June 01, 2021

IHHR Hospitality Private Limited: Rating downgraded; outlook continues to be Negative; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	248.7	269.02	[ICRA]BBB- (Negative); downgraded from [ICRA]BBB (Negative)
Long-term– Fund Based Working Capital	10.0	-	-
Total	**258.7**	**269.02**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view on IHHR Hospitality Private Limited (IHHR), including its subsidiaries and one sister concern- IHHR Hospitality Ananda Private Limited (IHHR Ananda), while assigning the credit ratings, given the common management, significant operational and financial linkages between the entities.

The revision in rating factors in a weakening of IHHR's credit profile owing to the subdued demand environment caused by the Covid-19 pandemic (which limits visibility on revenues) and resulting refinancing risk emanating from large repayment obligations over the medium term. The operational performance of the portfolio is expected to remain subdued because of the ongoing pandemic. This coupled with an increase in debt burden (due to capitalisation of accrued interest pertaining to six-month moratorium from March-August 2020 and drawdown under GECL[1] loans), is likely to weaken IHHR's leverage and coverage metrics.

IHHR reported operating revenues of ~Rs. 60 crore in FY2021 (provisional results), marking a ~75% YoY decline over ~Rs. 226 crore in FY2020. Given the high operating leverage of the hospitality business, the sharp decline in revenues led to operating losses of Rs. 15-16 crore for FY2021, despite the management undertaking stringent cost control measures. Even as the operational performance of various hotel properties had improved in Q3 and Q4 FY2021, the second wave of the pandemic and the resulting lockdowns have impacted operations. Moreover, with a portfolio comprising almost entirely business hotels, IHHR, barring its Ananda property, is unlikely to benefit from any surge in leisure travel (expected to revive faster compared to corporate travel), which could impede the pace of revenue ramp-up.

The company had outstanding external debt of ~Rs. 300 crore as on March 31, 2021, of which nearly a third (Rs. 115 crore) is repayable over the next three years in a ballooning manner. With the second wave of pandemic in Q1 FY2022, the recovery in demand is expected to be slower than anticipated in FY2022. IHHR's liquidity profile remains adequate, with cash balances of around Rs. 38 crore as on March 31, 2021, maintenance of debt service reserve account (DSRA) for one quarter's debt repayment obligations (Rs. 11 crore) and undrawn GECL loans on Rs. 35 crore. Even as the backing of financially strong promoters – the UK-based Sudhir Choudhrie and family - coupled with their track record of fund infusion in the entity, remains a positive, timely refinancing of maturing debt or infusion of long-term equity funds would be crucial over the medium term, and remains a key rating sensitivity. ICRA notes that the promoters provided some funding support (Rs. 13 crore) in the form of equity in FY2021 to support its cash flows and remain committed to provide timely and adequate funding support in future as well.

[1] *Loans granted under the Governments Emergency Credit Line Guarantee Scheme (ECLGS).*

The rating remains supported by the extensive experience of IHHR's promoters in the hospitality industry and their demonstrated support in meeting funding requirements, its geographically diversified and favourably located portfolio as well as operations under well-recognised brands and management tie-ups with reputed hospitality service provider – Hyatt International.

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 H2 FY2021, the recent surge in infected cases remains a concern and may delay recovery of corporate travel and MICE[2] activities in the near term. However, the increasing pace of vaccination programme (in India and globally) and expectation of economic recovery are favourable for the industry's recovery trajectory over the medium term.

Key rating drivers and their description

Credit strengths

Comfortable capital structure aided by demonstrated promoter support – IHHR has a comfortable capital structure, as reflected in gearing of 0.7 times as on March 31, 2020 (and estimated to remain lower than 1.0 time as on March 31, 2021). This has been aided by demonstrated funding support from the promoters over the years. During FY2013-FY2017, the promoters provided sizeable funding support of over Rs. 300 crore through equity infusion and unsecured debt, to enable prepayment of external debt and support operations, while the hotels were in stabilisation phase. In FY2021, the promoters infused incremental equity of Rs. 13 crore to fund a part of the entity's loss funding requirements. ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant impact on the leverage ratios.

