and Pride (three hotels) in the mid-scale segment. Most of the hotels have banquet halls, conference rooms, restaurants and bars.

To facilitate faster expansion of its brand across the country, PHL enters into management contracts with asset owners. At present, it has a portfolio of eight properties under the brands Pride Biznotel (economy business hotel) and Pride Resorts. These hotels are - Pride Amber Vilas Resort, Jaipur (45 keys), Pride Surya Mountain Resort, Dharamshala (53 keys), Pride Biznotel, Vadodara (73 keys), Pride Ananya Resort, Puri (80 keys), Pride Sun Village Resort and Spa, Goa (135 keys), Pride Hotel and Convention Center, Indore (73 keys), Pride De Vivendi Resort, Manali (59 keys) and Pride Hotel and Convention Center, Rajkot (99 keys).

In FY2018, PHL reported a profit after tax (PAT) of Rs. 10.6 crore on an operating income (OI) of Rs. 187.2 crore, compared to a PAT of Rs. 3.5 crore on an OI of Rs. 156.5 crore in FY2017. Further, as per unaudited financials, the company, on a standalone basis, reported a profit before tax (PBT) of Rs. 10.5 crore on an OI of Rs. 91.3 crore for the six-month period ended September 30, 2018.

Key financial indicators (audited) - Consolidated

	FY2017	FY2018
Operating Income (Rs. crore)	156.5	187.2
PAT (Rs. crore)	3.5	10.6
OPBDIT/OI (%)	33.3%	32.2%
RoCE (%)	6.9%	8.4%
Total Debt/TNW (times)	1.1	1.0
Total Debt/OPBDIT (times)	4.4	3.8
Interest Coverage (times)	2.1	2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Mar-19	Date & Rating in FY2018 Dec-17	Date & Rating in FY2017	Date & Rating in FY2016
1	Term Loan Long Term	175.47	175.47*	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
2	Fund-based Long Term	16.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	-	-
3	Non-fund Based Short Term	1.00	-	[ICRA]A3+	[ICRA]A3	-	-

**Outstanding as on March 26, 2019, Source: Pride Hotels Limited*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	March-17	9.85%-10.15%	December-28	175.47	[ICRA]BBB (Stable)
-	Long-term Fund-based Limits (Overdraft)	-	-	-	16.00	[ICRA]BBB (Stable)
-	Short-term Non-fund Based Limits (Bank Guarantee)	-	-	-	1.00	[ICRA]A3+

Source: Pride Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Indralok Hotels Private Limited	100.00%	Full Consolidation
Somti Hotels Private Limited	100.00%	Full Consolidation
Rohan Hotels Private Limited	100.00%	Full Consolidation
Pride Beach Resorts Private Limited	100.00%	Full Consolidation
Jagsons Hotels Private Limited	22.34%	Equity Method

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