

August 07, 2023

Sukhsagar Complexes Private Limited: Long-term rating upgraded to [ICRA]A (Stable); short-term 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	34.43	21.82	[ICRA]A (Stable); rating upgraded from [ICRA]A- (Stable)
Long-term/ Short-term – Unallocated Limits	4.27	16.88	[ICRA]A (Stable); rating upgraded from [ICRA]A- (Stable); [ICRA]A2+; rating reaffirmed
Total	38.70	38.70	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Lemon Tree Hotels Limited (LTHL), its subsidiaries (including Sukhsagar Complexes Private Limited, or Sukhsagar), step-down subsidiaries, and associate companies, while assigning the credit ratings (together referred to as LTHL or the company), given the common management team and significant operational and financial linkages between the entities.

The upgrade in long-term rating factors in the healthy improvement in operating performance of LTHL in FY2023 and an expectation of sustenance of the same going forward, which would lead to an improvement in the company's return and credit metrics. Aided by strong demand and sustained cost control measures, LTHL posted revenues of Rs 875 crore (a 118% YoY growth) and a healthy operating margin (OPM) of 51% in FY2023 (OPM of 30% in FY2022). The portfolio average room rate (ARR) increased to ~Rs 5,300 in FY2023 over ~Rs 3,300 in FY2022, while the room occupancy stood at an average of 68% in FY2023 against 46% in the previous year. The company witnessed resilient demand during the year led by an increase in leisure travel, return of corporate clientele as well as a boost in wedding bookings, which supported stabilisation of its relatively new hotels (Lemon Tree (LT) Premier Andheri Mumbai, Aurika Udaipur etc.). A sustenance of domestic leisure travel, demand from MICE (meetings, incentives, conferences, and exhibitions) activities and business travel along with an increase in foreign tourists, is expected to support its overall performance and help it report improved earnings.

The rating improvement also factors in the reduction in project execution risk, given the advanced stages of execution of the entity's largest hotel – Aurika (Mumbai)/MIAL, which is slated to commence operations in Q3 FY2024. Of a project cost of ~Rs 950 crore for MIAL, the company had invested equity of ~Rs 550 crore as of March 2023. Further, it has been sanctioned a term debt of Rs 450 crore in Q1 FY2024 to help fund the remaining capex in current fiscal. A part of this debt is also likely to be available to Fleur Hotels in the form of equity reimbursement. ICRA anticipates the MIAL hotel to stabilise soon, given its favourable location, and aid earning growth for the company over a medium term.

LTHL plans to invest significantly on refurbishment, particularly across its Keys segment, older LT, LT Premier and Red Fox portfolio over a period of 2-3 years. This is likely to increase its operating expenses by a further 2.0-2.5% on revenue basis during FY2024. As per the management, renovations are planned such that the occupancy levels are not adversely impacted. Even as LTHL continues its cost optimisation measures, it is likely to witness marginal moderation in margins in FY2024 with an uptick in renovation costs and impact of the upcoming MIAL hotel on the margins, till its operations are stabilised.

The ratings continue to reflect LTHL's diversified business profile, characterised by large scale (88 hotels; ~8,400 rooms), geographically spread-out hotels (54 cities), well-recognised brands across price-points (economy, midscale, and upscale) and extensive experience of its promoter and management team. Further, the operationalisation of MIAL is likely to enable LTHL to achieve higher ARR, revenue and margin growth over a medium term as its operations stabilise. ICRA notes that LTHL has bought back CCPS in Fleur Hotels by paying ~Rs 159 crore (partially funded by debt of Rs 50 crore) to APG Strategic and thus

has increased CCPS shareholding in Fleur Hotels to 58.91%, back to its pre-Covid levels. The debt on LTHL's books (excluding operating lease liabilities) has increased marginally on YoY basis, at around Rs. 1,746 crore as of March 2023 (Rs 1,699 crore as of March 2022). As per management discussions, LTHL does not envisage any other major capex, apart from ~Rs 400 crore to be spent on the MIAL project in FY2024. The other property, LT Shimla, does not require significant investment as such. As the company continues to target portfolio expansion through an asset-light route, the capex plans remain limited over the medium-to-long-term. Accordingly, the additional debt requirements are likely to remain low going forward, apart from loan to be drawn towards MIAL. An expectation of healthy earnings for the company is likely to aid in deleveraging over the medium term.

Led by healthy operating profits, the coverage indicators witnessed an improvement with Debt/OPBDITA at 4.9x in FY2023 against 17.9x in FY2022. An additional loan drawdown towards the MIAL project as well as some moderation expected in its operating margins may constrain improvement in the return and credit metrics in FY2024; however, the same are expected to improve over the medium term. ICRA continues to draw comfort from the company's financial flexibility emanating from its healthy asset base and the management's demonstrated track record of raising timely debt against projects, refinancing of high-cost debt and raising equity on a timely basis during the pandemic. Further, the promoter shareholding pledge has reduced to 6.4% as of June 2023 (23.2% as of March 2022), pursuant to repayment of partial debt by the promoters. This would continue to remain a monitorable.

The Stable outlook factors in an expectation that the company would continue to benefit from favourable medium term demand expectation, which coupled with its well-recognised brand would aid the entity to record healthy operational metrics and earnings, thereby leading to a gradual improvement in return and credit metrics.

Key rating drivers and their description

Credit strengths

Well-recognised brands and geographically diversified product portfolio – LTHL is among India's largest hotel chains, with 88 operational properties across 54 cities. It benefits from a robust distribution system, loyalty programmes and corporate relationships. The company has well-established and recognised midscale (Lemon Tree) and economy (Red Fox) brands. Moreover, with the successful launch of its upscale brand, Aurika, as well as the acquisition of the Keys brand in FY2020, it further diversified and consolidated its presence across price points. This diversified presence reduces the vulnerability of the Group's revenues to cyclical downturns to some extent. The favourable location of its properties in prominent business and tourist districts supports revenue growth and reduces concentration risk.

Experienced promoters and management team – LTHL is promoted by Mr. Patanjali Keswani, who has been associated with the hospitality industry for over 30 years. From two properties in 2004, the Group has expanded its portfolio to 88 properties (owned/leased and managed) under seven brands, as of March 31, 2023. This has been led by an experienced and professional management team, with a track record of delivering consistent performance through well planned refurbishments and project development, centralised sales and marketing, and disciplined cost control measures.

Strategy to expand through management contract route to limit capital requirement and minimise development risk – The company has been expanding its footprint through an asset-light model that involves leasing of properties or entering into franchise agreements/ management contracts with property owners. As of March 31, 2023, almost 40% of its 8,400-room inventory was under management contracts (up from 35% in March 2020). A further inventory of ~2,550 managed rooms across 40 properties is in the pipeline (as of March 2023), of which, ~1,600 keys are planned to be added in the current fiscal. The management fee income for LTHL doubled from ~Rs 18 crore in FY2022 to ~Rs 36 crore in FY2023 and is expected to grow at a healthy pace going forward. These business models are expected to provide long-term operational benefits to LTHL, as properties can be quickly put into operation with minimal (or nil) capex and limited project implementation risk.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of consumer spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, the several non-metro markets also face seasonality in guest traffic. Over the pandemic impacted period, the performance of LTHL (and the entire hotel industry) was significantly impacted. Despite the potential impact on demand with further Covid waves, if any, ICRA expects the company to report healthy revenue growth in FY2024.

Subdued debt coverage metrics and return on capital employed; gradual, ongoing improvement aided by strong underlying demand - The company's debt levels remained at Rs. 1,746 crore in FY2023 (Rs 1,699 crore in FY2022); the increment in debt was mainly owing to GECL loan of ~Rs. 80-90 crore and loan of ~Rs. 50 crore towards CCPS acquisition in Fleur Hotels. As the company's profitability improved significantly, the debt coverage indicators witnessed an improvement. The DSCR improved to 1.4x in FY2023 (0.5x in FY2022) and TD/OPBDITA to 4.9x (17.9x in FY2023). Further, led by a higher profitability contribution from its nascent stage inventory (i.e., three to four years since commencement of operations), the RoCE increased to ~11% in FY2023. An additional debt drawdown towards the MIAL project as well as some moderation expected in its operating margins may constrain improvement in the return and credit metrics in FY2024. However, the same are expected to improve over the medium term. The management policy of availing project debt towards later stages and its ability to raise relatively low-cost debt, continue to provide comfort.

Liquidity position: Adequate

LTHL's liquidity is expected to remain adequate, supported by healthy net cash accruals, free cash and liquid investments of ~Rs. 30 crore and undrawn working capital limits of ~Rs. 15-20 crore as of March 2023. It has term loan repayments of ~Rs. 170 crore and capex obligations of ~Rs. 350-400 crore in FY2024. The company has been sanctioned a term loan of Rs. 450 crore in Q1 FY2024 to help fund the remaining capex. As such, the liquidity is expected to be sufficient in covering its obligations in the near term. ICRA expects LTHL's large asset base, strategic partnerships, and financial flexibility with its lenders to continue to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators leading to significant improvement in leverage and coverage metrics along with liquidity profile, could be a trigger for an improvement in the rating. Specific metrics for an upgrade include Total Debt/OPBDITA reducing to less than 3.0 times on a sustained basis.

Negative factors – Negative pressure on the ratings could arise from deterioration in debt metrics or any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability.

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	For arriving at the ratings, ICRA has considered the consolidated financials of LTHL, details of which are enlisted in Annexure-II.

About the company

Incorporated in April 1993, Sukhsagar is a 100% subsidiary of LTHL, which owns and operates a Red Fox property in Jaipur, with an inventory of 183 rooms.