Healthy geographical diversification; strong brand recognition of Ananda and Hyatt in domestic and international markets – IHHR's flagship property, Ananda, has established its position as an internationally acclaimed luxury spa destination with a niche clientele. IHHR's other four properties are managed by the Hyatt Group under its well-established upper-upscale brands. These hotels benefit from Hyatt's global distribution, strong loyalty programmes and corporate relationships, allowing them to have better rates and occupancies. Further, IHHR benefits from healthy geographical diversification as the five properties are in business-centric and favourable tourist locations. While ICRA notes that the flagship property – Ananda in the Himalayas – was demerged from IHHR and vested in IHHR Ananda w.e.f. FY2019, it has taken a consolidated view as both the companies are in same line of business and have common promoters and management team. Furthermore, IHHR Ananda has extended corporate guarantee to the lenders of IHHR, and Ananda assets continue as collateral for IHHR's debt.

Experienced promoters with established track record in hospitality industry both in India and in select international markets – IHHR was established by Mr. Gautam Khanna and his son, Mr. Ashok Khanna, who have over five decades of experience in the hospitality industry through their association with Oberoi and Indus Hotels. The largest shareholder in IHHR is London-based Sudhir Choudhrie and his family (~87% stake), having interests in hospitality, aviation, financial services, real estate, and utilities businesses. In the hospitality sector, the family owns a portfolio of 32 properties (including the IHHR properties) across various geographies - India, the UK, the US, Switzerland and Mauritius through Shanti Hospitality Private Limited.

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

Credit challenges

Limited medium-term revenue visibility due to demand disruption caused by Covid-19 pandemic – The company is expected to report a sharp decline in revenues (estimated at 70-75% YoY) and cash accruals in FY2021 due to extensive impact of the Covid-19 pandemic. With the recent spike in Covid-19 cases during the second wave, the recovery in operating and financial performance in FY2022 is likely to be weaker than previously anticipated. ICRA expects the hotel operations to remain impacted in the short-to-medium term due to the likelihood of the extended impact of the pandemic on the global travel and hospitality industry. With most of its properties in business-centric locations and depending on corporate clientele, IHHR is unlikely to benefit extensively from any surge in leisure travel, thereby keeping IHHR's cash accruals under pressure. A sustained recovery in operational metrics will remain a key rating monitorable.

High debt and sizeable medium-term repayments to constrain debt coverage metrics – With operating losses in FY2021 and high debt levels of ~Rs. 300 crore as on March 31, 2021, the company witnessed a sharp deterioration in its coverage metrics. Owing to the weak accruals, it opted-in for sanction of GECL[3] loan under the ECLGS 2.0. While this would support near-term liquidity, the incremental debt (of approximately Rs. 55 crore) would lead to further deterioration in coverage indictors over the medium term. With limited visibility on demand and ballooning debt repayments, timely refinancing of debt and/or fund infusion from the promoters, to support any cash flow mismatch and leverage metrics, remains the key. While all discretionary capex has been put in abeyance in the near term, any unanticipated and large debt-funded capex, which could impact company's financial profile, remain a rating monitorable.

Liquidity position: Adequate

IHHR's liquidity is expected to remain **adequate**, supported by sizeable free cash balances of Rs. 38 crore as on March 31, 2021, debt service retention account (DSRA) balance of ~Rs. 11 crore and undrawn GECL loans of Rs. 35 crore. The company is eligible for loans under ECLGS 3.0, which may be used to further support liquidity. Against the same, it has interest and repayment obligations of around Rs. 55 crore in FY2022. While the capex commitments are likely to be marginal in FY2022, some loss funding for properties may be required. Given the quantum of ballooning debt servicing requirements, the company would require external sources of funds to ensure timely debt repayments in the medium term. ICRA expects its promoter's commitment to infuse timely equity funds and IHHR's financial flexibility with its lenders to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A rating upgrade in the near-term is unlikely, given the Negative outlook on the industry performance. Nonetheless, a healthy recovery in operational metrics and profitability indicators and/or higher-than-expected infusion of equity funds leading to a material improvement in liquidity and leverage metrics, could be a trigger for rating improvement.

Negative factors – Negative pressure on IHHR's rating could arise for reasons including a prolonged impact of the second wave of the pandemic leading to slower-than-anticipated recovery in operating metrics, any large debt-funded capex, and any delay in timely infusion of equity by the promoters leading to more-than-expected weakening of its debt coverage indicators and deterioration in its liquidity position.

