

January 22, 2024

## InterGlobe Enterprises (UK) Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (\$ million)	Current Rated Amount (\$ million)	Rating Action
Long-term Fund-based – Term loan	35.175	35.175	[ICRA]BBB (Stable); Reaffirmed
Long-term Fund-based – Term loan	20.100	20.100	[ICRA]BBB (Stable); Reaffirmed
Long-term Fund-based – Term loan	0.000	21.500	[ICRA]BBB (Stable); Assigned
<b>Total</b>	<b>55.275</b>	<b>76.775</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in an expectation of steady operational performance for the hotel properties owned by InterGlobe Enterprises (UK) Limited (IGE UK), going forward, as well as an expectation of continued financial support from its parent entity, InterGlobe Enterprises Private Limited (IEPL). IGE UK is the InterGlobe Group's holding entity for its foray into the international hospitality business. The hotel properties held by IGE UK are well-established properties, with strong operational performance over the years, supported by strong market fundamentals. During the pandemic period, there was a severe impact on the global travel and tourism industry, leading to sub-optimal performance of IGE UK's properties across locations (Europe and Australia). Following the abatement of infections, there has been a healthy improvement in operational metrics across properties over CY2022-CY2023, aided by a recovery in recreational travel and in-person engagements, conferences, seminars, and offsite trips by corporates. The strategic location of IGE UK's hotel properties across Europe provides a competitive advantage and is likely to aid a continuation of recovery in performance over the near to medium term.

ICRA continues to factor in favourably the close business linkages between IGE UK and IEPL, and the strategic importance of IGE UK to the InterGlobe Group. Most of the investment requirements of IGE UK, over the years, have been funded through equity infusion by IEPL (directly as well as through its subsidiary, IGE (Mauritius) Private Limited). Therefore, ICRA expects IEPL (either directly or through its wholly owned subsidiaries) to be willing to extend timely financial support to IGE UK, as and when needed. ICRA further notes that IEPL has provided a corporate guarantee for the facilities rated; however, ICRA has not factored in any credit enhancement because the guarantee lacks the necessary attributes of a strong form of support, as per ICRA's methodology for factoring in explicit third-party support forms.

IEPL holds a ~37.8% stake in InterGlobe Aviation Limited (IAL; rated [ICRA]A+ (Stable)/[ICRA]A1+), a leading Indian airline and the InterGlobe Group's key investee company. IEPL's credit profile derives strength from its comfortable credit profile (characterised by nil external debt, on a standalone level), and sizeable financial flexibility from its shareholding in IAL (market value of ~Rs. 44,300 crore, as on January 10, 2024). ICRA expects IEPL to make moderate incremental investments in its investee companies, largely in the hotel portfolio over the next few years, to be met through funding support from its promoters.

IGE UK remains exposed to refinancing risks, with multiple loans attracting bullet/sizeable repayments over the next few years. While the ability of the management to timely achieve rollovers/tenor extensions would remain a monitorable, its track record of achieving similar rollovers/extensions, in a timely manner, provides comfort. The presence of cash and liquid investments in the hotel properties (~€28 million, as of November 30, 2023, for all the properties combined) are expected to help limit the dependence of IGE UK on funding support from IEPL to refurbishment capex/ incremental property stake purchase plans.

A major refurbishment is currently underway across five properties in IGE UK's K+K portfolio. The management estimates capex outlay of ~€87 million towards the same to be incurred over CY2023-CY2025, which is expected to be funded through a

mix of debt and funding support from its promoters. The management is confident that the refurbishment would help in repositioning the properties and ramping up the operational metrics over the medium term. During the refurbishment period, the performance of the portfolio is expected to remain impacted to an extent. Consequently, ICRA expects the parent entity, IEPL, to infuse funds to help meet any gaps in the interest servicing requirements for the portfolio during this period.

The Stable outlook on the rating reflects ICRA's view that IGE UK would continue to receive timely funding support from IEPL, which would help it maintain its credit profile at current levels.

## Key rating drivers and their description

### Credit strengths

**Access to funding support from parent entity, IEPL, the holding entity of the InterGlobe Group** – The InterGlobe Group, which has an established presence in the domestic aviation and hospitality businesses, forayed into the international hospitality business through IGE UK, following acquisitions in the European market over the past few years. Most of the investment requirements of IGE UK have been funded through equity infusion by IEPL (directly and through its subsidiary, IGE (Mauritius) Private Limited). Additionally, IEPL has extended corporate guarantee for loans availed by IGE UK to fund the acquisitions, indicating its strong financial commitment towards the overseas hospitality expansions. The rating assigned favourably factors in the likelihood that IEPL will continue to extend financial support to IGE UK, led by close business linkages between them as well the need to protect its reputation from the consequences of a Group entity's distress.

**Strategic location of key hotel properties in select European cities provides competitive advantage** – The properties acquired by the Group are well established properties, with strong operational performance over the years, supported by strong market fundamentals. The same was reflected in the healthy operating metrics for the properties, wherein the occupancy rate and Average Room Rate (ARR) remained at stable levels. During the pandemic period, there was a severe impact on the global travel and tourism industry, leading to sub-optimal performance of IGE UK's properties across locations (Europe and Australia). Following the abatement of infections, there was a healthy improvement in operational metrics across properties over CY2022-CY2023, aided by a recovery in recreational travel and in-person engagements, conferences, seminars, and offsite trips by corporates. The strategic location of IGE UK's hotel properties across Europe provides a competitive advantage and is likely to aid a continuation of recovery in performance over the near to medium term.

### Credit challenges

**Weakened credit profile due to adverse impact of Covid-19 pandemic** – The impact of the pandemic on the global hospitality industry was severe. Given the discretionary nature of consumer spending (especially for leisure travel), the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases, and meltdowns. Due to the sharp decline in demand, the company incurred cash losses in CY2020 and CY2021. This eroded its net worth and leverage (TD/TNW of 5x for FY2021), while coverage ratios deteriorated. While the credit metrics of IGE UK are expected to report a gradual recovery aided by recovery in demand, these will likely remain below pre-pandemic levels over the near term.

**Sizeable capex incurred/planned for refurbishment of properties; expectation of improved cash flows to mitigate impact on credit profile** – Unlike Reichshof Hamburg, there was no major refurbishment done at either the Sheraton Amsterdam or the K+K bouquet of hotels before acquisition, and the management had plans to refurbish these properties. In view of the pandemic and an expectation of a prolonged slowdown in the hospitality sector, the capex plans for the two portfolios had been deferred till more clarity emerged regarding the pandemic. With infection rates abating and lockdowns relaxing, the management proceeded to refurbish Sheraton Amsterdam (outlay of ~€17 million; funded through equity support from promoters) in CY2021 for protecting the operating metrics of the property from an increase in competitive intensity.

A major refurbishment is being done across five properties in the K+K portfolio held by IGE UK. The management estimates capex outlay of ~€87 million towards the same to be incurred over CY2023-CY2025, which is expected to be funded through a mix of debt and funding support from promoter. The management is confident that the refurbishment would help in

repositioning the properties and ramping up the operational metrics over the medium term. During the refurbishment period, the performance of the portfolio is expected to remain impacted to an extent. ICRA expects the parent entity IEPL to infuse funds to help meet any gaps in the interest servicing requirements for the portfolio during this period.

**Exposed to refinancing risk; track record of timely refinancing mitigates the risk to an extent** – IGE UK remains exposed to refinancing risks, with multiple loans having bullet/sizeable repayments over the next two years. While the ability of the company management to timely achieve rollovers/extensions would remain a monitorable, its track record in completing similar transactions provides comfort. In the adverse scenario of the company being unable to achieve a rollover/ refinancing of a loan, the promoters are expected to pitch in with funds to help meet the debt servicing obligations in a timely manner.

**Exposure to project execution and approval risks for under-construction hotel** – To expand its presence in the international hospitality business, IGE UK invested CHF 6.2 million (~Rs. 51 crore) in October–November 2020 for acquiring 76% equity stake in a Swiss hotel, Hotel Christiania AG. The management is tearing down the existing structure and is in the process of building a 30-room boutique hotel—Gstaad, Switzerland—in its place. IGE UK has already invested the bulk of its equity component for the project; and the management expects the project to proceed in a timely manner with an expected construction completion date in mid-CY2024. Even as the construction is near completion and the project size of the entity is small, IGE UK remains exposed to project execution risks to an extent, in line with the nature of the industry’s operations. A significant delay, resulting in project cost overrun or delay in stabilisation of operations could adversely impact the credit profile of IGE UK, and will remain a sensitivity factor. The risk is partly mitigated by IGE UK’s strong financial flexibility and the management’s commitment to extend timely financial support, if needed.

### Liquidity position: Adequate

The liquidity position of IGE (UK) remains at adequate levels. At the standalone level, its liquidity profile is expected to remain supported by timely funding support from its parent entity, IEPL. At a consolidated level, the company’s cash and cash equivalents of ~Rs. 220-230 crore (~€28 million, as of November 2023) are likely to be sufficient to meet a part of the debt servicing. The refurbishment capex requirements at its hotel properties and a part of the debt servicing requirements are also likely to be supported by timely funding support from the promoters, or through funding tie ups.

### Rating sensitivities

**Positive factors** – A sustained improvement in operational metrics and profitability indicators of various properties and/or higher-than-expected equity infusion by the promoters, leading to significant improvement in liquidity and leverage metrics, could be a trigger for a rating improvement. An improvement in its parent, IEPL’s credit profile could also lead to an improvement in its rating.