Incorporated in 2002 by Mr. Patanjali Keswani, his friends and associates, LTHL is a publicly listed company that owns and operates 88 hotels with more than 8,400 rooms under seven brands across 54 cities in India and abroad. The company's portfolio spans upscale, midscale and economy segments. Its brands include—Aurika (upscale), Lemon Tree Premier and Keys Prima (upper midscale), Lemon Tree and Keys Select (midscale), and Red Fox and Keys Lite (economy). In terms of ownership, ~24% stake in the company is held by the promoters (the Keswani family), ~15% by APG (a Dutch pension fund) and the rest by foreign portfolio investors, mutual funds, employees and the public.

The company designs, develops and manages properties directly or under its subsidiaries (collectively referred to as the Lemon Tree Group). While most properties in its portfolio are owned by the company directly or through its subsidiaries, a few are operated on long-term lease basis. As on March 31, 2023, the Group had 40 owned and leased operational properties and two properties under development. The total owned/leased inventory across the operational properties stood at 5,090 rooms with 738 rooms under development across two properties.

To facilitate rapid expansion of LTHL's brands across the country, the Group's subsidiary, Carnation Hotels Private Limited, enters management contracts with asset owners. As on March 31, 2023, 3,292 rooms across 48 properties were under management contracts with an additional 2,547 rooms (40 properties) in the pipeline.

Key financial indicators (audited)

LTHL Consolidated	FY2022	FY2023*
Operating income	402.2	875.9
PAT	(138.4)	139.7
OPBDIT/OI	29.5%	51.2%
PAT/OI	-34.4%	15.9%
Total outside liabilities/Tangible net worth (times)	1.6	1.6
Total debt/OPBDIT (times)	17.9	4.9
Interest coverage (times)	0.7	2.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Limited results

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Aug 07, 2023	Jun 02, 2022	Aug 11, 2021	Nov 02, 2020	Apr 13, 2020
1 Fund-based – Term Loan	Long term	21.82	21.82	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)
3 Unallocated Limits	Long term/short term	16.88	--	[ICRA]A (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Negative)/[ICRA]A2+	[ICRA]A- (Negative)/[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple
Unallocated Limits	Not Applicable

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	May-17	-	FY2024	11.89	[ICRA]A (Stable)
NA	Term Loan-II	Sep-20	-	FY2025	3.43	[ICRA]A (Stable)
NA	Term Loan-III	FY2022	-	FY2028	6.50	[ICRA]A (Stable)
NA	Unallocated Limits	-	-	-	16.88	[ICRA]A (Stable)/[ICRA]A2+

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	LTHL Ownership	Consolidation Approach
Lemon Tree Hotels Limited	100.00% (rated entity)	Full Consolidation
Carnation Hotels Private Limited	100.00%	Full Consolidation
Fleur Hotels Private Limited	57.92%	Full Consolidation
Dandelion Hotels Private Limited	100.00%	Full Consolidation
Lemon Tree Hotel Company Private Limited	100.00%	Full Consolidation
PSK Resorts & Hotels Private Limited	100.00%	Full Consolidation
Canary Hotels Private Limited	100.00%	Full Consolidation
Grey Fox Project Management Company Private Limited	100.00%	Full Consolidation
Oriole Dr Fresh Hotels Private Limited	100.00%	Full Consolidation
Red Fox Hotel Company Private Limited	100.00%	Full Consolidation
Sukhsagar Complexes Private Limited	100.00%	Full Consolidation
Manakin Resorts Private Limited (Subsidiary of PSK Resorts & Hotels Private Limited)	100.00%	Full Consolidation
Nettle Hotels Private Limited (formerly known as Poplar Homestead Holdings Private Limited)	100.00%	Full Consolidation
Madder Stays Private Limited	100.00%	Full Consolidation
Arum Hotels Private Limited (formerly known as Jessamine Stays Private Limited)	100.00%	Full Consolidation
Totally Foxed Solutions Private Limited	100.00%	Full Consolidation
Hamstede Living Private Limited	100.00%	Full Consolidation
Manakin Resorts Private Limited (Subsidiary of PSK Resorts & Hotels Private Limited)	100.00%	Full Consolidation
Celsia Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
Inovoa Hotels & Resorts Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
IORA Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
Hyacinth Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
Bandhav Resorts Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
Ophrys Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation
Valerian Management Services Private Limited (Subsidiary of Grey Fox Project Management Company Private Limited)	100.00%	Full Consolidation
Berggruen Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	57.92%	Full Consolidation

Company Name	LTHL Ownership	Consolidation Approach
Mind Leaders Learning India Private Limited	36.56%	Equity Method
Pelican Facilities Management Private Limited (Subsidiary of Mind Leaders Learning India Private Limited)	36.56%	Equity Method
Glendale Marketing Services Private Limited (Subsidiary of Pelican Facilities Management Private Limited)	36.56%	Equity Method
Mezereon Hotels LLP (Capital contribution by Fleur Hotels Private Limited & Celsia Hotels Private Limited)	57.92%	Full consolidation

Source: company; as of March 31, 2023

ANALYST CONTACTS

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

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Astha Bansal
+91 124 4545 342
astha.bansal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

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ICRA Limited



Registered Office

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



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