June 04, 2024

Hotel Excelsior Limited: Rating upgraded to [ICRA] A+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-Based – Term Loan	42.12	25.38	[ICRA] A+ (Stable); Upgraded from [ICRA] A (Stable)
Fund-Based – Working capital limits	20.00	20.00	[ICRA] A+ (Stable); Upgraded from [ICRA] A (Stable)
Total	**62.12**	**45.38**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Hotel Excelsior Limited (HEL) factors in the improvement in the REVPARs supported by the continued strong demand in the domestic hotel industry and the sustained comfortable debt protection metrics. HEL has two hotel properties, operating under strong brands in the premium hotel segment, Shangri-La (320 keys) in Central Delhi and Radisson Blu (124 keys) in Faridabad. The company has witnessed healthy improvement in ARRs by ~75% in FY2023 and ~15.2% in 11M FY2024 and the ARRs are expected to sustain at healthy levels backed by the strong brand/location pull and healthy domestic demand environment. The occupancy of Shangri-La property is at 76% in 11M FY2024 (75% in FY2023) and that of Radisson Blu property is at 70% in 11MFY2024 (69% in FY2023), which is expected to improve in the medium term. HEL's revenues are estimated to increase by 6%-7% to Rs. 300-310 crore in FY2024 at operating margins of 30-31% (PY: 32.9%) and continue to remain healthy in FY2025. Given the low debt levels, the debt protection metrics are comfortable with estimated Total debt/OPBIDTA around 0.25x-0.3x and DSCR of 4.5x-4.6x in FY2024 on account of low debt levels of Rs 25.8 while the liquidity remains strong as marked by healthy unencumbered cash and bank balance of Rs 73.1 crore as of March 2024 leading to negative net debt status as of March 2024. The ratings further take into account the extensive experience of the promoters and their established position in the hospitality business.

The ratings are, however, constrained by the limited geographical diversification and scale of operations, with the company having only two operational hotels with a room inventory of 444 keys with hotel Shangri-La alone contributing to around 84% of the company's total revenue in 11M FY2024. The company has provided advances to group entities in the past; any further material investments or inter-Group transactions, which significantly impacts its leverage will remain key rating monitorable. Further, given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions, and several exogenous factors which leads to its inherent cyclicality in the sector.

The Stable outlook on the long-term rating reflects ICRA's expectations that the strong brand, healthy REVPARs along with low debt levels will aid in sustaining comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Healthy operational profile with improvement in REVPARs and favourable demand outlook – The operational performance of both the hotel properties has remains healthy as the company has witnessed healthy improvement in ARRs by ~75% in FY2023 and ~15.2% in 11M FY2024 and the ARRs are expected to sustain at healthy levels backed by the strong brand/location pull and healthy domestic demand environment. The occupancy of Shangri-La property is at 76% in 11M FY2024 (75% in FY2023) and that of Radisson Blu property is at 70% in 11MFY2024 (69% in FY2023), which is expected to improve in the medium term. HEL's revenues are estimated to increase by 6%-7% to Rs. 300-310 crore in FY2024 at operating margins of 30-31% (PY: 32.9%) and continue to remain healthy in FY2025.

Low leverage and comfortable debt coverage metrics – The financial risk profile of the company remains comfortable given the low debt levels, the debt protection metrics are comfortable with estimated Total debt/OPBIDTA around 0.25x-0.3x and DSCR of 4.5x-4.6x in FY2024 on account of low debt levels of Rs 25.8 while the liquidity remains strong as marked by healthy unencumbered cash and bank balance of Rs 73.1 crore as of March 2024 leading to negative net debt status as of March 2024.

Extensive experience of promoters; tie-up with global brands like Shangri La and Radisson Blu – HEL is part of Eros group, and the company has a strong promoter background with management having vast experience in the hospitality business. HEL has a demonstrated track record of successful operations at its two operational hotel properties, i.e., Shangri-La in Delhi (320 keys) and Radisson Blu in Faridabad (124 keys). Tie-ups with international hotel chains, for both the hotels, impart strong brand recognition and provide access to global reservation systems.

Credit challenges

Revenue concentration risks and moderate scale of operations – The company has two operational hotel properties with 444 keys in two cities i.e., Delhi and Faridabad. Further, the revenue of the company is concentrated with Shangri La contributing around 84% of the total revenue in 11MFY2024. While the revenues are estimated to increase by ~6% in FY2024 to Rs. 300-310 crore, the scale of operations of the company remains moderate.

Vulnerability of revenues to inherent cyclicality in industry – Given the discretionary nature of spending, the rating considers the cyclical nature of the hospitality industry, with revenue generation exposed to seasonality, exogeneous shocks and to overall macro-economic performance. Further, the hotel continues to remain exposed to competition from other hotels in Delhi region.

Liquidity position: Strong

The company's liquidity profile is strong, supported healthy unencumbered cash and bank balance of Rs 73.1 crore along with undrawn working capital limits of Rs 20 crore as of March 2024. Further, the cash flow from operations will be comfortable to meet its debt obligations of Rs. 15.5 crore in FY2025.

Rating sensitivities

Positive factors – The rating could be upgraded in case of improvement in business diversification and significant increase in scale of operations and profitability of the company while maintaining strong leverage and coverage metrics on a sustained basis.

Negative factors – The rating could witness a downward revision in case of decline in the operating performance of the company resulting in adverse impact on the revenues, earnings and debt protection metrics on a sustained basis. Further, any significant investments or any inter-group company transactions or debt funded acquisition which would adversely impact liquidity and debt protection metrics will lead to a pressure on the rating. Specific credit metrics of Total Debt/OPBIDTA more than 1.5 times on a sustained basis, may lead to rating downgrade.

Analytical approach

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

About the company

Hotel Excelsior Ltd. (HEL) is the flagship company of the Delhi-based Eros Group promoted by Mr. Ajay Sood and Mr. Raman Sood, the other entities in the Group being Nehru Place Hotels and Real Estate Private Ltd. [rated [ICRA]A+ (Stable)] and Ajay Enterprises Private Ltd. (rated [ICRA]BBB+ (Stable)/[ICRA]A3+). HEL currently operates two 5-star deluxe hotels—Shangrila, with 320 rooms located in New Delhi and Radisson Blu with 124 rooms located in Faridabad.

Key financial indicators (audited)

HEL Standalone	FY2022	FY2023
Operating income	140.9	283.7
PAT	-5.2	65.7
OPBDIT/OI	11.84%	32.89%
PAT/OI	-3.67%	23.15%
Total outside liabilities/Tangible net worth (times)	0.72	0.44
Total debt/OPBDIT (times)	4.66	0.45
Interest coverage (times)	2.67	18.09

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT; Source: Company annual reports, ICRA Research.

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)* as on April 30, 2024	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
					June 04, 2024	May 23, 2023	April 29, 2022	May 25, 2021	April 07, 2021
1	Term Loan	Long Term	25.38	25.38	[ICRA] A+ (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Negative)	[ICRA] A (Negative)
2	Working Capital	Long term	20.00	0.0	[ICRA] A+ (Stable)	[ICRA] A (Stable)	[ICRA] A (Stable)	[ICRA] A (Negative)	[ICRA] A (Negative)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple
Fund-based – Working Capital Limits	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 – 1**	March 2014	7.84%	**Dec 2025**	15.13	[ICRA] A+ (Stable)
NA	**Term Loan – 2**	May 2021	7.84%	**Jan 2028**	10.25	[ICRA] A+ (Stable)
NA	**Working Capital Limits**	NA	NA	**NA**	20.00	[ICRA] A+ (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: 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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