**Negative factors** – Negative pressure on the rating could arise if there is any deterioration in the credit profile of IEPL or any deterioration in the business linkages with IEPL, or extent and form of financial support from IEPL. A deterioration in the coverage indicators, led by slower-than-expected improvement in operational metrics could lead to a rating downgrade. Additionally, the inability to achieve timely refinancing of loans ahead of scheduled maturities could put pressure on the rating.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Hotels</a> <a href="#">Investment Companies</a>
Parent/Group support	Parent company: IEPL The unsupported rating factors in the very high likelihood of its parent, IEPL, extending financial support because of close business linkages between the entities. ICRA expects IEPL to be willing to extend financial support to IGE UK out of its need to protect its reputation

	from the consequences of a group entity's distress. IEPL has a consistent track record of extending timely financial support to IGE UK, whenever needed.
<b>Consolidation/Standalone</b>	ICRA has taken a consolidated view of IGE UK and its subsidiaries (enlisted in Annexure II).

## About the company

Incorporated in 2017, IGE UK is the holding company for the InterGlobe Group's investments in the international hospitality sector. The company is a 100% subsidiary (including indirect investments) of IEPL, the Group's holding company. At present, IGE UK holds five investments in the international hospitality space, most of which are in Europe. Since its incorporation, IGE UK has undertaken four acquisitions. In the first two acquisitions in July 2018 and October 2018, the Group acquired one property each at Amsterdam and Hamburg—the Sheraton Amsterdam Airport Hotel and Conference Center (the Netherlands), and the Reichshof Hamburg (Germany). In the third acquisition in June 2019, the Group acquired a bouquet of 10 properties across eight cities in Europe (the K+K portfolio). The Group acquired a controlling stake in a small chalet-style hotel property (in Switzerland) in its fourth acquisition in November 2020. The company also owns a recently commissioned hotel in Melbourne, Australia.

## About the guarantor

IEPL is the holding company for the InterGlobe Group, promoted by the Bhatia family, including Mr. Kapil Bhatia, Mr. Rahul Bhatia (his son) and Mrs. Rohini Bhatia (wife of Mr. Rahul Bhatia). Established in 1989 and headquartered in Gurgaon, Haryana, the Group's ventures include civil aviation under the Indigo brand, airline management, travel commerce solutions, hospitality, advanced pilot training, aircraft maintenance engineering and real estate.

## Key financial indicators (audited)

IGE UK Consolidated (Amounts in € Mn)	FY2022	FY2023
Operating income	33.2	91.9
PAT	6.8	-9.9
OPBDIT/OI	-30.6%	17.8%
PAT/OI	20.5%	-10.8%
Total outside liabilities/Tangible net worth (times)	4.5	4.6
Total debt/OPBDIT (times)	-49.0	29.6
Interest coverage (times)	-0.6	0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## 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 (USD Million)	Amount outstanding as of Nov 30, 2023 (€ Million)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	
				January 22, 2024	May 29, 2023	Apr 4, 2022	Oct 27, 2021	Jul 10, 2020	Apr 13, 2020	
1	Term loan	35.175	33.97	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (CE) (Stable)	-	-	-	
2	Term loan	20.100	18.7	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-	-	
3	Term loan	21.500	15.1	[ICRA]BBB (Stable)	-	-	-	-	-	
4	Fund based bank facilities	-	-				[ICRA]A2(CE); withdrawn	[ICRA]A2(CE)	[ICRA]A2(CE); Rating Watch with Negative Implications	
5	Term loan	-	-				[ICRA]BBB (CE) (Negative); withdrawn	[ICRA]BBB (CE) (Negative)	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based - Term Loan	Simple
Long Term – Fund Based - Term Loan	Simple
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 (USD Million)	Current Rating and Outlook
NA	Term Loan-I	October 2021	NA	October 2026	35.175	[ICRA]BBB (Stable)
NA	Term Loan-II	March 2023	NA	September 2026	20.100	[ICRA]BBB (Stable)
NA	Term Loan-II	September 2023	NA	March 2027	21.500	[ICRA]BBB (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	IGE UK Ownership	Consolidation Approach
Emipre 3 Investment S.a.r.l.	100.00%	Full Consolidation
Luchthaven Hotel Beleggingsmaatschappij B.V.	100.00%	Full Consolidation
NKS Hospitality II S.a.r.l.	89.90%	Full Consolidation
Interglobe Operations Holding II B.V.	100.00%	Full Consolidation
Hamburg Furniture S.a.r.l.	100.00%	Full Consolidation
RH Operations VerwaltungsGmbH	100.00%	Full Consolidation
Interglobe Enterprises (Switzerland) AG	100.00%	Full Consolidation

Source: IGE UK Annual Report

Note: ICRA has factored in the consolidated financials of IGE UK while assigning the ratings.

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