June 29, 2022

Milagro Infrastructure Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loan	50.0	50.0	[ICRA]BBB+ (Stable); Reaffirmed
Total	**50.0**	**50.0**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of InterGlobe Hotels Private Limited (IGH), along with its three subsidiaries, including Milagro Infrastructure Private Limited (MIPL), while assigning the above credit rating. MIPL, in addition to being a 100% subsidiary of IGH, has significant operational and financial linkages with its parent, since the day-to-day operations of both entities are handled by the same management. Hereafter, IGH, along with its subsidiaries, is referred to as 'the company'.

The rating reaffirmation continues to factor in IGH's strong parentage and their demonstrated track record of extending timely financial support for project execution, operational funding, and debt repayments. Its strong parentage also lends IGH a strong financial flexibility to negotiate favourable terms with lenders. The ratings further continue to favourably factor in IGH's exclusive agreement with the French multinational hospitality group, Accor, to develop hotels under its 'Ibis' brand in India, Bangladesh, Nepal and Sri Lanka. ICRA also notes its large and geographically diversified presence (18 hotels across 13 cities); comfortable capital structure and extensive experience of its promoters in the hospitality industry.

The 18-hotel portfolio under IGH witnessed a healthy improvement in the operating performance in FY2022, despite two waves of the Covid-19 pandemic. Aided by demand recovery and sustained cost control measures, the company posted a 75% YoY growth in revenues in FY2022 and decent operating profits (vis-à-vis operating loss of Rs. 31 crore in FY2021). After a debilitating second pandemic wave in Q1 FY2022, which saw the portfolio occupancy drop to 21% in May 2021, the room occupancy picked-up sharply to average at 58% in Q2 and 64% in Q3 FY2022. The Omicron wave, which hit the country in January 2022, was short lived and operations were only impacted for 4-5 weeks, leading to decent YoY recovery in occupancies and revenues in Q4 FY2022. Meanwhile, the portfolio average room rent (ARR) also saw healthy traction and posted an average 60–38% YoY growth in Q3 FY2022 and Q4 FY2022, respectively. The recovery was driven by improving vaccination coverage leading to reduced travel restrictions, pent-up demand (both leisure and corporate) and reopening of corporate travel after extended work-from-home duration. Going forward, increase in in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE[1] activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. While the pandemic situation continues to evolve, and demand may be erratically get impacted by further waves of pandemic in the near-term, ICRA expects such disturbances to be less severe and short-lived and the industry to touch (or even exceed in certain markets) pre-pandemic levels of operations by the end of FY2023.

Despite the above, IGH's rating remains constrained by its exposure to project execution and approval risks, given the sizeable under construction inventory (~835 rooms) and cyclical nature of revenue generation, which remains vulnerable to seasonality and overall macro-economic performance. The Indian budget hotel segment remains largely unorganised, characterised by

[1] *Meetings, incentives, conferences, and exhibitions*

relatively low entry barriers. Hence, the Group faces significant competition from standalone players in individual markets, in addition to chains such as Lemon Tree, Holiday Inn Express, and Ginger, among others. Also, the high dependence on corporate contracted business may keep IGH's portfolio vulnerable to vagaries in corporate policies on travel and MICE activities.

While ICRA takes cognisance of the timely equity infusion by the promoters over the past two years (Rs. 160 crore between April 2020 and April 2022) to meet operating loss and debt servicing requirements, IGH's external debt levels have increased from Rs. 700 crore in March 2020 to Rs. 990 crore in March 2022, primarily due to GECL[2] loans, resulting in deterioration of leverage and coverage indicators. Despite expected improvement in operating performance, ICRA expects Debt/OPBDITA to remain above 7x over the next two years. With sizable and ballooning repayments of ~Rs. 400 crore over FY2023-FY2025, the DSCR is also expected to remain weak over the medium term. Meanwhile, the company is expected to operationalise four of the five projects currently under development by end of FY2025, which may also warrant some funding support in the initial stages. All this would necessitate timely refinancing of maturing debt and/or timely infusion of equity funds in the interim. The track record of timely funding support from its promoters provides comfort in this regard. The promoters have already brought-in almost 100% of the equity contribution for these five projects. Despite challenging operating environment, the company has also tied up debt for four of the projects over past 12-months, demonstrating lender comfort and expectation of improving demand outlook for the sector.

