October 26, 2023

Eros Resorts and Hotels Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	5.00	7.50	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Long-term – Fund-based – Term Loan	39.00	38.50	[ICRA]BB (Stable); upgraded from [ICRA]BB- (Stable)
Long-term/ Short-term Unallocated	6.00	4.00	[ICRA]BB (Stable)/ [ICRA] A4+; upgraded from [ICRA]BB- (Stable)/ [ICRA] A4
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade considers ICRA's opinion that Eros Resorts and Hotels Private Limited (ERHPL) will be able to sustain its improved operating performance in the near-to-medium-term, supported by the healthy demand recovery in the hotel sector. The company's single hotel's revenue per available room (RevPAR) have surpassed the pre-pandemic levels and the company is expected to report healthy revenue and earnings growth in FY2024. The ratings also positively factor in the long track record of its promoters in the hospitality industry and their consistent infusion of funds to meet the funding requirements for debt servicing. The ratings also consider the favourable location of the hotel and the presence of a management tie-up with the reputed brand, InterContinental Hotels Group (IHG).

However, the ratings remain constrained by the company's continued modest financial risk profile despite the improved operating performance, primarily owing to the company's eroded net worth from accumulated losses. The ratings further remain constrained by the single asset nature of ERHPL's operations, the competitive intensity of the business and the cyclical nature of revenue generation owing to economic or seasonal cycles.

The Stable outlook reflects ICRA's expectation that ERHPL will continue to draw support from the extensive experience of its promoters in the hospitality industry, their continued financial support as well as the sustained robust demand in the hospitality industry.

Key rating drivers and their description

Credit strengths

Improvement in operating metrics supported by demand revival in the hospitality industry – In FY2023, the hotel registered a healthy recovery in average occupancy and average room rents (ARRs) to 92% and Rs. 7,431, respectively, over 79% and Rs. 4,041, respectively, in FY2022; supported by the demand recovery in both corporate and leisure travel segments. Consequently, in H1 FY2024, the operating metrics remain stable with occupancy and ARR of 90% and 7,493, respectively. The operating metrics are expected to remain healthy in the near-to-medium-term, given the sustained robust demand scenario and the second-half of the year typically being the peak season.

Experienced promoters and management with a long track record in the hospitality industry – The promoters have been involved in the hospitality and real estate business for more than three decades. The long presence in the industry has helped the company in understanding the industry dynamics and establishing strong relationships with key service providers. The promoter group also owns a hotel property, Hotel Eros, in Nehru Place, New Delhi. Furthermore, the promoters own multiple commercial properties in the National Capital Region (NCR), which provide alternative cash flow avenues.

Association with international hospitality chain and favourable location support guest footfalls – The company benefits from its management partnership with a leading global chain, IHG, which provides the brand, Crowne Plaza, for the hotel property, resulting in enhanced visibility. While the hotel has a favourable location, the association with IHG enables the five-star property to attract corporate customers from the nearby commercial hubs in Noida and Greater Noida, thus providing healthy occupancies and better pricing.

Demonstrated track record of funding support from promoters – The promoters have consistently supported the company by fund infusion over the years in the form of unsecured loans, convertible debentures, and preference shares. As on March 31, 2023, around 68% of the total debt comprised the promoters' unsecured loans and convertible debentures.

Credit challenges

High geographical and asset concentration risks; moderately high competitive intensity – ERHPL's revenues are susceptible to adverse market conditions as its operations are limited to a single location (East Delhi) and a single asset. The hospitality industry is typically susceptible to a wide range of adverse market conditions like demand-supply dynamics, tourism industry, foreign tourist arrival, etc. In addition, the company faces stiff competition from other five-star hotels in its vicinity, which compete for both corporate and leisure guests.

Modest financial risk profile despite significant improvement in FY2023 – The company's overall financial profile has remained weak owing to high leverage and eroded net worth (-Rs. 9.7 crore as on March 31, 2023) resulting from accumulated losses over the years although it posted profits for the first time in FY2023. However, following earning improvement and decline in interest rate of loans, the coverage metrics improved with interest coverage of 2.2 times (0.5 time in FY2022) and DSCR of 1.3 times (0.37 time in FY2022) in FY2023. ICRA notes that the funds from promoters in the form compulsorily convertible debentures do not bear any fixed interest or repayment schedule though the unsecured loans are interest bearing.

Liquidity position: Adequate

ERHPL's liquidity position is adequate with expected improvement in operating cash flows in FY2024; although it has substantial debt repayments of Rs. 8.03 crore in FY2024 and Rs. 9.57 crore in FY2025. ERHPL had modest cash balances in addition to unutilised working capital limits of ~Rs. 2 crore in the last six-month period ending September 2023. The company also has a planned capex of Rs. 6.0-7.0 crore in FY2024 to be funded via cash accruals or new loans.

Rating sensitivities

Positive factors – Sustained improvement in earnings and/or infusion of equity leading to an improvement in leverage and coverage metrics, could be a trigger for a rating upgrade.

Negative factors – Any significant decline in operating metrics or any major debt-funded capital expenditure resulting in deterioration of debt coverage indicators, such as DSCR less than 1.1 times on a sustained basis, could trigger a rating downgrade.

