November 28, 2022

Triton Hotels & Resorts Private Limited: Rating upgraded to [ICRA]A-(Stable)/ [ICRA]A2+ from [ICRA]BBB+(Stable)/ [ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based Bank Facilities (Term Loan)	114.71	94.54	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Long-Term Non-Fund Based Bank Facilities (Bank Guarantee)	3.20	5.0	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Short-Term Fund Based Bank Facilities (Overdraft Limit)	13.00	13.00	[ICRA]A2+; upgraded from [ICRA]A2
Total	**130.91**	**112.54**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings of Triton Hotels & Resorts Private Limited (THRPL) factors in a continued improvement in the company's operating metrics and consequent strong cash accruals, aided by a strong revival in demand witnessed in the domestic hotel industry. The company's sole hotel property operates under the five-star luxury brand, 'Fairmont', in Jaipur. The property reported a sequential improvement in occupancy levels to 46% in FY2022 (FY2021: 31%) and occupancy levels stood at ~65% at end of September 2022, aided by the pent-up demand in the wedding business and a significant pick-up in leisure travel to drive-to destinations (social MICE[1]). THRPL was also able to improve its average room rates (ARRs) by ~50% YoY in FY2022 over FY2021 levels, above the average ARR during the pre-pandemic period, evidencing the strong brand/location pull.

The healthy operating metrics, coupled with the various cost-saving initiatives undertaken in the past, have resulted in an improvement in the company's operating margins to ~40% in FY2022 vis-à-vis 36% in FY2021. Furthermore, THRPL's business reached pre-pandemic levels as it registered revenues of ~Rs 109 crores (over ~Rs. 109 crores in FY2020) and strong net cash accruals of ~Rs. 37 crore in FY2022 (over ~Rs. 32 crore in FY2020). In H1 FY2023, the property has reported occupancy levels of 65%, pointing to a considerable stronger demand even during the historically leaner season. Even though the company's performance continues to remain exposed to its limitation to a single geographical location, ICRA expects the company's operational metrics to remain healthy, and support its cash accruals.

The rating upgrade also factors in favourably the company's improved financial risk profile, characterised by strong profitability margins and comfortable capital structure and liquidity position. Despite availing incremental debt, viz. a second GECL[2] loan of Rs. 11.8 crore, in FY2022, the overall debt levels remain low (total debt of ~Rs. 40 crore and net debt negative position as of October 31, 2022). Aided by the strong earnings, coverage indicators remain robust as evidenced by interest cover ratio of 10.9x and DSCR of 2.1 in FY 2022 (4.7x and 1.2x respectively in FY2021). ICRA expects the overall debt levels of the company to peak at levels of ~Rs. 75 crore over the medium term (on the back of ongoing capex plans towards a new hotel property construction); however, the cash accruals and reserves should remain healthy, and aid the company in maintaining a strong financial risk profile.

The company is developing a 52-room property under the Accor's brand, 'Raffles', adjacent to the Fairmont property over the medium term at a project cost of ~Rs. 120 crore. While the financial closure for the project was achieved in January 2020, the drawdown of debt was marginal in FY2022. The promoter funding for the project is expected to be largely met through internal

[1] *MICE: Meetings, Incentives, Conferences and Exhibition business*

[2] *GECL: Loans granted under the Government's Emergency Credit Line Guarantee Scheme (ECLGS)*

accruals (i.e., from Fairmont's operations). While there could be some cost overrun for the project (over the initial plan) owing to inflationary pressures, ICRA expects cash flows from existing operations to be sufficient to fund the project over the medium term. Additionally, ICRA expects the company to receive need-based and timely funding support from the promoters to meet any unforeseen operational or project capex requirements.

The rating continues to favourably factor in the company's association with the Accor Group, that provides enhanced brand recognition, access to its global distribution system, strong loyalty programme, project development capabilities and extensive experience from global hospitality industry. The ratings also take cognizance of the considerable experience of its promoters in the hospitality industry and their demonstrated support in meeting THRPL's funding requirements.

The ratings remain constrained by the limited geographic and segment diversification of the company; while presence in a single micro-market (i.e., Jaipur), exposes the company to adversities in the concerned local market and competition from other properties in the vicinity. While THRPL is developing another property (also in luxury segment), it will continue to operate in the same market over the medium term. Meanwhile, until the 'Raffles' project is fully operational, the company also remains exposed to project implementation risk. ICRA notes that the Fairmont property is highly dependent on events (primarily weddings) business, which account for approximately three-fourths of its total revenues and have traditionally been highly seasonal. While social MICE (mainly weddings) has supported recovery for the property's operating metrices post the pandemic, ramp-up of corporate MICE activities, has been rather gradual. Going forward, a successful start of operations in the new project and the company's ability to ramp up revenues from the same, will be a key monitorable over the near-to-medium term.

The Stable outlook on THRPL reflects ICRA's expectation that the long and established track record of the promoters in hospitality sector, strong brand and market position of the property and the company's conservative leverage are likely to keep the credit risk profile healthy.

Key rating drivers and their description

Credit strengths

Owns a favourably located five-star hotel property in Jaipur – THRPL owns a hotel, which is operated under a well-established five-star brand, 'Fairmont', and benefits from its location in Kukas near Jaipur, a busy holiday destination in northern India. Furthermore, its proximity to the densely populated Delhi NCR ensures healthy tourist traffic throughout the year. The same has also been evidenced in the years post pandemic, when the property was able to post healthy sequential recovery in occupancy levels, due to its favourable and driveable location**.**

Experienced promoters: association with Accor Group enhances brand recognition besides providing access to global reservation system and large client base – The company benefits from its well-experienced promoters with an established track record of operating in the hospitality market. Besides Fairmont, the promoter family also owns two other hotel properties, one each at Jaipur and Udaipur. While Fairmont Jaipur is the sole 'Fairmont' property in India, Accor Hotels has an established and expanding presence in the country. Besides imparting strong brand recognition, the association provides the Fairmont property access to Accor's global reservation systems, strong loyalty programme and established client base. This has aided the property in recording healthy average daily rates and occupancy over the years. Accor is also providing project development consultancy services to THRPL for its ongoing Raffles project, which is likely to aid in timely development of the property and scale up of operating metrics post commencement of operations.

Healthy financial profile, characterised by steady profitability metrics and limited debt – Aided by its favourable location, THRPL's revenues grew at a healthy rate of ~91% in FY2022. The operating profit margins reached ~40% in the last fiscal, aided by the healthy operating metrices. Even during the years of the pandemic, despite the severe contraction in revenues, the operating margins remained at ~36%, evidencing timely and effective cost rationalisation measures undertaken by the management/operator. The company reported cash profit of Rs. 37 crore in FY2022 (127% YoY); despite drawdown of GECL loan, the net debt declined to ~Rs. 0.4 crore as of March 31, 2022 (~Rs. 24 crore as of March 31, 2021). Over the years, the promoters have demonstrated a track record of providing funding support, as equity or unsecured loans, to fund cash losses, capex or reduce external debt; the same provides comfort regarding the promoter's commitment to the project. ICRA expects the promoters to continue to provide need-based and timely support to THRPL to successfully execute the ongoing capex plans with limited impact on leverage ratios.

Credit challenges

Vulnerability of revenues to inherent industry cyclicality and exogenous shocks – Even as the company has reported a recovery in occupancy levels beyond what was seen in the pre-pandemic years (from 57% in H1 FY2020 to 65% in H1 FY2023) and Average Room Rate (ARR; from Rs. 7,188 in H1 FY2020 to Rs. 12,870 in H1 FY2023) and was a positive outlier in the industry despite the pandemic (because of the favourable location/ brand), the operating performance remains vulnerable to industry cycles and exogenous shocks (geopolitical crises, terrorist attacks, disease outbreaks, etc). Further, the hotel continues to remain exposed to competition from other luxury hotels in Jaipur.

Modest scale of operations with high geographical concentration – The company owns a single, premium segment property and, therefore, has a modest scale with limited possibility of any significant scale-up of operations. Additionally, dependence on a single hotel exposes it to adversities of the local market, including *inter alia* new supply addition and event risks, among others. However, ongoing capex for addition of a new property (adjacent to the current one) would aid in a scale-up of operations over the medium term.

Exposed to project implementation risk over the near to medium term – The company is developing a 52-room property under the Accor's luxury brand, 'Raffles', adjacent to its flagship Fairmont property. The total budgeted capex for the project stands at ~Rs 120 crore (some cost overrun is likely given the inflationary pressures), of which ~Rs. 30 crore has already been incurred as of October 31, 2022. Over the near to medium term, the company will remain exposed to project implementation risks on account of the ongoing project capex, whose construction is anticipated to be completed by August 2023.

Liquidity position: Adequate

THRPL's liquidity is expected to remain adequate, aided by healthy operational cash accruals and supported by cash, and liquid investments of ~Rs. 65 crore and undrawn OD limit of Rs. 13.0 crore as of October 31, 2022. Additionally, the company has undrawn limits of ~Rs. 55 crore on its project debt. Against the same, it has repayment obligations of ~Rs. 20 crore in FY2023 (~Rs. 14 crore already paid in H1 FY2023) and Rs. 9-13 crore thereafter over the next two fiscals. The capex for the Raffles project will be met thorough internal accruals and project debt—the latter being drawn down as and when required. ICRA expects the cash accruals and liquidity buffer to be more than sufficient for covering the operating and repayment obligations over the near-term.

Rating sensitivities

Positive factors – A sustained improvement in operational performance and profitability indicators (in terms of scale and margins) leading to significant improvement in liquidity and leverage metrics, could be a trigger for a rating improvement.

Negative factors – Negative pressure on THRPL's rating could arise on account of prolonged weakness in operating metrics resulting in weakening of debt servicing indicators and liquidity position of the company. Significant cost/time overruns in completion of the ongoing capex plans towards construction of another hotel would remain a sensitivity. Specific credit metrics would include Debt/OPBITDA over 2.3 times on a sustained basis.

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 financial statements of the company.

About the company

Incorporated in March 2007, Triton Hotels & Resorts Private Limited owns a five-star hotel in Kukas, Rajasthan (on the Delhi–Jaipur Highway), under the Accor's 'Fairmont' brand. The property has been operational since August 2012 with an inventory of around 245 rooms, of which 46 rooms were added and launched in November 2017. The property also offers facilities like a convention centre, meeting rooms, swimming pool, fitness centre and dining options at five restaurants and bars.

THRPL is promoted by Mr. Ratankant Sharma, whose family also owns Le Meridien in Jaipur and has developed another luxury property under the 'Raffles' brand in Udaipur, Rajasthan. The promoters are in the process of developing another luxury property under Accor's Raffles brand under THRPL, adjacent to the existing Fairmont property. The construction of the same is expected to be completed by mid-2023.

Key financial indicators (audited)

	FY2021	FY2022	H1 FY2023 (Prov)
Operating income	57.1	109.1	72.8
PAT	7.4	29.5	NA
OPBDIT/OI	35.6%	39.6%	40.1%
PAT/OI	12.9%	27.0%	NA
Total outside liabilities/Tangible net worth (times)	0.6	0.5	NA
Total debt/OPBDIT (times)	2.9	1.2	NA
Interest coverage (times)	4.7	10.9	NA

Note: All ratios are as per ICRA calculations. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs 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 October 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020*
					Nov 28, 2022	Sep 29, 2021	Jul 21, 2020 Jun 19, 2020	-
1	**Term Loans**	Long Term	94.54	39.93	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	-
2	**Bank Guarantee**	Long-Term	5.00	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	-
3	**Overdraft Limits**	Short Term	13.00	-	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A2**	-

**An update on delay in periodic surveillance was published in March 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Bank Guarantee	Very simple
Overdraft Limits	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	July 5, 2016	NA	Mar 2024	12.67	[ICRA]A- (Stable)
NA	Term Loan-II	Jan 21, 2020	NA	Nov 2029	60.00	[ICRA]A- (Stable)
NA	Term Loan- III	Dec 23, 2020	NA	Mar 2026	10.07	[ICRA]A- (Stable)
NA	Term Loan- IV	Dec 23, 2020	NA	Oct 2027	11.80	[ICRA]A- (Stable)
NA	Overdraft limit	Jan 21, 2020	NA	NA	13.00	[ICRA] A2+
NA	Bank Guarantee	Jan 21, 2020	NA	NA	5.00	[ICRA]A- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

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