

## Hotel Excelsior Limited

April 22, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term working capital limits	20.00	20.00	[ICRA]A (Stable); Reaffirmed
Long term fund-based – term loans	109.00	85.00	[ICRA]A (Stable); Reaffirmed
<b>Total</b>	<b>129.00</b>	<b>105.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of the rating takes into account the healthy financial profile of Hotel Excelsior Limited (HEL), with the company's operating profitability reaching 26.5% and cash accruals increasing during 9m FY2019 (P). The capital structure and debt coverage indicators have remained healthy as well. This has been supported by increased revenue and profit generation from the recently renovated Hotel Shangri La (New Delhi) (which has accounted for 85% of HEL's revenues over the past two years), as well as stabilization of the operations of the Radisson Blu hotel (Faridabad, Haryana), which recorded its first full year of operations in FY2018, and turned cash positive in 9m FY2019 (P). Overall operating metrics of both hotels remained healthy in 9m FY2019 (P), underpinned by the established position of Hotel Shangri-La in the premium hotel segment in Delhi, and the strong brand image of both the 'Shangri-La' and 'Radisson Blu' chain of hotels, which provides the hotels with access to global marketing and reservation systems. The rating also factors in the sustained growth in food and beverages (F&B) revenues, with such income providing higher revenue stability relative to the more cyclical room revenues. The rating also takes into account HEL's experienced management and strong promoter background, with the company being a part of the Eros group.

The rating is, however, constrained by the low diversification and modest scale of HEL's operations, with the company having only two operational hotels with a room inventory of 444 keys as on date. Hotel Shangri-La alone contributes to around 85% of the company's total revenues. This concentration risk is further exacerbated by HEL's exposure to the inherent cyclical nature in the hospitality industry, owing to economic and seasonal cycles. ICRA also notes that HEL's return on capital employed has remained low, primarily due to the large capital expenditure incurred towards the establishment of Radisson Blu and renovation of Hotel Shangri-La in recent years, as well as low-return on investments made in a group company in the past. While HEL plans on utilizing some surplus funds generated from operations towards buyback of shares from a group company in Q1-FY2020 as well, ICRA notes that the same is taking place on an arm's length basis and is aimed at reducing inter-group exposures. Going forward, the business return indicators are expected to improve on the back of limited capital expenditure requirements and further stabilization of operations pertaining to both the renovated room inventory in Hotel Shangri-La and Radisson Blu. The same, along with any further inter-group transactions based on availability of surplus funds, will remain a key rating monitorable.

### Outlook: Stable

ICRA believes HEL will be able to maintain its healthy financial profile, aided by stable operations in Hotel Shangri-La and continued ramp-up in the operating metrics of Radisson Blu. The outlook may be revised to 'Positive' if the company is able to achieve higher-than-expected revenue per available room (RevPAR<sup>1</sup>) across both properties, resulting in

<sup>1</sup> RevPAR = Average room revenue (ARR) x Occupancy

significant ramp-up in its operating income and business return indicators. The outlook may be revised to 'Negative' in case of reduction in occupancy or ARR of the two hotel properties, or increase in the debt levels, leading to deterioration of the capital structure and debt protection metrics. Any further inter-group transactions based on availability of surplus funds, will remain a key rating monitorable.

## Key rating drivers

### Credit strengths

**Long experience of promoters** - Being a part of the Eros group, the company has a strong promoter background with the management having longstanding experience in the hospitality business.

**Tie-up with global brands, 'Shangri-La' and 'Radisson Blu'**– Tie-up with international hotel chains, for both the hotels, imparts strong brand recognition and provides access to global reservation systems. Hotel Shangri-La, in particular, has a well-established position in the premium hotel segment in Delhi.

**Healthy operating metrics, with stabilisation in performance of both the renovated room inventory in Hotel Shangri-La, as well as the more recently established Radisson Blu** – The renovation of Shangri-La was completed in November 2017 with commencement of full operations thereafter resulting in a significant increase in revenues and operating profits. The hotel reported an average room revenue (ARR) in excess of Rs. 10,000 and occupancy of 69% in 9m FY2019(P).

Radisson Blu started commercial operations in November 2016, and recorded its first full year of operations in FY2018. The hotel turned cash positive in 9m FY2019(P), recording an ARR of Rs. 5,600 and occupancy of 53% during the period.

Moreover, F&B income has remained robust for both hotels, and has exceeded overall room revenues. ICRA notes that F&B income provides higher revenue stability relative to the more cyclical room revenues.

**Healthy financial profile** – HEL has reported an operating profitability of 26.5% in 9m FY2019 (P), up from 20% in FY2018. The capital structure and debt coverage indicators have remained healthy as well, with gearing being 0.41 times as on December 31, 2018, and interest cover standing at 6.17 times and NCA/TD at 52% during 9m FY2019 (P). Debt levels have reduced from Rs. 109 crore in FY2018 to Rs. 90.5 crore in 9m FY2019 (P).

### Credit challenges

**Low diversification and modest scale of operations in the company** – With only two operational hotel properties having 444 keys, the company has a modest scale of operations. Revenues are highly concentrated as well, with Hotel Shangri-La, contributing to around 85% of the company's operating income. ICRA however, notes that going forward, further stabilization of Radisson Blu operations would result in increased revenue diversification. The high quantum of F&B income also provides an additional revenue stream.

**High capital expenditure undertaken in recent years and investment in group company in the past results in low return on capital employed** – The company has reported a low return on capital employed over the past three years, primarily on account of the large capital expenditure incurred towards the establishment of Radisson Blu and renovation of Hotel Shangri-La in recent years, as well as low-return on investments made in a group company in the past. While HEL plans on utilizing some surplus funds generated from operations towards buyback of shares from a group company in FY2020 as well, ICRA notes that the same is taking place on an arm's length basis and is aimed at reducing inter-group exposures. Going forward though, the business return indicators are expected to improve on the back of limited capital expenditure requirements and further stabilization of operations pertaining to both the renovated room inventory in Hotel Shangri-La, as well as Radisson Blu's operations.

**Exposure to inherent risk of cyclical nature of revenue generation in the hospitality industry** - The hospitality industry is cyclical in nature and is vulnerable to general economic slowdowns and exogenous shocks (geo-political crisis, disease outbreak etc.). However, ICRA takes note of the favourable demand outlook at present, supported by increasing domestic travel, buoyant MICE activity and higher foreign tourist arrivals.

## Liquidity position

ICRA expects HEL to continue generating healthy cash flows from operations over the medium term, aided by high occupancy and ARRs in its hotel properties, particularly Hotel Shangri-La. Limited capital expenditure plans, and moderate debt repayment obligations further support the liquidity position. However, ICRA notes that the company plans to use some surplus funds towards the buyback of shares from a group company in FY2020, aimed at reducing inter-group exposures. The liquidity position is expected to remain adequate post this outflow.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone Financial Statements

## 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 hotels – ‘Shangri-La’, New Delhi (320 rooms) and ‘Radisson Blu’, Faridabad (124 rooms). ‘Shangri-La’ has concluded renovation of its restaurant section which has led to healthy F&B revenues from FY2017 onwards and has also completed capex towards renovation of rooms in the hotel in November, 2017. Radisson Blu commenced operations from November 2016 onwards.

In FY2018, the company reported a net loss of Rs. 16.9 crore on an operating income of Rs. 196.9 crore, as compared to a net loss of Rs. 6.2 crore on an operating income of Rs. 157.0 crore in the previous year.

## Key financial indicators (audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	157.0	196.9
PAT (Rs. crore)	-6.2	-16.9
OPBDIT/ OI (%)	15.12%	19.98%
RoCE (%)	0.45%	-1.19%
Total Debt/ TNW (times)	0.43	0.50
Total Debt/ OPBDIT (times)	4.27	2.77
Interest coverage (times)	4.72	3.55
NWC/ OI (%)	-1%	-4%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Apr-19	Date & Rating in FY2019 Apr-18	Date & Rating in FY2018 Apr-17	Date & Rating in FY2017 Jun-16
1 Working Capital Limits	Long Term	20	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loan	Long Term	85	85	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Limits	NA	NA	NA	20.00	[ICRA]A (Stable)
NA	Term Loan 1	March 2014	9.25%	March 2027	66.0	[ICRA]A (Stable)
NA	Term Loan 2	August 2017	9.50%	June 2026	19.0	[ICRA]A (Stable)

Source: Hotel Excelsior Ltd.

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