The Stable outlook on the rating reflects ICRA's expectation that IGH will continue to be of strategic importance for its promoters and would keep deriving financial support to pursue its investment plans. In addition, it will benefit from favourable medium-term demand expectation, which coupled with its well-recognised brand and experienced operator, would enable a healthy pace of ramp-up in operational metrics.

Key rating drivers and their description

Credit strengths

Part of IGH portfolio with strategic project location – MIPL is a 100% subsidiary of IGH, which has a strong geographic footprint across 13 key cities in India. The 142-room property (project cost of ~Rs. 120 crore) under MIPL is the second property of IGH in Goa (expected to become operational by early FY2024), one of the most popular tourist destinations in India. The favourable location of the MIPL property, at Vagator (Goa), is expected to aid faster stabilisation and ramp up of revPARs.

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. 160 crore in IGH, between April 2020 and April 2022, to meet the operating losses and debt servicing requirements. This indicates the promoters' commitment to the company. Cumulatively, the promoters have infused over Rs. 1,700 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 supporting IGH's financial profile 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 established corporate relationships. This allows the portfolio to have better rates and healthy occupancies.

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

Nearly entire equity commitment received for under-development projects; funding closure of four of five projects has improved financial flexibility – The company has five under-construction hotels in its portfolio as on date and had deployed more than estimated project equity in these projects (assuming 1:1 debt equity ratio). The funding tie-up was completed for four projects in the past 12 months and the last is in advanced stages of sanction. The drawdown of these loans would improve the company's financial flexibility in terms of reimbursement of excess project equity infused.

Healthy sequential growth in operating metrices in FY2022; improved revenue visibility over medium term – Despite two waves of the pandemic in FY2022, the company was able to ramp-up occupancy levels from 35% in April 2021 to 69% in March 2022 (even though the rates remained at a 25-30% discount to FY2020 levels for the full year). In Q1 FY2023, despite summers being relatively an off-season, portfolio occupancies (at more than 72%) and ARRs (more than Rs. 3,800) touched all-time-high levels, benefiting from demand tailwinds. Improving vaccination coverage, easing restrictions, reopening of commercial international travel and overall economic recovery, personal and corporate travel along with MICE demand are expected witness healthy traction over the medium term. This supports revenue ramp-up for IGH.

Credit challenges

Cyclical industry; revenues susceptible 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 the industry's revPARs over the past two years. While improving vaccination coverage is a positive, any severe resurgence in Covid-19 cases could derail the recovery in revPARs and will remain a key monitorable in the near-term.

Sizable repayments over medium term to constrain debt coverage ratios – Despite the improvement in operating performance, the high debt levels of ~Rs. 1,000 crore as on March 31, 2022, primarily due to GECL loans, have led to sub-par debt coverage metrics. While ICRA expects a healthy YoY improvement in profitability over the medium term, the debt levels will likely remain elevated due to drawdown of project debt. Also, with a sizable inventory set to become operational, funding support may be required during their stabilisation phase. This may keep the company dependent on timely refinancing or fund infusion from its promoters. Nonetheless, ICRA continues to draw 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 around 1x as on March 31, 2022) and the management's demonstrated track record of raising or refinancing debt on competitive terms.

Considerable planned capex over medium term to constrain improvement in credit metrics – The company currently has five projects under development. Barring some volatilities in Q1 FY2022, led by localised lockdowns due to the pandemic, it continues to incur capex on almost all these projects. Approximately Rs. 400 crore of capex is pending on five ongoing projects, to be incurred over the next 2-3 years. While IGH has already deployed more than 100% of its project equity, with the drawdown of project debt, the company's debt levels are expected to remain elevated over the medium term. This could lead to moderation in credit metrics (TD/OPBDITA to remain above 6x over the medium term). Also, IGH remains exposed to the inherent risks associated with project execution and approvals, in line with the nature of the industry. However, the company's experience in operationalising 18 hotels mitigates the associated risks to some extent.

