

July 26, 2021

Walled City Hotels Private Limited: Ratings downgraded to [ICRA]BB+(Negative); removed from rating watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Overdraft	3.00	3.00	[ICRA]BB+(Negative); Downgraded from [ICRA]BBB-; removed from rating placed on watch with developing implications
Term Loan	27.85	37.00	[ICRA]BB+(Negative); Downgraded from [ICRA]BBB-; removed from rating placed on watch with developing implications
Unallocated	9.15	-	-
Total	40.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in rating factors in the weakening of Walled City Hotels Private Limited's (WCHPL or the company) credit profile as the Covid-19 pandemic resulted in subdued demand environment. WCHPL is expected to report a sharp dip (70%) in the top line in FY2021 as well as sizeable losses due to under-absorption of fixed costs. Furthermore, the resurgence of the second wave of the pandemic and the consequent lockdown has delayed the demand recovery, impacting the performance in the current fiscal. The rating also continues to be constrained by the seasonality and geographical concentration of WCHPL's properties in Rajasthan, which exposes it to adversities in the concerned market and competition from other properties in the vicinity.

The rating, however, takes into consideration the extensive experience of WCHPL's promoters in the hospitality industry and the company's proximity to prominent tourists' locations in India. ICRA also notes that the term loan restructuring, under the resolution framework for the Covid-19 related stress made available by the Reserve Bank of India (RBI), has lowered the scheduled repayments in the immediate future. This along with the sanction of the ECLGS facility has provided the much-needed liquidity buffer to cover the fixed costs and repayments; however, a meaningful recovery remains a bit distant given the overhang of Covid -19 in the near term.

The negative outlook on the [ICRA]BB+ rating reflects the likelihood of the extended impact of the Covid-19 pandemic on the global travel and hospitality industry, which impacted the occupancy as well as ARR (average room rents) in the near term.

Key rating drivers and their description

Credit strengths

More than a decade of experience in tourism industry management - The management of WCHPL is well qualified and its promoters have extensive experience in the hospitality industry. They also have a track record of acquiring and turning around the operations of new hotels.

Presence of hotels in Jodhpur, Udaipur and Pali ensures steady footfall of domestic as well as foreign tourists - The Jodhpur hotel is located at the base of the Mehrangarh Fort, which is a major tourist destination. Similarly, the Udaipur hotel is located near Delwara, which offers various sight-seeing opportunities such as Indra Kund, Hunting Tower, and temples.

Credit challenges

Occupancy and ARR to remain suppressed because of Covid-19 pandemic – The Covid-19 pandemic has restricted global and domestic travel, disrupting the demand in the hospitality sector in FY2021. The occupancy dropped to 12% (compared to 38% in FY2020) and ARR to Rs. 16,300 (compared to Rs. 19, 598 in FY2020) in FY2021. Further, the resurgence of the second wave has further delayed demand recovery, and the occupancy levels continues to be lower than the pre-covid levels.

Sharp decline in sales and losses expected in FY2021; turnaround in business to be a long-drawn affair - The company is expected to report a sharp decline in revenues (estimated at 70% YoY) and sizeable losses in FY2021 because of the adverse impact of the pandemic. This condition is unlikely to change in the near to medium term .

Geographical-concentration risk; intense competition and seasonal nature of operations - The hotels are located in three places in Rajasthan, namely Jodhpur, Pali and Udaipur. Hence, the company is exposed to high geographical-concentration risks. Any volatility in demand in these regions could affect its revenue generation. WCHPL also faces stiff competition from other hotels and resorts in the vicinity. Furthermore, the hotel industry operations are usually seasonal in nature with the highest occupancy rate during winter and spring.

Liquidity position: Stretched

WCHPL's liquidity position remain stretched as the pandemic caused a sharp decline in demand in the hospitality industry. Moreover, the company is expected to report sizeable net losses in FY2021 and its DSCR is likely to remain under pressure. Though some comfort can be drawn from the reduction in impending repayments in the medium term due to restructuring of term loans and sanction of Rs. 6.8 crore of ECLGS facilities in the current year, cash flow from operations is expected to remain subdued in the near term.

Rating sensitivities

Positive factors – ICRA could change the outlook to stable if the company demonstrates a significant improvement in its operating income and turns around its operations through sustained improvements in RevPAR.

Negative factors – Negative pressure on WCHPL's rating could arise if there is a prolonged impact of the pandemic on operations, resulting in deterioration in the liquidity profile and continued loss-making operations.

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 rating is based on the standalone financials of WCHPL.

About the company

WCHPL was incorporated in 2007, while its operations started in 2009. The company has two hotels – one in Jodhpur and the other in Udaipur – named Raas Jodhpur and Raas Udaipur. It also has a luxury tent in the Pali district. Raas Jodhpur is built on an original eighteenth century haveli at the base of Mehrangarh Fort, which Mr. Dhananjaya Singh (promoter of the company)

bought and turned into a hotel. It has a total of 40 rooms built across an area of 6,000 square metres. The company also acquired the Devigarh Hotel at Udaipur, which is a heritage property with a legacy of 15 years. It has 39 rooms. The luxury tent has 16 tents and its operation commenced in November 2019. The company has also entered into a management contract with the Rajmahal Palace hotel, Jaipur, for the management of the hotel operations and branding.

Key financial indicators (audited)

MMVAPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	38.9	38.6
PAT (Rs. crore)	0.3	0.9
OPBDIT/OI (%)	37.0%	31.8%
PAT/OI (%)	0.7%	2.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	1.1
Total Debt/OPBDIT (times)	2.1	2.8
Interest Coverage (times)	4.4	4.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company data, ICRA research;

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 July 20, 2021	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
						July 26, 2021	Sep 03, 2020		Feb 19, 2019	Jan 29, 2019
1	Cash Credit	Long-term	3.00	--	[ICRA]BB+ (Negative)	[ICRA]BBB- &; rating placed on watch with developing implications	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long-term	37.00	37.23	[ICRA]BB+ (Negative)	[ICRA]BBB- &; rating placed on watch with developing implications	[ICRA]BBB- (negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
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 analyzing 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	Cash Credit	NA	NA	NA	3.00	[ICRA]BB+(Negative)
NA	Term Loan	April 2015	NA	March 2015	37.00	[ICRA]BB+(Negative)

Source: Company

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

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