Analytical Approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Hotel Industry
Parent/Group support	Not applicable

Consolidation/Standalone	Standalone

About the company

ERHPL is promoted by the erstwhile Eros Group, a Delhi-based Group promoted by Mr. Satish Sood and family, who also own other commercial properties across New Delhi. ERHPL is a closely held company with its entire share capital held by the directors, their families, and the Group entities. It owns a premium five-star hotel property in Mayur Vihar, Delhi, under the brand name, Crowne Plaza. The hotel has been operational since October 2011 and has a management contract with IHG. The hotel is a five-star property with 160 rooms, and facilities that include a restaurant, a banquet hall and six meeting rooms. The management plans to add new rooms and a restaurant.

Key financial indicators (audited)

ERHPL standalone	FY2022	FY2023
Operating income	32.2	71.1
PAT	(10.0)	22.1
OPBDITA/OI	21.4%	36.0%
PAT/OI	-31.1%	31.1%
Total outside liabilities/Tangible net worth (times)	(7.8)	(23.4)
Total debt/OPBDITA (times)	32.9	8.4
Interest coverage (times)	0.5	2.2

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortization; 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 (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 26, 2023	Mar 20, 2023	Jan 18, 2022	Jan 27, 2021
1	**Term Loans**	Long-term	38.50	38.50	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2	**Cash Credit**	Long-term	7.50	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
3	**Unallocated**	Long-term / Short- term	4.00	-	[ICRA]BB (Stable)/ [ICRA] A4+	[ICRA]BB- (Stable)/[ICRA] A4	[ICRA]B+ (Stable)/ [ICRA] A4	[ICRA]B+ (Stable)/ [ICRA] A4

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash Credit	Simple
Long-term / Short-term – Unallocated	NA

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: 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	Cash Credit	NA	NA	NA	7.50	[ICRA]BB (Stable)
NA	Term Loans	FY2018	-	FY2028	38.50	[ICRA]BB (Stable)
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BB (Stable)/ [ICRA] A4+

Source: Company

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

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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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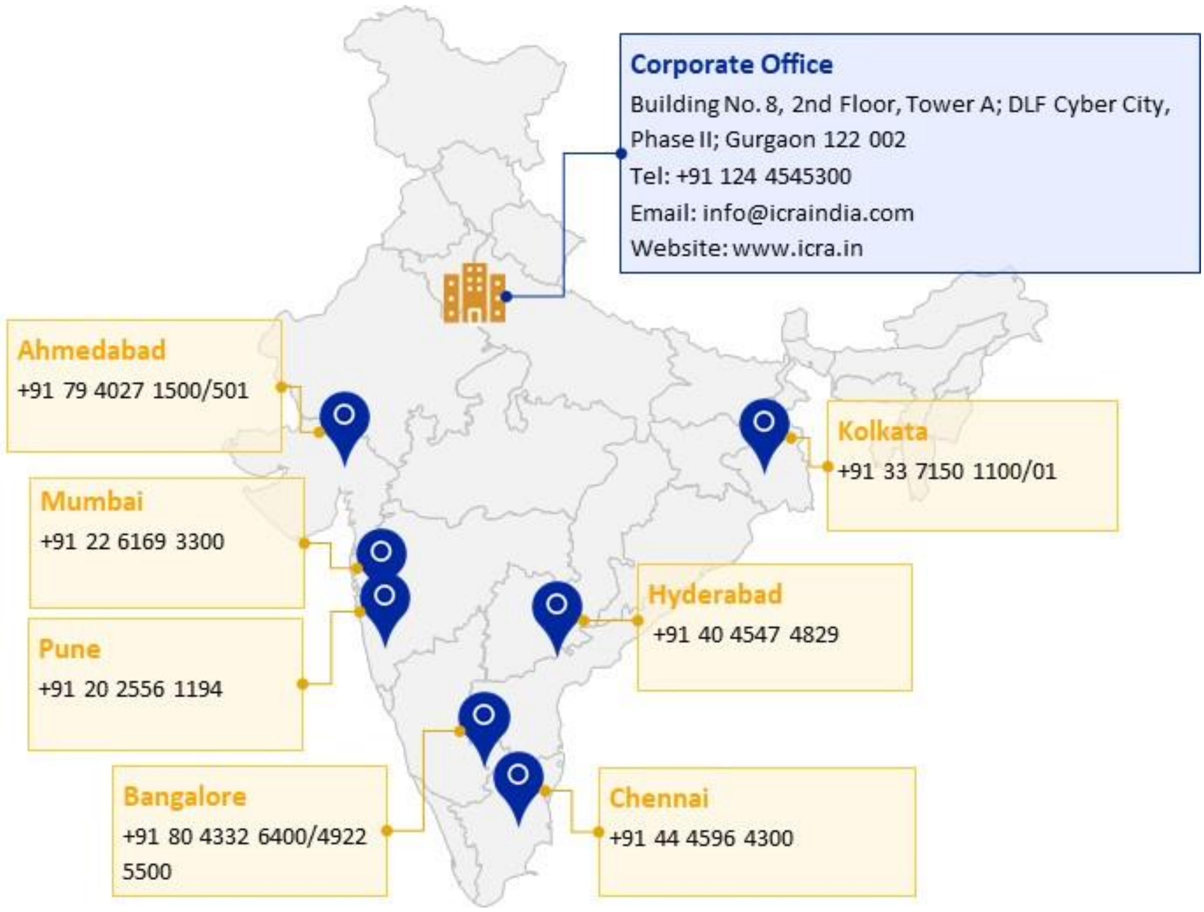

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