[3] *Loans granted under the Governments Emergency Credit Line Guarantee Scheme (ECLGS).*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Hotel Industry](#) [Consolidation and Rating approach](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of IHHR, its subsidiaries and one sister concern – IHHR Ananda, as there are significant operational and financial linkages between the entities. The list of entities consolidated for analysis are enlisted in Annexure-2.

About the company

Incorporated in 1998, IHHR Hospitality Private Limited (IHHR) owns and operates four five-star hotels in India. These hotels managed by Hyatt Hotels Corp. under its premium and luxury brands including Hyatt, Hyatt Regency and Hyatt Centric. The properties are in prime cities of Bangalore, Pune, Amritsar, and Hyderabad having an aggregate room inventory of 766 rooms.

Originally, IHHR had commenced operations by launching a 78-room destination spa – Ananda in the Himalayas (Ananda) – near Dehradun (Uttarakhand) in 2000. Initially, the spa was developed under a joint venture (JV) between IHHR and Rafael Group Hoteliers, however, the JV was dissolved in December 2001. In November 2019, the company received NCLT approval on the Scheme of demerger of Ananda property from IHHR Hospitality and its merger into IHHR Hospitality Ananda Private Limited (IHHR Ananda, erstwhile subsidiary company). The company was demerged w.e.f. April 1, 2018 and is now a sister concern of IHHR.

The majority shareholders of IHHR include the C&C Alpha Group (comprising the holding companies Amanind Investments Holdings Ltd. & Associates, Turquoise Holding Pvt Ltd, DBA Propbuild Pvt. Ltd and Elsegundo Estate Pvt. Ltd owned by Mr. Sudhir Choudhrie, his family and friends) that holds an 87.2% stake in the company and Mr. Ashok Khanna and family, which holds ~6.1% stake.

Key financial indicators (audited)

IHHR Consolidated*	FY2019	FY2020	FY2021 Prov.
Operating Income (Rs. crore)	226.3	226.0	58.8
PAT (Rs. crore)	1.2	-10.2	--
OPBDIT/OI (%)	18.9%	18.3%	--
PAT/OI (%)	0.5%	-4.5%	--
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	--
Total Debt/OPBDIT (times)	6.4	6.6	--
Interest Coverage (times)	1.3	1.3	--

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Note: FY2021 data is provisional
**ICRA estimates, including IHHR Ananda Financial results. Line-by-line consolidation used to arrive at the consolidated results.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020^	Date & Rating in FY2019
					Jun 1, 2021	Jan 7, 2021 Oct 28, 2020 May 1, 2020	Jul 29, 2019	-
1	Term Loans	Long-term	269.02	240.0	**[ICRA]BBB- (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**	-
2	Fund Based Working Capital	Long-term	10.0	--	-	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**	-

^ A PR for reason for delay in periodic surveillance was published on Apr 29, 2019

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple

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, is available on ICRA's 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	Apr-2016	NA	Sep-2026	124.83	[ICRA]BBB-(Negative)
NA	Term Loan-II	Mar-2017	NA	Sep-2027	41.02	[ICRA]BBB-(Negative)
NA	Term Loan-III	Dec-2017	NA	Jun-2028	50.27	[ICRA]BBB-(Negative)
NA	Term Loan-IV	Dec-2020	NA	Dec-2025	45.05	[ICRA]BBB-(Negative)
NA	Drop Line Overdraft facility	Dec-2017	NA	Sep-2028	7.85	[ICRA]BBB-(Negative)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	IHHR Ownership	Consolidation Approach
IHHR Hospitality Private Limited	100.00% (rated entity)	Full Consolidation
IHHR Hospitality (Andhra)Private Limited	74%	Full Consolidation
IHHR Hospitality (Jaipur) Private Limited	100%	Full Consolidation
IHHR Hotels Private Limited	100%	Full Consolidation
IHHR Hospitality Ananda Private Limited	- (Sister concern/ Fellow subsidiary company)	Full consolidation

Source: *IHHR annual report FY2020*

Note: *ICRA has taken a consolidated view of the IHHR, its subsidiaries and sister concern – IHHR Ananda while assigning the ratings.*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
91 124 4545808
rohan.kanwar@icraindia.com

Ritu Goswami
91 124 4545826
ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches