March 20, 2023

Milagro Infrastructure Private Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund-based – Term loan	50.00	50.00	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

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 upgrade factors in the strong operational performance of the company in the current fiscal, resulting in earnings above pre-pandemic levels. A buoyant industry outlook over the medium term is expected to continue to support earning growth for the company, going forward. The rating upgrade also factors in the favourable refinancing of the company's debt obligations, which coupled with the steady cash accruals from business, will support an improvement in debt coverage indicators in the near term and limit any equity support requirement from the parent. ICRA 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. The company's strong parentage also lends it strong financial flexibility to negotiate favourable terms with lenders. The ratings also 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 IGH's large and geographically diversified presence (20 hotels across 13 cities), comfortable capital structure and extensive experience of its promoters in the hospitality industry.

The 20-hotel portfolio under IGH witnessed a healthy improvement in the operating performance in FY2023, with both occupancy and the portfolio of average room rent (ARR) seeing a healthy traction driven by pent up demand and revival of corporate MICE[1] events. Aided by this demand recovery and sustained cost control measures, in 9M FY2023, the company posted revenues of ~Rs. 343 crore (vis-à-vis ~Rs. 220 crore in FY2022) and improved gross operating profits (GOP) at ~Rs. 130 crore (vis-à-vis GOP of ~Rs. 31 crore in FY2022). Going forward, increase in in-person engagements, conferences, seminars, and offsite trips by corporates is expected to benefit the company's overall performance. The company's nascent stage properties (including Ibis Hebbal in Bengaluru and Ibis Thane, that became operational in FY2023) should further support earning growth as they mature. Furthermore, with the accelerated pace of international commercial travel, the industry is expected to receive a further boost to ARRs across properties.

IGH's rating remains constrained by its exposure to project execution and approval risks, given the sizeable under construction inventory (~497 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 relatively low entry barriers. Hence, IGH 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, while the dependence on corporate contracted business

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

has moderated after the pandemic, the same remains a key contributor to the revenues and 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 years (~Rs. 160 crore between April 2020 and December 2022), IGH's external debt levels continue to remain elevated given the growth-oriented business and ongoing projects that are still in construction phase (two are expected to operationalise in CY2023 and the other two by CY2026). However, the management has been able to favourably refinance its near-term repayments in FY2023 (~Rs. 150 crore term loan utilised towards refinancing debt obligations in FY2024). Coupled with stronger accruals from the improvement in operating performance, this is expected to improve the leverage indicators for the company in the near term. While equity commitment towards the under-construction projects is already complete, a track record of timely funding support from its promoters in case of any cost overruns, provides comfort.

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, the company is expected to continue to benefit from favourable medium term demand expectation, which coupled with its well-recognised brand and experienced operator, would aid the entity to record healthy operational metrics.

Key rating drivers and their description

Credit strengths

Strong and experienced promoters with track record of timely capital infusion over the years – IGH is a joint venture (JV) of the InterGlobe Enterprises Private Limited (IGE,60%) and French hospitality major, the Accor SA. IGE 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). 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, which demonstrates the promoters' commitment to the company. While limited equity support has been required in FY2023 (~Rs. 20 crore) given the strong operating performance in the year so far, ICRA expects the funding support to continue to support IGH's credit profile, as and when required.

Well recognised brand and part of geographically diversified portfolio – MIPL is a 100% subsidiary of IGH, which has firmed up plans to operate 23 hotels with a total room inventory of ~4,145 across 13 cities (metro and tier-I 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. The consolidated company, at present, has 20 operational hotels across 13 cities (metro and tier-I cities) of India, with concentration of the room inventory skewed towards western and southern Indian cities. 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. Additionally, a diversified portfolio insulates IGH from any adverse regional developments and aids in targeting corporate clientele allowing the portfolio to have better rates and healthy occupancies.

Healthy sequential growth in operating metrices; improved revenue visibility over medium term – The IGH portfolio saw a strong recovery in demand, with occupancy levels remaining above pre-Covid levels for all months up to December in the current fiscal. Monthly ARRs have been higher than ARRs in FY2020 by ~13-14%. YoY revenue-per-available-room (RevPAR) recovery has seen been across cities, well above pre-pandemic levels in key metro markets aided by higher occupancies and ARR. While the post-Covid corporate segment demand recovery lagged behind other segments, easing of work-from-home policies and commencement of corporate MICE events along with pent-up demand from the past two years have improved the pace of demand recovery in FY2023 and are expected to drive further growth in the near to medium term.

Credit challenges

Cyclical industry; revenues susceptible to general economic slowdown and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macro-economic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. As such, global and domestic economic conditions will remain a key monitorable for IGH, as part of this industry.

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 beyond a certain level, depending on the micro-market demand dynamics. Also, the company garners a sizable portion of its business (~40% pre-pandemic, ~25% in 9M FY2023) from the corporate sector. This demand was severely impacted during the pandemic, when corporates shifted to online platforms for meetings and conferences. While contribution from this segment has reduced post-Covid, partly due to a lag in recovery within the corporate sector compared to the independent leisure travel segment, IGH's portfolio remains vulnerable to vagaries in corporate policies on travel and MICE activities.

Debt coverage indicators remain modest; considerable planned capex over medium term to constrain improvement in credit metrics – Despite the improvement in operating performance, high debt levels (long term debt of ~Rs. 1,040 crore as on December 31, 2022, excluding operating leases), due to drawdown of project debt, have led to modest debt coverage metrics. While ICRA expects the profitability metrics to remain at healthy levels over the medium term, aided by a healthy demand, the debt levels will likely remain elevated over the medium term due to capex commitments towards the company's three under-construction hotels (as on date). Any funding support required during the stabilisation phase of these properties will have to be supported by fund infusion from promoters or timely refinancings, such as the one in September 2023, which significantly reduced the company's debt repayment obligations for the near term. Nonetheless, ICRA continues to draw comfort from the company's financial flexibility emanating from its healthy asset base, periodic equity infusion by the promoters, and the management's demonstrated track record of raising or refinancing debt on competitive terms.

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. 41 crore (as on December 31, 2022) and undrawn project debt (~Rs. 152 crore as of December 2022) provides liquidity cushion. Against the same, the company has debt servicing requirements of ~Rs. 75 crore and planned capex outlay of ~Rs. 90 crore in FY2024. ICRA expects IGH's strong accruals from operations 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 improvement in operating and financial metrics 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/support philosophy, 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- Consolidation Rating Approach –Implicit Support From Parent or Group
Parent/Group support	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	For arriving at the ratings, ICRA has considered the consolidated financials of IGH. As on December 31, 2022, the company had three subsidiaries who are all enlisted in Annexure-2.

About the company

Milagro Infrastructure Private Limited (MIPL), incorporated in 2016, is a ~100% subsidiary of IGH and is undertaking construction of a 142-key 'Ibis Styles' hotel at Vagator, Goa. The hotel is expected to become operational in early FY2024.

InterGlobe Hotels Private Limited (IGH), a 60:40 JV between InterGlobe Enterprises Private Limited (IGE, along with its affiliates) and Accor SA, was established in 2004 to develop the Ibis network of hotels in India, Nepal, Sri Lanka, and Bangladesh. The company plans to develop 23 hotels (22 budget hotels under the Ibis brand and one upscale hotel under the Novotel brand) in India. Of these, 20 hotels (~3,648 keys) were already operational as of March 20, 2023. IGH expects to have a cumulative inventory of ~4,145 rooms in the next four years across India.

The company's 40% stakeholder, Accor, is a leading player in the global hospitality industry. IGE, for its part, is one of the promoters of InterGlobe Aviation Limited (IAL), which owns majority stake in Interglobe Aviation Limited, India's largest airline with ~55% market share (as of December 2022). 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	FY2021	FY2022	9MFY2023*
Operating income	122.7	219.7	343.0
PAT	-194.4	-134.1	-7.6
OPBDIT/OI	-25.5%	9.2%	-30.3%
PAT/OI	-158.4%	-61.0%	-2.2%
Total outside liabilities/Tangible net worth (times)	0.9	1.2	-
Total debt/OPBDIT (times)	-31.4	60.2	-
Interest coverage (times)	-0.4	0.2	-

*Source: Company; All rations are as per ICRA calculations. PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. PAT includes interest capitalised *Provisional*

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 December 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					20-Mar-23	29-Jun-22	25-Nov-21	--	--
1	Term Loans	Long-term	50.0	35.5	[ICRA]A- (Stable)	[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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Term Loan-1**	Sep 2021	--	Mar 2035	50.0	[ICRA]A- (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis:

Company Name	IGH Ownership	Consolidation Approach
InterGlobe Hotels Private Limited (rated entity)	Rated entity	Full Consolidation
Isha Steel Treatment Private Limited	100%	Full Consolidation
Milagro Infrastructure Private Limited	100%	Full Consolidation
Ashford Properties Private Limited	66%	Full Consolidation

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

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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.

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