October 30, 2024

Pride Hotels Limited: Ratings upgraded to [ICRA]BBB- (Stable)/ [ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	98.83	98.83	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Long-term – Fund-based – Overdraft	16.00	16.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Short-term – Non-fund Based	1.00	1.00	[ICRA]A3; Upgraded from [ICRA]A4+
Total	**115.83**	**115.83**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings on the bank lines of Pride Hotels Limited (PHL/the company) factors in PHL's healthy operating and financial performance during FY2024 and Q1 FY2025 and anticipated sustenance of the same going forward given the healthy demand outlook for hotel industry. The company's debt metrics have remained comfortable in the last 12-15 months following healthy accruals and absence of debt-funded capex and are likely to remain comfortable over the medium term.

PHL reported revenues of Rs. 271.5 crore in FY2024 (Unaudited), 10.1% higher on YoY basis, aided by leisure travel, social MICE (Meeting, Incentives, Conferences and Exhibitions), weddings and sustained improvement in business travel. The benefits from operating leverage, asset-light expansion and income from management contracts, and sustenance of cost-optimisation measures undertaken over the last few years have resulted in improvement in operating margins to 44.4% in FY2024 as against 38.2% in FY2023. For Q1 FY2025, the company reported an operating income of Rs. 61.0 crore, a YoY growth of 14.5%, while its operating margins improved 170 bps on YoY basis to 36.7% for the same period. The improvement in profits and accruals and absence of significant debt-funded capex have resulted in improvement in debt metrics for the company in FY2024 and Q1 FY2025. PHL's gearing stood at 0.5 times (PY: 0.7 times), while its Total Debt/OPBITDA was 1.3 times as on March 31, 2024 (PY:2.1 times). Its debt service coverage ratio and interest coverage also improved to 2.8 times and 6.3 times respectively for FY2024 from 2.0 times and 4.6 times respectively in FY2023. For Q1 FY2025, total debt/OPBDITA and interest coverage stood at 1.8 times and 5.9 times respectively. The favourable demand outlook for the hospitality industry and PHL's asset-light expansion strategy are likely to support its revenues, margins, debt metrics and liquidity profile in the near to medium term. The ratings also consider PHL's diversified presence across geographic locations and price points/segments with presence in thirty-three cities across thirteen Indian states. However, the company has moderate scale of operations and there has been sizeable increase in intra-group investments/loans and advances in FY2024.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its cash accruals, adequate liquidity position and asset-light expansion strategy, amidst favourable outlook for the industry.

Key rating drivers and their description

Credit strengths

Diversified presence across geographic locations and price points/segments – PHL has seven owned/leased properties largely in tier-I cities, while twenty-six hotels are on management contract basis across multiple tier-I and tier-II cities. Overall, it is present in thirty-three cities currently. Further, the company also has new signings under the management contract route in several cities pan-India. The geographical diversification reduces the vulnerability of the company's revenues to any localised downturn/unforeseen events or region-specific risks and helps in capitalising on demand growth across regions. Further, the hotel portfolio is diversified across multiple segments, with presence in upper upscale, upscale and midscale/economy segments. This helps the company capture a wide range of customers, including those travelling for leisure as well as business.

Comfortable debt metrics – The improvement in profits and accruals and absence of significant capex plans have resulted in comfortable debt metrics for the company in FY2024 and Q1 FY2025. PHL's gearing stood at 0.5 times (PY: 0.7 times), while its Total Debt/OPBITDA was 1.3 times as on March 31, 2024 (PY:2.1 times). Its debt service coverage ratio and interest coverage also improved to 2.8 times and 6.3 times respectively for FY2024 from 2.0 times and 4.6 times respectively in FY2023. For Q1 FY2025, total debt/OPBDITA and interest coverage stood at 1.8 times and 5.9 times respectively. The favourable demand outlook for the hospitality segment and PHL's asset-light expansion strategy are likely to support its revenues, margins and debt metrics/liquidity profile in the near to medium term.

Healthy revenue growth and margins in FY2024 and Q1 FY2025; favourable demand outlook – PHL reported revenues of Rs. 271.5 crore in FY2024 (Unaudited), 10.1% higher on YoY basis, aided by leisure travel, social MICE (Meeting, Incentives, Conferences and Exhibitions), weddings and sustained improvement in business travel. The benefits from operating leverage, asset-light expansion and income from management contracts, and sustenance of cost-optimisation measures undertaken over the last few years have resulted in improvement in operating margins to 44.4% in FY2024 as against 38.2% in FY2023. For Q1 FY2025, the company reported an operating income of Rs. 61.0 crore, a YoY growth of 14.5%, while its operating margins improved 170 bps on YoY basis to 36.7% for the same period. PHL's revenue growth and margins are likely to remain healthy over the medium term given the healthy demand outlook for the industry, amidst limited supply addition.

Credit challenges

Moderate scale of operations; revenues vulnerable to exogenous shocks, similar to other hotel players – PHL has relatively moderate scale of operations, with revenues of Rs. 271.5 crore in FY2024. Despite the likely increase in room inventory going forward, the scale is expected to remain moderate over the medium term. Akin to other hotel players, the company is also exposed to industry cyclicality/seasonality, macroeconomic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when PHL's performance was significantly impacted by the pandemic.

Significant intra group investments and loans– PHL's investments and loans and advances to group companies stood at Rs. 60.3 crore as on March 31, 2024, an increase of Rs. 40 crore in FY2024. While ICRA understands that these are repayable by the borrowers on demand, the investments/loans are significant for PHL's scale, and any material increase in the same would be monitorable.

Liquidity position: Adequate

PHL's liquidity remained adequate, supported by cash and liquid investments of Rs. 13.1 crore as on September 30, 2024 and anticipated healthy cash flow from operations in FY2025. Further, the company had undrawn working capital lines of Rs. 4.0 crore as on September 30, 2024. As against these sources of cash, PHL has capex commitments of Rs. 25 crore in FY2025, Rs. 100 crore in FY2026 and Rs. 25 crore in FY2027, to funded through internal accruals and debt, on need basis. Further, PHL has principal repayment obligations of Rs. 10.7 crore in H2 FY2025, Rs. 20.4 crore in FY2026 and Rs. 15.7 crore in FY2027 on its existing loans. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds and be left with adequate buffer in working capital/cash surplus.

Rating sensitivities

Positive factors – Sustained and significant improvement in PHL's revenues and earnings leading to improvement in financial performance and debt metrics could accelerate the transition to a higher rating.

Negative factors - Negative pressure on PHL's ratings could arise if the company witnesses weakening of liquidity position and pressure on earnings or weakening of debt metrics on sustained basis. Any significant increase in investments/loans to group companies could be also a trigger for downgrade. Specific metrics that could trigger a downgrade could include DSCR of lesser than 1.5x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on PHL's consolidated financial statements. The company's subsidiaries and associates are enlisted in Annexure-2.

About the company

Pride Hotels Limited (PHL) has seven owned/leased hotels and twenty-six properties under management contract, spread across thirty-three cities pan-India and multiple segments. The company has presence in the upper upscale, upscale and midscale/economy segments through its brands like The Pride Plaza hotels, The Pride Hotels and Resorts/Biznotels. About 50% of PHL's demand stems from corporate travel, while the remaining comes from weddings, MICE, FIT (Free Independent Traveler) and leisure travel. The company's day-to-day operations are run by Mr. S. P. Jain (promoter), who also has interests in other businesses including a Non-Banking Financial Company (NBFC).

Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	246.6	271.5
PAT	37.2	68.3
OPBDIT/OI	38.2%	44.4%
PAT/OI	15.1%	25.1%
Total outside liabilities/Tangible net worth (times)	1.1	0.8
Total debt/OPBDIT (times)	2.1	1.3
Interest coverage (times)	4.6	6.3

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	30-OCT-2024	Date	Rating	Date	Rating	Date	Rating
Long term-overdraft-fund based	Long Term	16.00	[ICRA]BBB-(Stable)	17-JUL-2023	[ICRA]BB+(Stable)	29-APR-2022	[ICRA]BB-(Stable)	-	-
Long term-term loan-fund based	Long Term	98.83	[ICRA]BBB-(Stable)	17-JUL-2023	[ICRA]BB+(Stable)	29-APR-2022	[ICRA]BB-(Stable)	-	-
Short term-others-non fund based	Short Term	1.00	[ICRA]A3	17-JUL-2023	[ICRA]A4+	29-APR-2022	[ICRA]A4	-	-
Unallocated	Long Term	-	-	-	-	29-APR-2022	[ICRA]BB-(Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long term - Fund based – Overdraft	Simple
Short term – Non-fund based	Very 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Term Loans**	FY2018	8.10%-9.25%	FY2029	98.83	[ICRA]BBB- (Stable)
NA	**Overdraft**	NA	10.50%	NA	16.00	[ICRA]BBB- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.00	[ICRA]A3

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
Indralok Hotels Private Limited	100.0%	Full Consolidation
Somti Hotels Private Limited	100.0%	Full Consolidation
Rohan Hotels Private Limited	100.0%	Full Consolidation
Pride Beach Resorts Private Limited	100.0%	Full Consolidation
Jagsons Hotels Private Limited	22.3%	Equity Method

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Bikram Keshari Swar
+91 44 4596 4311
bikram.swar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches