March 20, 2025

Varun Hospitality Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash Credit	3.50	6.50	[ICRA]BBB (Stable); Reaffirmed and assigned for enhanced amount
Long-term – Fund-based/ Term Loans	194.51	316.81	[ICRA]BBB (Stable); Reaffirmed and assigned for enhanced amount
Long-term/ Short-term – Non-fund Based	8.00	10.60	[[ICRA]BBB(Stable)/[ICRA]A3+; Reaffirmed and assigned for enhanced amount
Long-term – Unallocated	38.88	16.09	[ICRA]BBB (Stable); Reaffirmed
Total	**244.89**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action considers ICRA's expectation that Varun Hospitality Private Limited (VHPL) will maintain its stable credit profile on the back of favourable demand prospects for the hospitality industry and attractive location of the hotels, supporting healthy occupancy and average room rent (ARRs) of the existing properties, in turn leading to a healthy growth in revenues and earnings. The ratings further consider VHPL's tie-ups with multiple corporates, which support its occupancy. The ratings factor in the company's tie-ups with Accor Hotels, France, for its 'Novotel' brand, which benefits VHPL from the marketing and advertising networks of the management company.

VHPL's occupancy was healthy at 66% in FY2024 and 63% in 9M FY2025 on the back of favourable location of its properties and healthy demand from business and leisure segments. This apart, VHPL's tie-up with reputed hotel chains such as Accor Hotels, France, for its 'Novotel' brand and Indian Hotels Company Limited (IHCL) for the 'Taj Gateway' brand, supports footfalls. Its ARR improved to Rs. 7,546 in 9M FY2025 from Rs. 6,347 in FY2023 given the healthy demand. The company's overall capacity has reduced to 480 rooms from November 2024 from 575 rooms as it demolished 95-key Taj Gateway property in Vishakapatnam. Despite the same, its revenues are expected to remain flat in FY2025 and grow by 5-10% in FY2026, given the expected improvement in occupancy and ARR of Vizag Novotel, backed by reduced supply in the Vishakapatnam market. The operating margins are expected to remain healthy at 35-40%, going forward. The ratings also consider the diversified operational profile of VHPL with three hotel properties having 480 rooms (after closure of Taj Gateway) in Visakhapatnam and Vijayawada in Andhra Pradesh, and fixed rental income from Varun INOX (mall-cum multiplex) in Visakhapatnam.

The company is expected to incur sizeable capex in the medium term towards its planned projects in Bengaluru and Visakhapatnam. It is constructing a new property, which would have a 200-key 5-star hotel and 184-key 3-star hotel, in Devanahalli, Bangalore at an estimated cost of Rs. 290.0 crore, funded through Rs. 190.0-crore term loan and the rest through internal accruals (funds parked at Varun Motors Private Limited). As on December 31, 2024, the company incurred capex of Rs. 45.0 crore, which was funded through a mix of term loan and internal accruals. The hotel is expected to commence operations from June / July 2027. It also demolished Taj Gateway property in Visakhapatnam and is constructing a multi-purpose property, which would house a 318-key hotel, 3,70,000 square feet (sq. ft) office / retail space and residential project. While the residential project details are yet to be finalised, setting up of hotel and commercial space are expected to cost Rs. 600.0 crore, which would be funded through term loan of ~Rs. 380.0 crore and the rest through internal accruals. The company is yet to receive financial closure for the project. It plans to complete the project by December 2029. Timely completion of these projects without any major cost overrun and successful ramp-up of operations remain important for maintaining its credit profile.

The ratings are constrained by VHPL's moderate capital structure with a gearing of 1.1 times as on March 31, 2024. The same is expected to moderate further, going forward, given the significant capex plans. However, ICRA notes that cash outflow for the capex would be in a phased manner with an estimated capex of Rs. 130.0-260.0 crore per annum over the next three years. Moreover, long-tenure of the term loans and moratorium period of 3.5-4.0 years are expected to aid the company in managing its liquidity. The ratings also consider the inherent cyclicality in hotel industry and it remains vulnerable to any general economic slowdown as well as external threats. Like its peers, VHPL's revenue remains susceptible to exogenous shocks, such as natural calamities and economic/political instability. The ratings are also constrained by the support extended by VHPL to its Group entity, Varun Motors Private Limited (VMPL). VHPL extended ~Rs. 113.9 crore of loans and advances to VMPL, as on March 31, 2024 (~Rs. 140.0 crore as on December 31, 2024). ICRA notes that timely receipt of these funds from the Group entity remains important to fund its capex, going forward. Any increased debt funding of capex in the absence of receipt of funds from VMPL would impact VHPL's credit profile and will be a key monitorable.

