February 29, 2024

Triton Hotels & Resorts 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	94.54	83.60	[ICRA]A(Stable); upgraded from [ICRA]A- (Stable)
Long-term Non-fund Based Limits	5.00	10.00	[ICRA]A(Stable); upgraded from [ICRA]A- (Stable)
Short-term Fund-based Limits	13.00	5.00	[ICRA]A2+ reaffirmed
Total	**112.54**	**98.60**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating for Triton Hotels & Resorts Private Limited (THRPL) factors in the expectation of continuation of strong operating metrics and consequent strong cash accruals for the entity, aided by a strong revival in demand witnessed in the domestic hotel industry. The company's sole hotel property operates under the five-star luxury brand, 'Fairmont', in Jaipur. The property reported a sequential improvement in occupancy levels to 70% in FY2023 (FY2022: 46%) and occupancy levels stood at ~65% at the end of January 2024, aided by the pent-up demand in the wedding business and a significant pick-up in leisure travel to drive-to destinations (social MICE[1]). THRPL was also able to improve its average room rates (ARRs) by ~19% YoY in FY2023 over FY2022 levels, evidencing the strong brand/location pull and strong demand environment.

The healthy operating metrics, coupled with the various cost-saving initiatives undertaken in the past, resulted in an improvement in the company's operating margins to ~46% in FY2023 vis-à-vis 40% in FY2022. Furthermore, THRPL's business has posted healthy growth as it registered revenues of ~Rs. 186.7 crore (over ~Rs. 109 crore in FY2022) and strong net cash accruals of ~Rs. 59 crore in FY2023 (over ~Rs. 37 crore in FY2022). In H1 FY2024, the property has reported occupancy levels of ~65%, pointing to a continuation of strong demand even during the historically leaner season. Even though the company's performance continues to remain exposed to its limitation to a single geographical location, ICRA expects the company's operational metrics to remain healthy, and support its cash accruals.

The rating upgrade also factors in favourably a reduction in project implementation risks, with the ongoing project to construct a new hotel (52-key property under the 'Raffles' brand in the same area), which is at at advanced stage of completion. The company has already incurred a bulk of the project capex (~Rs. 120 crore incurred till date), and expects the property to commence operations in the next few months. The strong cash accruals of the company have aided in limiting its dependence on external debt for the project (~Rs. 7 crore drawn down out of Rs. 60 crore term loan sanctioned) till date. The ratings continue to favourably factor in THRPL's strong financial risk profile, characterised by strong profitability margins, comfortable capital structure and liquidity position. The overall debt levels remain low (total debt of ~Rs. 25 crore and net debt negative position as of January 31, 2024); aided by the strong earnings, the coverage indicators remain robust as evidenced by interest cover ratio of 25.7x and DSCR of 2.6 in FY2023 (10.9x and 2.1x, respectively, in FY2022). ICRA expects the overall debt levels of

[1] *MICE: Meetings, Incentives, Conferences and Exhibition business*

the company to remain at low to moderate levels over the medium term; the cash accruals and reserves should remain healthy and aid the company in maintaining a strong financial risk profile.

The upcoming 'Raffles' hotel is expected to benefit from its proximity to the 'Fairmont' hotel, which would allow the management to take combined bookings for weddings. The promoter funding for the project is expected to be largely met through internal accruals (i.e., from Fairmont's operations). While there could be some cost overrun for the project (over the initial plan) owing to inflationary pressures, ICRA expects cash flows from existing operations to be sufficient to fund the project over the medium term. Additionally, ICRA expects the company to receive need-based and timely funding support from the promoters to meet any unforeseen operational or project capex requirements.

The rating continues to favourably factor in the company's association with the Accor Group, which provides enhanced brand recognition, access to its global distribution system, strong loyalty programme, project development capabilities and extensive experience from global hospitality industry. The ratings also take cognizance of the considerable experience of its promoters in the hospitality industry and their demonstrated support in meeting THRPL's funding requirements.

The ratings remain constrained by the limited geographic and segment diversification of the company. Moreover, its presence in a single micro-market (i.e., Jaipur), exposes it to adversities in the concerned local market and competition from other properties in the vicinity. While THRPL is developing another property (also in the luxury segment), it will continue to operate in the same market over the medium term. Meanwhile, till the 'Raffles' project becomes fully operational, THRPL also remains exposed to project implementation risk. ICRA notes that the Fairmont property is highly dependent on events (primarily weddings) business, which account for approximately three-fourths of its total revenues and have traditionally been highly seasonal. While social MICE (mainly weddings) has supported recovery for the property's operating metrices post-pandemic, ramp-up of corporate MICE activities has been rather gradual. Going forward, a successful start of operations in the new project and THRPL's ability to ramp up revenues from the same will be a key monitorable over the near-to-medium term.

ICRA notes that on September 1, 2023, the Enforcement Directorate (ED) had published a press release on completion of raid on various properties of the promoters of THRPL. The ED had reportedly recovered unaccounted cash, in addition to incriminating documents and evidence indicating large-scale unaccounted transactions. Based on discussions with the management, ICRA understands that there have been no adverse findings yet shared with the company regarding the raids and there was no material impact on the company's operations or the operations of its bank accounts. ICRA would continue to closely monitor any further developments related to this event and take appropriate rating action, if necessary.

The Stable outlook on THRPL reflects ICRA's expectation that despite being exposed to project implementation risks related to the construction of the new hotel property over the near term, the long and established track record of the promoters in the hospitality sector, the strong brand and market position of the property and the company's conservative leverage are likely to keep the credit risk profile healthy.

Key rating drivers and their description

Credit strengths

Owns a favourably located five-star luxury hotel in Jaipur – THRPL owns a hotel, which is operated under a well-established five-star luxury brand, 'Fairmont', and benefits from its location in Kukas near Jaipur, one of the busiest holiday destinations in northern India. Furthermore, its proximity to the densely populated Delhi NCR ensures healthy tourist traffic throughout the year. The same has also been evidenced in the years following the pandemic, when the property has been able to post healthy sequential recovery in occupancy levels, due to its favourable and driveable location (from the NCR)**.**

Experienced promoters; association with Accor Group enhances brand recognition besides providing access to global reservation system and large client base – The company benefits from its well-experienced promoters with an established track record of operating in the hospitality market. Besides Fairmont, the promoter family also owns two other hotels, one each at Jaipur and Udaipur. While Fairmont Jaipur is the sole 'Fairmont' property in India, Accor Hotels has an established and expanding presence in the country. Besides imparting strong brand recognition, the association provides the Fairmont property access to Accor's global reservation systems, a strong loyalty programme and established client base. This has aided the property in recording healthy average daily rates and occupancy over the years. Accor is also providing project development consultancy services to THRPL for its ongoing Raffles project, which is likely to aid in timely development of the property and scale up of operating metrics after commencement of operations.

Healthy financial profile, characterised by steady profitability metrics and limited debt – Aided by its favourable location, THRPL's revenues grew at a healthy rate of ~71% in FY2023. The operating profit margins reached ~45% in the last fiscal, aided by the healthy operating metrics. Also, as per the management, the company is currently running on an OPM of ~50-52% in FY2024, aided by an improvement in operating metrics amid strong demand in the hospitality industry. Over the years, the promoters have demonstrated a track record of providing funding support, as equity or unsecured loans, to fund cash losses, capex or reduce external debt; the same provides comfort regarding the promoter's commitment to the project. ICRA expects the promoters to continue to provide need-based and timely support to THRPL to successfully execute the ongoing capex plans with limited impact on leverage ratios.

Credit challenges

Vulnerability of revenues to inherent industry cyclicality and exogenous shocks – Even as the company has been able to report a continued growth in occupancy levels (from ~46% in FY2022 to ~70% in FY2023) and ARRs (from ~Rs. 13,986 in FY2022 to ~Rs. 16,656 in FY2023 and Rs. 17,257 in 10M FY2024), the operating performance remains vulnerable to industry cycles and exogenous shocks (geopolitical crises, terrorist attacks, disease outbreaks, etc). Further, the hotel continues to remain exposed to competition from other luxury hotels in Jaipur.

Modest scale of operations with high geographical concentration – The company has so far been operating a single premium property in Jaipur, resulting in a modest scale with limited possibility of any significant scale-up of operations. ICRA notes that the company is at advanced stages of completing another premium property (under the 'Raffles' brand in the same location), which would aid in improving the scale of operations to an extent. Despite the same, the dependence on a single hotel/region exposes the company to adversities of the local market, including inter alia new supply addition and event risks, among others.

Exposed to project implementation risk over near to medium term – The company is developing a 52-room property under the Accor's luxury brand, 'Raffles', adjacent to its flagship Fairmont property. The total budgeted capex for the project stands at ~Rs. 120 crore (some cost overrun is likely, given the inflationary pressures), of which the company has spent ~Rs. 120 crore till date and is expected to spend another Rs. 20 crore in the near future (in line with an estimated cost overrun of ~10-15%). THRPL has a sanctioned term loan worth Rs. 60 crore from HDFC Bank. The company has not drawn down much of the loan (~Rs. 7 crore till January 2024 end) as it has financed the cost largely from its internal cash accruals. Even as the project is at an advanced stage of completion, THRPL remains exposed to project implementation risk to an extent.

Liquidity position: Adequate

THRPL's liquidity is expected to remain adequate, aided by healthy operational cash accruals and supported by cash and liquid investments of ~Rs. 39 crore and undrawn OD limit of Rs. 13.0 crore as of January 31, 2024. The company has already spent a bulk of the capex for the new project and, accordingly, the capex outgo over the near term is expected to remain limited (~Rs. 20-25 crore further capex outgo pending for the project). The company has limited repayment obligations of ~Rs. 8 crore in FY2024 and ~Rs. 16 crore in FY2025. The balance capex for the Raffles project will be met thorough internal accruals and project debt—the latter being drawn down as and when required. ICRA expects the cash accruals and liquidity buffer to be more than sufficient for covering the operating and repayment obligations over the near-term.

Rating sensitivities

Positive factors – A sustained improvement in operational performance and profitability indicators (in terms of scale and margins) leading to significant improvement in liquidity and leverage metrics, could be a trigger for a rating improvement.

Negative factors – Negative pressure on THRPL's rating could arise from prolonged weakness in operating metrices, resulting in weakening of debt servicing indicators and its liquidity position. Significant cost and time overruns in completing the ongoing capex plans for constructing another hotel would remain a sensitivity. Specific credit metrics would include Debt/OPBITDA over 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in March 2007, Triton Hotels & Resorts Private Limited owns a five-star deluxe hotel in Kukas, Rajasthan (on the Delhi–Jaipur Highway), under the Accor's 'Fairmont' brand. The property has been operational since August 2012 with an inventory of around 245 rooms, of which 46 rooms were added and launched in November 2017. The property offers facilities like a convention centre, meeting rooms, swimming pool, fitness centre and dining options by way of five restaurants and bars.

THRPL is promoted by Mr. Ratankant Sharma, whose family also owns Le Meridien in Jaipur and has developed another luxury property under the 'Raffles' brand in Udaipur, Rajasthan. The promoters have been developing another 'Raffles' luxury property under THRPL, adjacent to the existing Fairmont property. The construction of the same is at advanced stages and is expected to be completed over the next 2-3 months.

Key financial indicators (audited)

THRPL Standalone	FY2022	FY2023	10M FY2024*
Operating income	109.1	186.7	152.7
PAT	29.5	55.8	-
OPBDIT/OI	39.6%	44.5%	-
PAT/OI	27.0%	29.9%	-
Total outside liabilities/Tangible net worth (times)	0.5	0.3	-
Total debt/OPBDIT (times)	1.2	0.4	-
Interest coverage (times)	10.9	25.7	-

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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	Current rating (FY2024) Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024 Feb 29, 2024	Sep 12, 2023	Chronology of rating history Date & rating in FY2023 Nov 28, 2022	Date & rating in FY2022 Sep 29, 2021	Date & rating in FY2021 Jul 21, 2020 Jun 19, 2020
1	**Long-term Fund-based – Term Loan**	Long term	83.60	24.75	**[ICRA]A(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]BBB+(Stable)**	**[ICRA]BBB+(Negative)**
2	**Long-term Non-fund Based Limits**	Long term	10.00	--	**[ICRA]A(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**	**[ICRA]BBB+(Stable)**	**[ICRA]BBB+(Negative)**
3	**Short-term Fund-based Limits**	Short term	5.00	--	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2**	**[ICRA]A2**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term Non-Fund Based Bank Facilities (Bank Guarantee)	Very Simple
Short-term Fund Based Bank Facilities (Overdraft Limit)	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**	Jan 21, 2020	NA	Nov 2029	60.00	[ICRA]A (Stable)
NA	**Term Loan-II**	Dec 23, 2020	NA	Mar 2026	11.80	[ICRA]A (Stable)
NA	**Term Loan-III**	Dec 23, 2020	NA	Oct 2027	11.80	[ICRA]A (Stable)
NA	**Overdraft Limit**	Jan 21, 2020	NA	NA	5.00	[ICRA] A2+
NA	**Bank Guarantee**	Jan 21, 2020	NA	NA	10.00	[ICRA]A (Stable)

Source: Company

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

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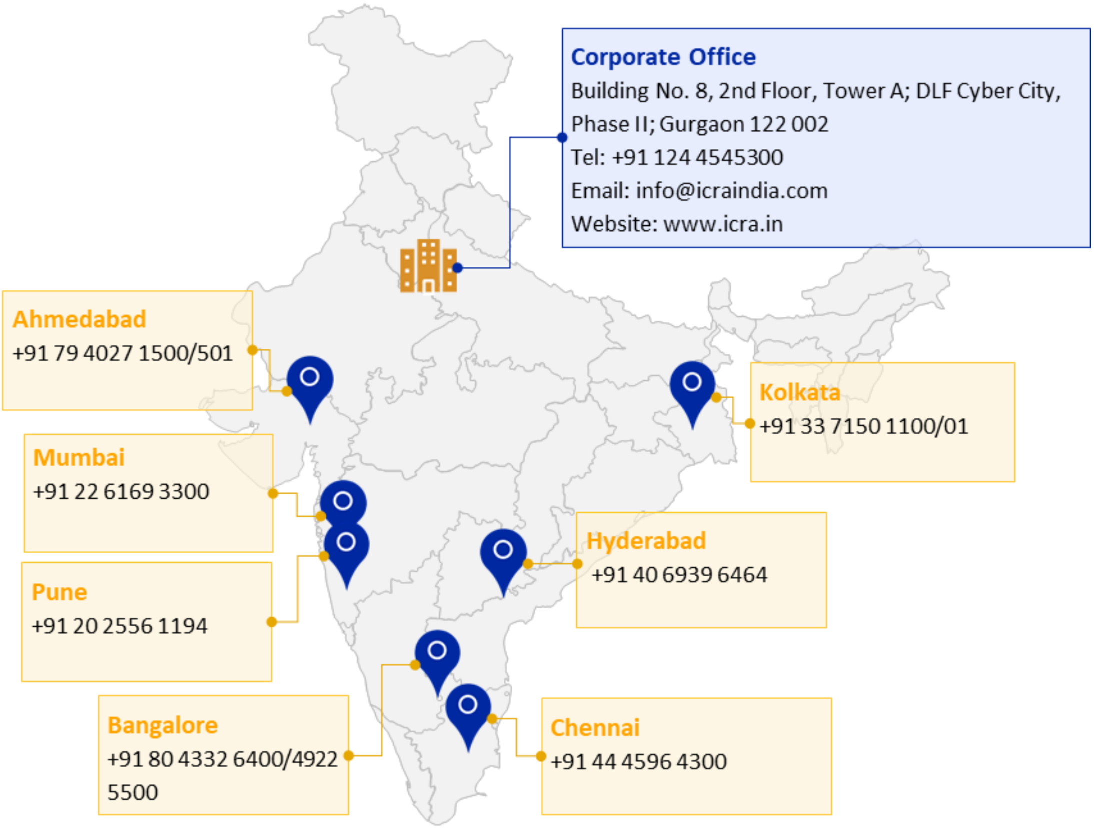

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