

February 12, 2021

InterGlobe 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 Fund-based Term Loans	787.10	787.10	[ICRA]A- (Negative) reaffirmed
Long-term Unallocated	23.90	23.90	[ICRA]A- (Negative) reaffirmed
Total	811.00	811.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of InterGlobe Hotels Private Limited (IGH), along with its subsidiaries, while assigning the credit rating, given the common management team, significant operational and financial linkages between the entities.

The reaffirmation of ratings takes into consideration the sequential recovery in IGH's operating and financial performance in 9M FY2021 and the timely equity infusions received from its promoters to meet almost the entire operating loss and debt servicing requirement. Given the high dependence on corporate business travellers, the travel restrictions and work-from-home policies implemented by companies severely impacted IGH's occupancy levels, which plummeted to <15% in Q1 FY2021. However, the occupancy, which mostly comprised quarantine guests, medical staff and some corporate teams engaged in business continuity operations in the first quarter, was replaced by MSME corporate travellers, domestic leisure travellers and several new customer segments from the second quarter onwards. Consequently, despite marginal business from large corporates, the occupancy levels registered sequential improvement and touched 50% during December 2020–January 2021. With improving portfolio revenues and stringent cost rationalisation measures, IGH was able to report operational breakeven in December 2020. Furthermore, company received equity infusion of Rs. 120 crore from its promoters in 10M FY2021, which supported its liquidity profile and shortfall in debt servicing.

The ratings, therefore, continue to benefit from IGH's strong parentage—the InterGlobe Group and the Accor Group—with a demonstrated track record of extending timely financial support for project execution, operational funding, and debt repayments. The strong parentage also lends IGH a strong financial flexibility to negotiate favourable terms with the lenders. While the company has five projects under development, almost the entire equity contribution has been deployed. The financial closure of these projects would further support the financial flexibility of the company. The ratings also take cognisance of IGH's exclusive agreement with the Accor Group to develop hotels under the 'Ibis' brand in India, Bangladesh, Nepal and Sri Lanka; its geographically diversified presence; its comfortable capital structure and extensive experience of the promoters in the hospitality industry.

Despite the above, the Negative outlook on the long-term rating continues to reflect the likelihood of the 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 MICE¹ activities are expected to remain subdued in the near term. However, commencement of vaccination programme

¹ Meetings, Incentives, Conferences and Exhibitions

(in India and globally) and improving economic outlook are favourable for industry's recovery trajectory and remain a key monitorable.

The ratings remain constrained by the likelihood of a sharp decline in IGH'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, capex commitments and a gradual recovery in cash flows, IGH's leverage and debt coverage indicators are expected to be under pressure in the near-to-medium-term. Also, with concentration of its portfolio in the midscale segment, catering predominantly to corporate travellers, IGH may not see direct impact of surge in leisure travel, except at some of its hotel destinations like Goa.

The rating takes cognisance of IGH's exposure to inherent seasonality and cyclicity 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) remain a monitorable for IGH in the medium term.

Key rating drivers and their description

Credit strengths

Strong and experienced promoters with track record of timely capital infusion over the years - IGH is promoted by a joint venture (JV) of the InterGlobe Group (60%) and French hospitality major, the Accor Group. The InterGlobe Group is present across diverse industries and enjoys significant financial flexibility owing to the market value of its 38% stake in InterGlobe Aviation Limited (rated [ICRA]A+(Negative)/[ICRA]A1). Despite the unprecedented adverse impact on the aviation and hospitality businesses, the core businesses of the JV partners, they infused fresh equity of Rs. 120 crore in IGH, to offset the operating losses and debt servicing requirements. This indicates the promoters' commitment to the company. Cumulatively, the promoters have infused over Rs. 1,680 crore as equity in IGH since its inception to fund new projects and meet cash flow shortfalls in nascent properties. Given this track record, ICRA expects the funding support to continue in the medium term.

Well recognised brand and geographically diversified footprint - IGH is present at key locations in metro and tier-I cities across India. It has an association with Accor (also a 40% stakeholder in the company), an established hospitality services provider, for exclusively expanding the Ibis brand in the subcontinent. This offers benefits like access to Accor's global distribution system (GDS), strong loyalty programmes, and corporate relationships. This allows the portfolio to have better rates and healthy occupancies. Despite the challenging operating environment in YTD FY2021, the company was able to ramp-up occupancies from 10% in April 2020 to 52% in December 2020 (even though the rates were highly discounted due to lack of demand).