The Stable outlook on VHPL's long-term rating reflects ICRA's opinion that the company's earnings will remain supported by healthy occupancy, improved ARR and strong demand for travel and tourism across the country.

Key rating drivers and their description

Credit strengths

Diversified operational profile – The company operates three hotels with 480 rooms, which includes a hotel and a resort in Visakhapatnam and a hotel in Vijayawada, Andhra Pradesh. Apart from the hotels, VHPL has an entertainment centre, Varun INOX, in Visakhapatnam, from which it receives a fixed rental income. The company's properties are in the prime locations of Visakhapatnam and Vijayawada, ensuring healthy demand and robust occupancy.

Management contract with Accor Group – The company has a management contract with the Accor Group for the 'Novotel' brand, resulting in benefits from the marketing and advertising networks of these management companies. Accor Hotels is among the world's largest names in the tourism and hospitality industries, with its presence across 110+ countries. It has over 40 years of experience in the hospitality industry, with a network of more than 5,600 hotels across the globe.

Favourable demand outlook; healthy improvement in ARR across properties in the past two years – Healthy demand outlook for hotels is likely to support revenues and accruals for VHPL in the next 6-12 months. The operational performance of VHPL remained stable in FY2024, despite some moderation in occupancy because of healthy ARR across the three properties. Its average occupancy moderated to 66% in FY2024 from 71% in FY2023 owing to easing up of pent-up demand and remained flat at ~63% in 9M FY2025. Nevertheless, VHPL's ARR grew by 15% and 11% in FY2024 and 9M FY2025, respectively. Although the company's revenue is expected to remain flat in FY2025, given the moderation in occupancy and closure of Taj Gateway property (Visakhapatnam), revenues will be significantly higher than pre-Covid levels.

Credit challenges

Significant capex plans – The company has sizeable capex plans towards construction of a new property at an estimated project cost of Rs. 290.0 crore in Bangalore. This property would have a 200-key 5-star hotel under Novotel brand and a 184-key 3-star hotel under IBIS brand. The estimated completion of the project is December 2026. The capex would be funded by 60% debt and 40% internal accruals. Apart from the Bangalore capex, the company has demolished its Taj Gateway property in Visakhapatnam and is constructing a multi-purpose property on that land, which would include a 318-key hotel, 3,70,000 sq. ft. of office / retail space and residential project. While the residential project details are yet to be finalised, setting up of hotel and commercial space is expected to cost Rs. 600.0 crore, which would be funded through term loan of ~Rs. 380.0 crore and the rest through internal accruals and funds parked at VMPL (~Rs. 140.0 crore as on December 31, 2024). The company plans to complete the project by December 2029. The pace of execution and the timing of funding availment in relation to company's overall cashflows will be critical monitorables.

Sizeable support extended to Group entity – VHPL has extended sizeable support to VMPL with loans and advances of ~Rs. 113.9 crore, as on March 31, 2024. Timely receipt of these funds from VMPL remains critical to fund its capex, going forward. Any increased debt funding of capex in the absence of receipt of funds from VMPL would impact VHPL's credit profile and will be a key monitorable.

Cyclical industry, vulnerable to general economic slowdown and external threats – The hospitality industry is exposed to economic cycles, as a significant part of the demand arises from business travellers, which impact the revenue and profitability of industry players. Like its peers, VHPL's revenue remains susceptible to exogenous shocks such as natural calamities and economic/political instability.

Liquidity position: Adequate

VHPL's liquidity position is expected to remain adequate in the near term, given the expected retained cash flow of about Rs. 65.0-75.0 crore over the next 12 months and undrawn working capital limits of Rs. 4-4.1 crore as on December 31, 2024, against repayment obligations of Rs. 30-40.0 crore over the next 12 months. The company has capex plans of about Rs. 200-220.0 crore over the next 12 months, to be funded through a mix of debt and internal accruals. Timely receipt of funds from Group companies (parked in VMPL) for the capex requirement is a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings of VHPL if a sustained increase in its scale of operations, with healthy profitability and accruals, leads to an improvement in the overall credit metrics.

Negative factors – The ratings of VHPL may be downgraded if there is any sustained material decline in the scale of the company, impacting its profitability or debt protection metrics. The ratings could also be impacted if any material increase in debt-funded capex impacts the company's debt metrics, or if a delay in receipt of funds from VMPL, or support extended to Group entities impacts its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology - Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

VHPL, promoted by Mr. Prabhu Kishore, Chairman of the Varun Group, operates two five-star hotels and a resort with 480 rooms and an entertainment centre. In Vishakhapatnam, Andhra Pradesh, the company operates Novotel Varun Beach, which has 225 rooms including 10 suites and has an entertainment centre, Varun INOX, which is a six-screen multiplex with a seating capacity of 1,166, along with a shopping area and mini restaurants. It has a resort with 28 rooms in Bheemili (32 km from Novotel Varun Beach), which is operated as an extension to the Vishakhapatnam Novotel hotel. It operates another five-star hotel with 227 rooms under the 'Novotel' brand in Vijayawada, which commenced operations in December 2018.

The company is constructing a property at Devanahalli, Bangalore, which will house a 3-star hotel under the IBIS brand and a 5-star hotel under the Novotel brand, with an estimated project cost of Rs. 290.0 crore. The project is expected to commence operations by June / July 2027. This apart, the company demolished Taj Gateway at Visakhapatnam and is constructing a multi-purpose property, which will include a hotel with 374 rooms under the Taj brand and a commercial space of 3,70,000 sq. ft. at an estimated project cost of Rs. 600.0 crore. The financial closure is yet to be achieved. It plans to start construction of the property in H2 FY2026 and complete the project by December 2029.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	201.8	204.0
PAT	34.2	32.9
OPBDIT/OI	42.3%	37.9%
PAT/OI	17.0%	16.1%
Total outside liabilities/Tangible net worth (times)	2.5	1.3
Total debt/OPBDIT (times)	2.7	2.0
Interest coverage (times)	3.9	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount rated (Rs. crore)**	**Mar 20, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Cash credit	Long term	6.50	[ICRA]BBB (Stable)	Dec-18-23	[ICRA]BBB (Stable)	Sep-30-22	[ICRA]BBB- (Stable)	Jun-09-2021	[ICRA]BBB- (Negative)
Term loans	Long term	316.81	[ICRA]BBB (Stable)	Dec-18-23	[ICRA]BBB (Stable)	Sep-30-22	[ICRA]BBB- (Stable)	Jun-09-2021	[ICRA]BBB- (Negative)
Bank guarantee	Long-term/ Short-term	10.60	[ICRA]BBB (Stable)/ [ICRA]A3+	Dec-18-23	[ICRA]BBB (Stable)/ [ICRA]A3+	Sep-30-22	[ICRA]BBB- (Stable)/ [ICRA]A3	Jun-09-2021	[ICRA]BBB- (Negative)/ [ICRA]A3
Unallocated	Long term	16.09	[ICRA]BBB (Stable)	Dec-18-23	[ICRA]BBB (Stable)	-			-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based/Term loans	Simple
Long term – Fund based/Cash credit	Simple
Long term / Short term – Non fund based	Very simple
Long term – Unallocated	Not Applicable

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	**Cash credit**	NA	NA	NA	6.50	[ICRA]BBB(Stable)
NA	**Term loans**	FY2018	NA	FY2027	316.81	[ICRA]BBB(Stable)
NA	**Bank guarantee**	NA	NA	NA	10.60	[ICRA]BBB(Stable)/[ICRA]A3+
NA	**Unallocated**	NA	NA	NA	16.09	[ICRA]BBB(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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