Low segment diversification and high dependence on corporate clientele – IGH operates its entire portfolio within one segment, viz. economy, exposing it to stiff competition from branded as well as unbranded players and online room aggregators in the budget category. This may create constraints while increasing ARRs, depending on the micro-market demand dynamics. Also, the company garners a sizable portion of its business (more than 40% pre-pandemic) from the corporate sector. This demand was severely impacted during the pandemic, when corporates shifted to online platforms for meetings and conferences. While demand from this segment has been improving in CY2022 (albeit after a lag, compared to the independent leisure travel segment), IGH's portfolio remains vulnerable to vagaries in corporate policies on travel and MICE activities.

Liquidity position: Adequate

IGH's liquidity is expected to remain **adequate**, supported by improving cash flows and need-based equity infusion by its promoters. In addition, free cash balances of Rs. 75 crore (as on March 31, 2022), undrawn GECL facilities (~Rs. 20 crore) and project debt (~Rs. 175 crore) provides liquidity cushion. Against the same, the company has debt servicing requirement of Rs. 165-170 crore in FY2023 (principal and interest) and Rs. 210-215 crore in FY2024. The financial closure for the projects under implementation would cater to a bulk of 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 – A sustained improvement in operational metrices and profitability indicators and/or higher-than-expected equity infusion by the promoters, leading to significant improvement in liquidity and leverage metrics, could be a trigger for improvement in rating.

Negative factors – Negative pressure on IGH's rating could arise for reasons including slower-than-anticipated recovery in operating and financial metrics or 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.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating approach – Implicit parent or group support Rating approach- Consolidation
Parent/Group Support	**IGH's parentage:** MIPL is a 100% subsidiary of IGH, which in turn 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 IGH, which includes its subsidiaries like MIPL. Details of the entities consolidated are given in Annexure-2.

About the company

Incorporated in 2016, Milagro Infrastructure Private Limited is a 100% subsidiary of InterGlobe Hotels Private Limited. The company is undertaking construction of a 142-key 'Ibis Styles' hotel at Vagator, Goa.

IGH, a 60:40 JV between InterGlobe Enterprises Private Limited (IGE; along with its affiliates) and Accor, has firmed up plans to develop 22 budget hotels under the Ibis brand and a midscale hotel under the Novotel brand in India. 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 4,144 rooms in the next four years across India (as per firmed-up plans), up from 3,308 rooms at present. Of the portfolio of 23 hotels, 18 have started operations, while five are under various stages of construction.

The company's 40% stakeholder, Accor, is a leading player in the global hospitality industry with presence in over 110 countries across nearly 5,300 hotels. IGE, on its part, is one of the promoters of InterGlobe Aviation Limited, which owns IndiGo airline, India's largest airline with about 55% market share (in FY2022). 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	FY2020	FY2021	FY2022**
Operating Income (Rs. crore)	336.9	122.7	214.9
PAT (Rs. crore)	-74.2	-194.4*	-
OPBDIT/OI (%)	23.4%	-25.5%	-
PAT/OI (%)	-22.0%	-158.4%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9	-
Total Debt/OPBDIT (times)	11.5	-31.4	-
Interest Coverage (times)	1.0	-0.4	-

*Source: Company results; ICRA Research; **Provisional data*

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);

**Note that PAT includes interest capitalised (pertaining to 6- month moratorium period) of Rs. 30 crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of May 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 29, 2022	Nov 25, 2021	-	-
1	Fund-based Term Loan	Long Term	50.0	22.2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

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-1	Sep 23, 2021	--	Mar 2035	50.0	[ICRA]BBB+(Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	IGH Ownership	Consolidation Approach
Interglobe Hotels Private Limited	- (Parent of the rated entity)	Full Consolidation
Isha Steel Treatment Private Limited	100%	Full Consolidation
Milagro Infrastructure Private Limited	100% (rated entity)	Full Consolidation
Ashford Properties Private Limited	~66%	Full Consolidation

Source: Company

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