Almost entire equity commitment received for under-development projects; funding closure to improve financial flexibility - The company has five under-construction hotels in its portfolio and had deployed over 85% of the estimated project equity in these projects as on December 31, 2020. The funding tie-up has been done for one project and the financial closure of its remaining projects, which is expected over the next 3-4 months, would improve the company's financial flexibility in terms of reimbursement of excess project equity infused.

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 (geopolitical crises, terrorist attacks, disease outbreaks, etc.), which leads to inherent cyclicity. As hotels have high operating and financial leverage, it renders them highly susceptible to any reduction in revenues. Due to the Covid-19 pandemic, there has been a significant pressure on industry revPARs since January 2020. This has had a major impact on the IGH's operational performance in YTD FY2021. Although, there has been sequential recovery in occupancy levels since the unlocking, recovery of revPARs to pre-Covid levels is expected to be gradual and remains a key rating monitorable.

Stretched coverage ratios, although leverage remains comfortable due to periodic equity infusions - IGH reported over 70% YoY decline in its revenues and operating losses of approximately Rs. 36 crore in 9M FY2021 due to the demand contraction

caused by the pandemic and high operating leverage in the hospitality business. Given the expectation of muted profitability and increase in debt levels, due to the proposed LRD² facility (of approximately Rs. 50-70 crore) and project debt, IGH's debt coverage indicators are expected to remain stretched in the medium term. This would keep the company dependent on timely funding support from promoters. Nonetheless, ICRA draws comfort from the company's financial flexibility emanating from its healthy asset base, periodic equity infusion by the promoters (which has kept the leverage comfortable, with TD/TNW of 0.8x as on March 31, 2020) and the management's demonstrated track record of raising debt on competitive terms.

Considerable planned capex over medium term will keep the credit metrics moderate – The company has five projects under development and recommenced capex on all these projects after the unlocking of the sector in June–July 2020. Approximately Rs. 400 crore of capex is pending on these projects, to be incurred over the next 18-36 months. While IGH has already deployed over 85% of its project equity, with the drawdown of project debt (which are in the process of being tied-up), the company's debt levels are expected to increase in the medium term. This could lead to moderation in credit metrics (TD/OPBDITA to remain above 8x over the medium term). Also, IGH remains exposed to the inherent risk associated with projects and approvals in line with the nature of the industry. However, the company's experience in operationalizing 17 hotels mitigates the associated risks to some extent.

Low segment diversification – The company operates its entire portfolio within one segment, viz. midscale. Since the segment caters to corporate customers, most of the company's properties are located at business focussed locations and, hence, is unlikely to benefit from the recent surge in leisure travel. Further, the corporate traveller segment demand recovery to pre-Covid levels is expected to lag other segments in the near-term.

Liquidity position: Adequate

Despite the prevailing impact of the Covid-19 pandemic, IGH's liquidity is expected to remain **adequate**, supported by timely equity infusion by its promoters. The company has received Rs. 120 crore in 10M FY2021 to fund operational losses and debt servicing requirements. It is in the process of raising Rs. 50 crore LRD facility in Q4 FY2021 to further shore up its liquidity. However, the company will have debt servicing requirement of around Rs. 150 crore over next 15 months (January 2021 to March 2022) and would be dependent on timely fund infusion by the promoters. This would remain a key rating monitorable. The financial closure for the projects under implementation would cater to the capex commitments, as most of the equity has already been deployed against the same. Further, ICRA expects IGH's large, unencumbered project assets and financial flexibility with its lenders to support refinancing options and liquidity profile.

Rating sensitivities

Positive factors – An upgrade in the near-term is unlikely given the negative outlook on the industry, driven by expectation of a severe impact of Covid-19 on the travel and tourism business. Nonetheless, recovery post the pandemic, demonstrated by sustained improvement in its operational metrics and profitability indicators, coupled with higher than expected equity infusion by the promoters, leading to improvement in leverage, could be a trigger for a change in outlook.

Negative factors – Negative pressure on IGH's rating could arise due to the prolonged impact of the pandemic, leading to weakening in operating and financial metrics, and delay in equity infusion by the promoters, leading to deterioration of debt servicing indicators and liquidity position. Further, any prolonged delays in project execution or in tie-up of project debt or weakening of the promoters' credit profile, could also exert negative pressure on the rating.

² Lease Rental Discounting

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 Consolidation and Rating approach
Parent/Group Support	IGH's parentage: IGH is a 60:40 JV of the Interglobe Group and the Accor Group. The rating assigned to IGH factors in the very high likelihood of its JV partners extending financial support to it because of its strategic importance and close business linkages among them. We also expect the promoters to be willing to extend financial support to IGH 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 the promoters extending timely financial support to the company, whenever a need has arisen.
Consolidation/Standalone	The rating is based on consolidated financial statements of the issuer. Details of the consolidated entities are given in Annexure-2.

About the company

InterGlobe Hotels Private Limited (IGH), a 60:40 JV between IGE (along with its affiliates) and Accor, has firmed up plans to develop 21 budget hotels under the Ibis brand and one upscale hotel under the Novotel brand in India. The number of hotels is expected to increase further as the company is actively looking at expanding across multiple cities. IGH was established in 2004 to develop the Ibis network of hotels in India, Nepal, Sri Lanka, and Bangladesh. The company is expected to have a cumulative inventory of 3,927 rooms in the next four years across India (as per firmed-up plans) from 3,059 rooms at present. Out of the portfolio of 22 hotels, 17 have started operations, while five are under various stages of construction and planning.

The company's 40% stakeholder, Accor, is a leading player in the global hospitality industry. IGE, on its part, is one of the promoters of IAL, which owns Indigo airline, India's largest airline with about 54% market share (in December 2020). IGE, also an established player in aviation management, travel distribution services and ground handling services, is wholly owned by Mr. Rahul Bhatia and family.

Key financial indicators (audited)

IGH Consolidated	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	323.5	336.9	39.2
PAT (Rs. crore)	-48.8	-74.2	-103.1
OPBDIT/OI (%)	20.7%	23.4%	-78.0%
PAT/OI (%)	-4.4%	-6.3%	-17.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.8	0.9
Total Debt/OPBDIT (times)	11.6	11.5	-15.3
Interest Coverage (times)	1.0	1.0	-0.8
DSCR (times)	0.7	0.6	-0.4

Source: Company results; ICRA research *Provisional results; PAT includes interest capitalised (pertaining to 6 month moratorium period) of Rs. 30 crore

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		Oct 29, 2018	Aug 3, 2018 Jul 20, 2018	
1	Fund-based Term Loan	Long Term	787.1	632.4	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A-(Positive)
2	Fund-based Unallocated	Long-Term	23.9	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	--

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-1	FY2016	--	Mar 31, 2026	150.00	[ICRA]A-(Negative)
NA	Term Loan-2	FY2016	--	Mar 31, 2026	60.00	[ICRA]A-(Negative)
NA	Term Loan-3	FY2016	--	June 30, 2026	150.00	[ICRA]A-(Negative)
NA	Term Loan-4	FY2016	--	June 30, 2026	35.00	[ICRA]A-(Negative)
NA	Term Loan-5	FY2016	--	Mar 2, 2026	130.00	[ICRA]A-(Negative)
NA	Term Loan-6	FY2016	--	June 30, 2030	50.00	[ICRA]A-(Negative)
NA	Term Loan-7	FY2016	--	Mar 31, 2026	40.10	[ICRA]A-(Negative)
NA	Term Loan-8	FY2017	--	Dec 31, 2026	50.00	[ICRA]A-(Negative)
NA	Term Loan-9	FY2017	--	Sep 30, 2031	36.00	[ICRA]A-(Negative)
NA	Term Loan-10	FY2017	--	Sep 30, 2031	30.00	[ICRA]A-(Negative)
NA	Term Loan-11	FY2017	--	Jun 30, 2031	56.00	[ICRA]A-(Negative)
NA	Unallocated	-	--	--	23.90	[ICRA]A-(Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	IGH Ownership	Consolidation Approach
Interglobe Hotels Private Limited (rated entity)	-	-
Isha Steel Treatment Private Limited	100.00%	Full Consolidation
Milagro Infrastructure Private Limited	100.00%	Full Consolidation
Ashford Properties Private Limited	56.38%	Full Consolidation

Source: IGH annual report FY2020

Note: ICRA has taken a consolidated view of the parent (IGH), its subsidiaries and associates while assigning the ratings.

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