August 30, 2023

IHHR Hospitality Private Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	263.49	197.28	[ICRA]BBB+ (Stable); Upgraded from [ICRA]BBB- (Stable)
Total	**263.49**	**197.28**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of IHHR Hospitality Private Limited (IHHR), including its subsidiary and a sister concern, IHHR Hospitality Ananda Private Limited (IHHR Ananda), while assigning the credit ratings, given the common management, significant operational and financial linkages between the entities.

The upgrade in the ratings factors in the better-than-expected improvement in the operating metrics of IHHR's portfolio and the company's earnings in FY2023, with expectation of continuation of a healthy performance over the near to medium term, aided by a favourable demand outlook for the hospitality industry. IHHR's portfolio reported a healthy pick-up in the operating metrics, with occupancy levels rising from the lows of 10-30% across properties in FY2021 to ~71% (at an overall portfolio level) in FY2023. The average room rates (ARRs) have also been improving on a month-on-month basis, averaging at ~Rs. 8,615 in FY2023. Resultantly, the company reported provisional revenues of ~Rs. 306 crore for FY2023 (ICRA's estimated consolidated revenues), marking a 106% YoY growth. Aided by cost control measures undertaken in the last few years and benefits of operating leverage, the operating profit margin is estimated to have improved to ~35% in FY2023 from 11% in FY2022.

The rating continues to factor in the extensive experience of IHHR's promoters in the hospitality industry and their demonstrated support in meeting funding requirements, IHHR's geographically diversified and favourably located portfolio as well as operations under well-recognised brands, and management tie-ups with the reputed hospitality service provider, Hyatt International.

The rating remains constrained by the inherent cyclicality and seasonality in the hospitality industry, which exposes IHHR's revenues to risks associated with economic slowdown and exogenous shocks (though the same is partially mitigated by its geographically diversified portfolio). ICRA also notes that IHHR has sizable debt repayments due over the next three years, which constrains the debt coverage indicators to an extent. Nevertheless, the total external debt (excluding promoter debt) on IHHR's books reduced to ~Rs. 264 crore as on March 31, 2023 from ~Rs. 310 crore as on March 31, 2022 aided by scheduled repayment of long term loans. Backed by reduction in external debt levels, infusion of promoter funds (Rs. 31.25 crore in FY2023), and improvement in profitability, the debt coverage ratios, viz., total debt/OPBDITA, interest cover and DSCR are estimated to have improved to 2.8x, 3x and 1.4x, respectively, in FY2023. Going forward, ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant impact on the leverage ratios.

The Stable outlook on the long-term rating reflects ICRA's belief that IHHR, with its geographically spread portfolio, renowned brand and experienced promoters, is expected to benefit from anticipated healthy demand in the hotel industry on the back of healthy demand from meetings, incentives, conferences and exhibitions (MICE) and business travel, sustenance of domestic leisure travel along with increase in foreign tourist arrivals (FTAs). The operating profitability is expected to remain supported by cost rationalisation measures and positive operating leverage. Further, the backing of financially strong promoters, coupled with their track record of fund infusion in the entity, provides comfort regarding promoters' commitment to the IHHR portfolio.

Key rating drivers and their description

Credit strengths

Comfortable capital structure aided by demonstrated funding support from promoters – IHHR has a comfortable capital structure, as reflected in gearing of 0.9 time as on March 31, 2023 (provisional estimates). This has been aided by demonstrated funding support from the promoters over the years. During FY2013-FY2017, the promoters provided sizeable funding support of over Rs. 300 crore through equity infusion and unsecured debt, to enable prepayment of external debt and support operations, while the hotels were in stabilisation phase. In FY2023, the promoters infused incremental funds of ~Rs. 31.25 crore in the form of preference shares to support the company's cash flows and debt repayments. ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant impact on the leverage ratios.

Healthy geographical diversification; strong brand recognition of Ananda and Hyatt in domestic and international markets – IHHR Group's flagship property, Ananda, has established its position as an internationally acclaimed luxury spa destination with a niche clientele. IHHR's other four properties are managed by the Hyatt Group under its well-established upper-upscale brands. These hotels benefit from Hyatt's global distribution, strong loyalty programmes and corporate relationships, allowing them to have better rates and occupancies. Further, IHHR benefits from healthy geographical diversification as the five properties are in business-centric and favourable tourist locations. While ICRA notes that the flagship property—Ananda in the Himalayas—was demerged from IHHR and vested in IHHR Ananda w.e.f. FY2019, it has taken a consolidated view as both the companies are in the same business sector, with common promoters and management team. Furthermore, IHHR Ananda has extended corporate guarantee to the lenders of IHHR, and Ananda assets continue as collateral for IHHR's debt.

Experienced promoters with established track record in hospitality industry in India and select international markets – IHHR was established by Mr. Gautam Khanna and his son, Mr. Ashok Khanna, who have over five decades of experience in the hospitality industry through their association with Oberoi and Indus Hotels. IHHR's shareholders have interests in hospitality, aviation, financial services, real estate, and utilities businesses. In the hospitality sector, the promoters owns a portfolio of ~32 properties (including the IHHR properties) across geographies, such as India, the UK, the US, Switzerland and Mauritius, through Shanti Hospitality Private Limited.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors (such as geopolitical crises, terrorist attacks and disease outbreaks), leading to inherent cyclicality. In addition, several non-metro markets also face seasonality in guest traffic. Nonetheless, since the impact varies across markets, the risk to revenues is partially mitigated by IHHR's reasonably diversified portfolio across continents.

High debt and sizable repayments constrain debt coverage metrices; coverage metrics gradually improving aided by improvement in profitability – As on March 31, 2023, the total external debt on IHHR's books was ~Rs. 264 crore (PY: Rs. 310 crore) excluding ~Rs. 33 crore of promoter debt. The company has sizable debt repayments due over the next three years, which constrain the debt coverage indicators. Nevertheless, aided by reduction in external debt levels, infusion of promoter funds, and improvement in profitability, the debt coverage ratios—viz., total debt/OPBDITA, interest cover and DSCR—are estimated to have improved to 2.8x, 3x and 1.4x, respectively, in FY2023. With a dynamic demand environment and ballooning debt repayments, timely fund infusion from the promoters to support any cash flow mismatch, would remain a key monitorable.

Liquidity position: Adequate

IHHR's liquidity is expected to remain adequate, supported by comfortable cash flows from operations and sizable free cash balances of ~Rs. 58 crore as at March 31, 2023 (of which ~Rs. 50 crore is parked at IHHR Ananda). Against the same, it has interest and repayment obligations of ~Rs. 70-75 crore in FY2024, while capex commitments are likely to remain low. ICRA expects promoter's commitment to infuse timely equity funds (if required) and IHHR's financial flexibility with its lenders to support refinancing options and liquidity profile.

Rating sensitivities

Positive factors – An improvement in the debt coverage indicators such as DSCR above 1.8 times on a sustained basis, aided by sustained healthy operating metrics and profitability indicators, could lead to an upgrade in the ratings. A higher-than-expected infusion of equity funds leading to significant improvement in liquidity and leverage metrics, could also be a trigger for positive rating movement.

Negative factors – Negative pressure on the ratings could arise from significant weakening in the portfolio's operating metrics or any large unforeseen debt-funded capex, leading to moderation in debt coverage indicators and/ or deterioration in liquidity position. Timely financial support from promoters will also remain a key monitorable.

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 rating, ICRA has taken a consolidated view of IHHR, its subsidiary (IHHR Andhra) and a sister concern, IHHR Ananda, as there are significant operational and financial linkages between them. The list of entities consolidated for analysis are enlisted in Annexure-2.

About the company

Incorporated in 1998, IHHR, owns and operates four five-star hotels in India, at the consolidated level. These hotels are managed by Hyatt Hotels Corp. under its premium and luxury brands, including 'Hyatt', 'Hyatt Regency' and 'Hyatt Centric'. The properties are in the prime cities of Bangalore, Pune, Amritsar and Hyderabad, with an aggregate room inventory of 766 keys.

Originally, IHHR had commenced operations by launching a 78-room destination spa—Ananda in the Himalayas (Ananda)—near Dehradun (Uttarakhand) in 2000. Initially, the spa was developed under a joint venture between IHHR and Rafael Group Hoteliers; however, the JV was dissolved in December 2001. In November 2019, the company received NCLT approval on the scheme of demerger of its Ananda property from IHHR Hospitality and its merger into IHHR Hospitality Ananda Private Limited (IHHR Ananda; erstwhile subsidiary company). The company was demerged w.e.f. April 1, 2018, and is now a sister concern of IHHR.

Key financial indicators (audited)

IHHR Consolidated*	FY2021	FY2022	FY2023**
Operating income	58.8	148.1	305.8
PAT	-52.9	-38.1	59.5
OPBDIT/OI	-41%	11%	35%
PAT/OI	-90%	-26%	19%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	1.0
Total debt/OPBDIT (times)	-12.4	18.7	2.8
Interest coverage (times)	-0.7	0.4	3.0

Source: Company Annual Reports; ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. Amount in Rs crore

**ICRA estimates, including IHHR Ananda Financial results. Line-by-line consolidation used to arrive at the consolidated results.*

*Note: **FY2023 data is provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jul 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 30, 2023	May 13, 2022	Jun 1, 2021	Jan 7, 2021 Oct 28, 2020 May 1, 2020
1	Term loans	Long term	197.28	197.28	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB (Negative)
2	Fund Based Working Capital	Long term	-	-	-	-	-	[ICRA]BBB (Negative)

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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-I**	Apr-2016	NA	Jun-2028	163.42	[ICRA]BBB+ (Stable)
NA	**Term Loan-II**	Dec-2020	NA	Dec-2025	27.31	[ICRA]BBB+ (Stable)
NA	**Drop Line Overdraft facility**	Dec-2017	NA	Sep-2028	6.55	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	IHHR Ownership	Consolidation Approach
IHHR Hospitality Private Limited	Rated entity	Full Consolidation
IHHR Hospitality (Andhra)Private Limited	74%	Full Consolidation
IHHR Hospitality Ananda Private Limited	- (Sister concern/ Fellow subsidiary company)	Full Consolidation

Source: IHHR annual report and company data
Note: ICRA has taken a consolidated view of the IHHR, its subsidiary and sister concern – IHHR Ananda while assigning the ratings.

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