

September 25, 2020

Hotel Excelsior Limited: [ICRA]A (Negative) rating reaffirmed, rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	73.75	83.75	[ICRA]A (Negative); reaffirmed/assigned
Fund based- Working Capital Limit	20.00	20.00	[ICRA]A (Negative); reaffirmed
Total	93.75	103.75	

*Instrument details are provided in Annexure-1

Rationale

The negative outlook on Hotel Excelsior Limited (HEL) continues to reflect the expected weak financial performance of the company over the near to medium term, owing to sharp demand drop stemming from the Covid-19 pandemic. Contagion fears, together with pan-India and localized lockdowns continuing since March 24, 2020, have resulted in a sharp fall in occupancy levels for the company, with its two properties - Radisson Blu, Faridabad and Shangri La, Delhi - remaining closed in Q1FY2021. Limited occupancy was registered in Q2FY2021 on account of demand for quarantine facilities. With the consequent decline in revenues, HEL has recorded operating losses of Rs. 11.98 crore during 5M FY2021 (provisional numbers), despite undertaking significant cost control measures, including rationalization of employees, wage structures, marketing expenditures, etc., which have reduced fixed expenses to around 50% of pre-covid levels. Continuing averseness to travel – voluntary or owing to Government restrictions – is expected to keep occupancy levels subdued over the near-to-medium term as well, thereby keeping HEL’s cash accruals under pressure. The extent of credit impact going forward will remain contingent upon the pace of recovery once the effects of the pandemic begin to recede. Nonetheless, HEL’s rating remains supported by the adequate liquidity available with the company. As on August 31, 2020, the company had undrawn bank lines of around Rs. 20 crore (including against a recently availed Covid facility of Rs. 10 crore) and cash and liquid investments of Rs. 2.5 crore. As against this, interest and principal repayment obligations are limited to Rs. 14.75 crore in FY2021. Overall, the financial profile of Hotel Excelsior Limited (HEL) is expected to remain supported by its low leverage levels, which would keep the capital structure conservative, notwithstanding the adverse impact of Covid-19. The rating also continues to derive comfort from HEL’s experienced management and strong promoter background, with the company being a part of the Eros group. 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 have supported healthy operating metrics pre-covid, also continue to be factored into the rating.

The rating, however, continues to be 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 the high operating leverage typically associated with hotels, which makes them highly susceptible to any reduction in revenues. 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. The movement in RoCE, post resumption of normal operations, along with any further inter-group transactions based on availability of surplus funds, will remain key rating monitorables. ICRA will also continue to monitor the Covid-19 situation and take appropriate rating action wherever required.

Key rating drivers and their description

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'; healthy operating metrics of properties pre-Covid– 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. While COVID-19 has impacted operations from Q4FY2020 onwards, ICRA notes that the operating metrics and F&B income generation of both the hotel properties remained healthy over FY2019 and 9MFY2020(P). Shangri-La reported an average room revenue (ARR) in excess of Rs. 10,000 and occupancy of 72% in FY2019 and 75% in 9m FY2020(P), though the same declined to 72% for full-year FY2020(provisional numbers). Also, Radisson Blu reported an ARR of Rs. 5700 in FY2019 and Rs. 5,500 in 9MFY2020 and occupancy of 56% and 60% respectively during the period. For full-year FY2020 (provisional numbers), the occupancy declined to 58%.

Financial profile to remain supported by adequate liquidity and low leverage levels, despite adverse impact of covid-19 – As on August 31, 2020, the company had cash and liquid investments of Rs. 2.5 crore along with an unutilised fund-based working capital line of Rs. 12.7 crore. Further, HEL has obtained a Covid-19 term loan sanction of Rs. 10 crore recently, with a moratorium of 6 months, and has Rs 7.5 crore undrawn against the same. As against these, the company has interest and principal repayment obligations of Rs. 14.75 crore in FY2021. Overall, the financial profile of Hotel Excelsior Limited (HEL) is expected to remain supported by its low leverage levels. Gearing levels stood at 0.38 times, interest cover at 7.85 times and NCA/TD at 64% as on March 31, 2020 (provisional numbers). However, ICRA expects the pandemic to keep the operating metrics muted in the near-to-medium term, resulting in some moderation in these indicators in FY2021.

Credit challenges

Sharp decline in revenues and cash accruals expected in FY2021 on account of steep demand drop owing to the pandemic – The outbreak of novel coronavirus (COVID-19) has led to significant disruption in the global travel and tourism industry. Contagion fears, together with pan-India and localized lockdowns continuing since March 24, 2020, have resulted in a sharp fall in occupancy levels for HEL as well, with its two properties - Radisson Blu, Faridabad and Shangri La, Delhi - remaining closed in Q1FY2021. Limited occupancy was registered in Q2FY2021 on account of demand for quarantine facilities. With the consequent decline in revenues, HEL has recorded operating losses of Rs. 11.98 crore during 5M FY2021 (provisional numbers), despite undertaking significant cost control measures, including rationalization of employees, wage structures, marketing expenditures, etc., which have reduced fixed expenses to around 50% of pre-covid levels. Continuing averseness to travel – voluntary or owing to Government restrictions – is expected to keep occupancy levels subdued over the near-to-medium term as well, thereby keeping HEL's cash accruals under pressure. The extent of credit impact going forward will remain contingent upon the pace of recovery once the effects of the pandemic begin to recede.

Low diversification and modest scale of operations in the company, with low RoCE – 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 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. The movement in RoCE, post resumption of normal operations, along with any further inter-group transactions based on availability of surplus funds, will remain key rating monitorables.

Exposure to inherent risk of cyclicity 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.).

Liquidity Position: Adequate

While the cash accruals from the hotel operations are expected to get adversely impacted over the near term due to the COVID-19 outbreak, HEL's liquidity position is expected to remain adequate for meeting debt repayment obligations for FY2021. HEL had cash and liquid investments of Rs. 2.5 crore and undrawn lines of Rs. 20 crore as on August 31, 2020. As against these, the company has interest and principal repayment obligations of Rs. 14.75 crore in FY2021 (Rs 2.31 crore has been paid till August, 2020).

Rating sensitivities

Positive triggers – An upward movement in the rating is unlikely in the near term. The outlook may be revised to stable in case of an earlier than anticipated recovery followed by significant ramp up in operating metrics.

Negative triggers – Negative pressure on the rating could arise in case the impact of Covid-19 is prolonged, or the ramp-up in operating metrics post resumption of operations is slower than expected, resulting in moderation in HEL's financial risk profile and higher than expected debt levels. Any further inter-group transactions based on availability of surplus funds, will also remain a key rating monitorable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
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 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 in recent years and has also completed capex towards renovation of rooms in the hotel in November, 2017. Radisson Blu commenced operations from November 2016 onwards.

Key financial indicators (audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	229.8	222.4
PAT (Rs. crore)	67.7	61.3
OPBDIT/OI (%)	29.45%	27.58%
PAT/OI (%)	8.04%	10.10%
Total Outside Liabilities/Tangible Net Worth (times)	0.62	0.60
Total Debt/OPBDIT (times)	1.32	1.32
Interest Coverage (times)	7.40	7.85

*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
			(Rs. crore)		25-September 2020	14-April-2020	22-April-2019	6-April-2018	26-April-2017
1	Working Capital Limits	Long Term	20.00	-	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Term Loan	Long Term	83.75	76.25*	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

*As on August 31, 2020

Amount in Rs. Crore

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

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 (Negative)
NA	Term Loan 1	March 2014	9.25%	March 2027	61.25	[ICRA]A (Negative)
NA	Term Loan 2	August 2017	9.50%	June 2026	12.50	[ICRA]A (Negative)
NA	Term Loan 3	September 2020	8.0%	March 2022	10.00	[ICRA]A (Negative)

Source: HEL

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shubham Jain

+124-4545 306

shubhamj@icraindia.com

Mahi Agarwal

+33-7150 1106

mahi.agarwal@icraindia.com

Pallavi Singh

+124-4545 393

pallavi.singh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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:

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.

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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents