February 12, 2021

Caddie Hotels Private Limited: Ratings reaffirmed; Outlook continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	250.0	250.0	[ICRA]BBB+(Negative); Reaffirmed
Long-term/ Short-term Non-Fund Based Limits	60.0	60.0	[ICRA]BBB+ (Negative) /[ICRA]A2 Reaffirmed
Total	**310.0**	**310.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation of Caddie Hotels Private Limited (CHPL) takes into the consideration the sequential improvement in its operating performance in 9M FY2021 despite the severe disruption caused by the Covid-19 pandemic and the expectation of timely funding support from its promoters. Given its proximity to the Indira Gandhi International Airport, CHPL has a high proportion of guests who are in-bound travellers. Due to air travel restrictions and several hotels in its vicinity converted into quarantine facilities, occupancy levels for CHPL had plummeted to around 5% in April-May 2020. However, with gradual relaxations, CHPL witnessed sequential recovery in occupancy levels, to nearly 50% in December 2020. While occupancy was initially driven by quarantine guests, leisure traffic, staycation and crew business had replaced the same by end of Q2 FY2021. Further, the rental income from its commercial property (approximately Rs. 20 crore per annum) remained largely unaffected by pandemic related restrictions and helped off-set the operating losses from the hotel operations. The above factors coupled with ramp-up in hotel revenues and stringent cost rationalisations have enabled CHPL to report marginal operating profits starting October 2020. The company's cash reserves (Rs. 61 crore as on March 31, 2020), coupled with steady rental income from commercial property, were sufficient to cater to the operational losses and debt servicing requirements in 9M FY2021.

While the company is expected to require additional funding support in the near-term, the rating draws comfort from CHPL's strong parentage—the Accor Group, InterGlobe Group and APHV India Investco Pte Ltd. (a JV between GIC RE and Host Hotels and Resorts)—with a track record of extending timely financial support. Its strong parentage lends CHPL significant financial flexibility with its lenders for raising funds at competitive terms. The rating is further supported by the favourable location of the properties with a strong catchment area, operations under Accor's well-recognised international brands, "Novotel" and "Pullman" and healthy revenue diversification through F&B outlets, large sized banquet halls, meeting rooms and commercial tower.

Despite the above, ICRA has maintained the Negative outlook on the long-term rating to reflect the likelihood of extended impact of the Covid-19 pandemic on the global travel and hospitality industry, which is in line with ICRA's Negative outlook for the sector. While the easing of restrictions led to sequential improvement in occupancies in Q2 FY2021 and Q3 FY2021, corporate travel and MICE[1] activities are expected to remain subdued in the near term. However, commencement of vaccination programme (in India and globally) and improving economic outlook are favourable for the industry's recovery trajectory and remain a key monitorable.

[1] *Meetings, Incentives, Conferences and Exhibitions*

The ratings remain constrained by likelihood of sharp decline in CHPL's revenues and cash accruals in FY2021. While ICRA expects its promoters to provide need-based and timely funding support, with significant debt servicing obligations and a gradual recovery in profits, the company's leverage and debt coverage indicators are expected to weaken in the near to medium term. Further, the rating also reflects the geographical concentration of CHPL's properties in a single micro-market (i.e., Delhi's Aerocity), which exposes it to adversities in the concerned local market and competition from other properties in the vicinity. In addition, CHPL remains exposed to inherent seasonality and cyclicality in the hospitality sector, which can adversely impact its business and financial risk profile. While the pandemic situation continues to evolve, the pace of reverting to stable operating levels (in terms of both revenue per available room (revPARs) and profitability) will be a key monitorable for CHPL in the medium term.

Key rating drivers and their description

Credit strengths

Strong promoters with extensive experience in the hospitality industry - CHPL is promoted by a tripartite JV of the Accor Group, the InterGlobe Group and APHV India Investco Pte Limited (a JV between GIC RE and Host Hotels and Resorts Inc.). Accor SA is a multinational hospitality company. InterGlobe Group has diversified interest across civil aviation (Indigo airlines), hospitality and real estate, among several others. GIC RE is the real estate arm of the Singapore's sovereign wealth fund. The promoters, thus, bring extensive experience of the hospitality industry to the JV. Also, all the JV partners enjoy comfortable credit profiles and lend healthy financial flexibility to CHPL.

Demonstrated financial support from the promoters – Despite accumulated losses of nearly Rs. 323 crore as on March 31, 2020, sizeable equity infusions by the promoters, cumulating to approximately Rs. 485 crore over the past few years have helped the company maintain a comfortable capital structure. This is reflected by a gearing[2] of 1.4x as on March 31, 2020. The cost overrun during the project implementation (due to unforeseen regulatory developments) and operating losses during initial years of stabilisation were also supported by equity infusion, indicating the promoter's commitment towards the business. Given this track record and strategic importance of CHPL, ICRA expects its promoters to provide timely and need based funding support to CHPL in the near-term.

Benefits accruing from association with Accor, favourable location and operational synergies - CHPL's properties are operated under Accor's "Novotel" and "Pullman" brands and benefits from its access to global distribution system (GDS), strong loyalty programmes and corporate relationships, allowing them to have better rates and occupancies. Further, the properties are in the hospitality district of New Delhi's Aerocity and benefit from its proximity to the Indira Gandhi International Airport and the central business district (CBD) of Delhi and Gurgaon. These micro-markets were reporting healthy occupancy levels, of over 65-70% in FY2019 and FY2020 (i.e., the pre-Covid period), indicating healthy demand. Furthermore, the properties are constructed adjoining each other to enable the sharing of resources (like swimming pools, meeting rooms, utilities, manpower, parking space, etc.) resulting in cost optimisation across large inventory.

Credit challenges

Cyclical industry, vulnerable to general economic slowdown and exogenous shocks - Given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions, tourist arrival growth and several exogenous factors, which leads to inherent cyclicality. Due to the Covid-19 pandemic, there has been a significant pressure on industry's occupancy levels and revPARs since January 2020. This has had a major impact on the CHPL's operational performance in YTD FY2021. Although, there has been sequential recovery in occupancy levels from June 2020 (16%) to December 2020 (46%), recovery of revPARs to pre-Covid levels is likely to be gradual.

High leverage and stretched debt coverage indicators – With operating losses in 9M FY2021 and high debt levels as on December 31, 2020 (Rs. 542 crore adjusted for lease liabilities), CHPL has witnessed a sharp deterioration in coverage metrics. Against this backdrop of heavy debt-funded project capex and expectation of subdued profitability in the near-term, the

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[2] *Gearing = Total debt + operating lease liabilities/Tangible Net Worth*

company's debt coverage indicators are likely to deteriorate. CHPL had cash and liquid investments of Rs. 34 crore as on December 31, 2020, which would enable it to meet its financial commitments over the next few months. Nonetheless, it would need incremental fund infusion in the near to medium term, given in the expectation of a gradual recovery in demand.

Geographical concentration of revenues and competitive pressures – Owing to the geographic concentration of its room inventory in Delhi, the company would be exposed to any adverse region-specific development and risks. Also, CHPL has a sizable room inventory (670 rooms) in a micro-market, which has several properties across segments and price points. Given the pandemic and its impact over the travel and tourism industry, the competition may exert pressure on CHPL's occupancy levels and/ or restrict the pricing potential of its properties over the near-to-medium-term.

Liquidity position: Adequate

Despite the significant impact of the pandemic on the hospitality sector, CHPL liquidity is expected to remain **adequate,** supported by existing cash and liquid investments (of ~Rs. 34 crore as on December 31, 2020), commercial tower lease rentals (of Rs. 20 crore per annum) and sequential improvement in operational performance of the hotels. However, the company has debt servicing commitments of Rs. 80-85 crore over 15 months (January 2021 to March 2022) and would be dependent on timely fund infusion from the promoters in the near-term, which will be a key monitorable. ICRA expects the company to continue benefiting from the significant financial flexibility emanating from its strong parentage, which supports its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – An upgrade in the near-term is unlikely, given the negative outlook on the industry due to expectation of the severe impact of the pandemic on the travel and tourism business. Nonetheless, a sustained improvement in operational metrices and cash accruals following the pandemic or infusion of significant equity by the promoters, leading to reduction in leverage metrics, could be a trigger for a change in outlook.

Negative factors – Negative pressure on CHPL's rating could arise for reasons including prolonged impact of the pandemic leading to slower than anticipated recovery in operating metrices and delay in timely fund infusion from its promoters, leading to weakening of its debt servicing indicators and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	**Parentage**: CHPL is promoted by a tripartite JV of Accor Group (32% stake), InterGlobe Group (32%) and APHV India Investco Pte Limited (36%; a JV between GIC RE and Host Hotels and Resorts Inc.) The rating assigned to CHPL factors in the very high likelihood of its parent entities extending financial support to it because of its strategic importance (NCR market presence) and close business linkages between them. We also expect the promoters to be willing to extend financial support to CHPL out of their need to protect their reputation from the consequences of a group entity's distress. There also exists a consistent track record of promoters extending timely financial support to CHPL, whenever a need has arisen.
Consolidation/Standalone	The rating is based on standalone financial statements of the company

About the company

Incorporated in 2008, Caddie Hotels Private Limited (CHPL) is the owning entity for two dual-branded five-star hotels, Novotel (400 rooms) and Pullman (270 rooms) at Aerocity, New Delhi. While both hotels started commercial operation from November 2015, the full room inventory became operational only in December 2016. Besides the hotels, the company also has a commercial tower with a leasable area of ~94,800 square foot. CHPL is promoted by a tripartite JV between Interglobe Group (32%), AAPC Singapore Pte Limited (32%; subsidiary of French multinational hospitality company, Accor S.A.) and APHV India Investco Pte Ltd. (36%; a 75:25 JV between GIC RE and Host Hotels and Resorts). While the land housing the properties has been acquired on license basis from Delhi International Airport Limited (DIAL), the operations and management of the two hotel properties are handled by Accor Hotels.

Key financial indicators (audited)

	FY2019	FY2020^	9m FY21*
Operating Income (Rs. crore)	223.7	224.0	42.4
PAT (Rs. crore)	-39.7	-41.0	-85.5
OPBDIT/OI (%)	30.8%	38.4%	--
RoCE (%)	1.5%	2.8%	--
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.5	--
Total Debt/OPBDIT (times)	7.5	7.8	--
Interest Coverage (times)	1.2	1.2	--
DSCR (times)	1.3	1.3	--

*Source: Company results; ICRA research ;^ Adjusted for Ind-AS 116; * Provisional results*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/ (Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					Feb 12, 2021 Apr 13, 2020	May 17, 2019	Dec 12, 2018	Nov 30, 2018/ Aug 7, 2018/ Apr 25, 2018	NA
1	Term Loan	Long Term	250.00	228.2	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	Provisional [ICRA]BBB+ (Stable)	**NA**
2	Non-fund based	Short-term and Long-term	60.00	NA	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	Provisional [ICRA]BBB+ (Stable)/ Provisional [ICRA]A2	**NA**

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
NA	Term Loan-I	Sep 14, 2016	NA	Mar 20, 2032	75.00	[ICRA]BBB+ (Negative)
NA	Term Loan-2	Jul 19, 2019	NA	Jun 30, 2032	175.00	[ICRA]BBB+ (Negative)
NA	Non-Fund based limits	Sep 14, 2016	NA	--	60.00	[ICRA]BBB+ (Negative)/ [ICRA]A2

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis - Not applicable

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