

May 31, 2021

## AB Hotels Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	16.56	6.21	[ICRA]BBB- (Stable) reaffirmed
Long-term – Fund Based Working Capital	6.50	6.50	[ICRA] BBB- (Stable) reaffirmed
<b>Total</b>	<b>23.06</b>	<b>12.71</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's rating reaffirmation for AB Hotels Limited (ABHL) continues to take cognisance of its property's favourable location, track record of operations, strong brand visibility owing to its long association with the Radisson Group and the experience of promoters. The rating also takes into consideration the company's comfortable debt coverage indicators supported by low indebtedness.

The rating is, however, remains to be constrained by the uncertainty associated with ABHL's ongoing dispute with the Airport Authority of India (AAI) over computation of royalty and lease rental payables for the hotel property. This exposes the company to contingent liabilities of around Rs. 147.0 crore (as of March 31, 2020) as per claims made by AAI. The renewal risk is intensified given the limited time period left for the same as the lease agreement expires in December 2021. This lease expiry has also impacted ABHL's ability to enter into long-term contract for its commercial plaza and thus reduced this revenue segment. Moreover, the company's operational performance, in line with the hotel industry trends, was significantly impacted by the Covid-19 pandemic in FY2021 resulting in decline in both occupancy and Average Room Rate (ARR) resulting in significant decline (~56%) in total revenues. The coming of the second Covid-19 wave in April 2021 and resulting lockdown restrictions would further delay the revenue recovery. Further, single location operations and exposure to stiff competition in the micro market, pose concentration and competitive risks.

The Stable outlook on the rating reflects ICRA's expectation of a modest albeit consistent growth in company's cash accruals over the medium-term supported by favorable location amidst low debt repayment, adequate liquidity and minimal capex obligations.

### Key rating drivers and their description

#### Credit strengths

**Favourable location and strong brand recognition owing to association with the Radisson Group** - The hotel is situated on the national highway (NH-48) and enjoys the advantages of being close to the Indira Gandhi International Airport and corporate parks of Gurgaon ensuring large catchment. Additionally, the hotel benefits from its association with the Radisson group and operations under the Radisson Blu Plaza brand, providing it with access to Radisson's global distribution system, strong loyalty programmes and corporate relationships.

**Well-experienced promoters with a long-standing track record in the hospitality industry** - The company's promoters have more than two decades of experience in the hospitality industry ensuring good management expertise. Being operational since 1998, ABHL's has a long track record when compared to the new hotels in the vicinity.

**Healthy capital structure and debt coverage indicators** – ABHL’s cash accruals were impacted in FY2020 owing to a one-time management expense resulting in lower operating margin of 11.5%. Nevertheless, the company reported a significant improvement in its gearing owing to decline in its debt levels (0.2 times as on March 31, 2020). The same further improved as on March 31, 2021 led further reduction in debt. Due to decline in operating profitability in FY2020, the debt coverage indicators declined albeit remained at comfortable levels due to low debt levels with TD/OPBITDA at 1.3 times and Interest coverage at 4.3 times at end-FY2020. Further, with anticipated cash accruals likely to remain sufficient to fund scheduled debt repayments and no major capex plans in the near-term ABHL is expected to have very low debt levels in the near term.

## Credit challenges

**Uncertainty with regard to the ongoing litigation with AAI, limited time left for lease renewal is a concern** - ABHL has an ongoing legal dispute with AAI over computation and quantum of the gross turnover (GTO) as well as percentage of royalty payable and escalation in the lease rental payables to AAI over the past two decades. As per the audited financials, the contingent liability regarding the same was nearly Rs. 147.0 crore as on March 31, 2020. However, the last arbitration order was in favour of the company asking to pay Rs. 7.3 crore against AAI claims of Rs. 147 crore. Given that the lease expires in December 2021, the timely resolution of the dispute remains crucial for smooth operations. Most of the company’s commercial plaza leases with the tenants are also expiring in 2021.

**Modest scale of operations and geographic concentration of revenues** - The company owns a single upper-upscale segment property and therefore has a modest scale of operations with an asset and geographical concentration risk. With no major expansion plans in the near-term, the possibility of any significant scale-up of operations is limited. Moreover, dependence on a single hotel exposes the company to adversities of the local market including inter alia new supply addition and event risks, among others. ABHL’s scale has substantially reduced in FY2021 given weak RevPar, particularly in H1 though expected to recover gradually in line with demand.

**Covid-19 pandemic second wave remains key concern in the near term; presence in highly competitive micromarket constrains the ARR growth potential** – The Covid-19 pandemic has impacted the hotel industry in FY2021 both on occupancy as well as ARR. The occupancy dropped to 37% for ABHL in H1FY2021 and depicted rapid recovery in H2FY2021 resulting in a RevPar of Rs. 2,531 for the year. The onset of Covid-19 second wave and lockdowns in Delhi NCR in April 2021 have delayed the demand recovery to pre-Covid levels. ABHL also faces stiff competition from hotels present nearby in Aerocity. The extensive competition in the micro-market may restrict the company’s pricing power, though it has done better than most of its peers in the Aerocity both in terms of occupancy and ARR. The overall demand recovery remains vulnerable to Covid-19 second wave and timelines of country’s vaccination drive.

## Liquidity position: Adequate

ABHL’s liquidity position remains adequate, characterised by cash and liquid investments of Rs. 15.7 crore as on April 30, 2021. Since, the company is expected to generate positive retained cash flows in FY2022. This along with the liquidity sources are likely to remain adequate to fund its remaining debt repayments of Rs. 3.1 crore and minimal capex requirements in FY2022.

## Rating sensitivities

**Positive factors** – Scale-up of hotel revenues while maintaining profitability could result in upward movement in rating. Successful and timely resolution of ongoing arbitration proceedings with AAI, while maintaining profitability indicators and healthy cash accruals could be a trigger for rating upgrade.

**Negative factors** – Downward pressure on rating could emerge if any large debt-funded capital expenditure, weaker than expected operating performance or deterioration in liquidity position adversely impacts the credit metrics of the company. Moreover, any adverse outcome in the ongoing dispute with AAI which results in significant increase in operating expenses or any discontinuation of lease contract with AAI that nears expiration, shall lead to rating downgrade.

## 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

## About the company

Incorporated in the mid-1990s, AB Hotels Limited (ABHL) operates the Radisson Blu Plaza Hotel at Mahipalpur in New Delhi. It is the Radisson Hotel group's (earlier Carlson Hospitality Group) first hotel property in India and has been in operations since 1996. The hotel includes 261 rooms of five-star deluxe category, a commercial plaza with over 75,000 sq. ft. of space, seven F&B outlets such as 'The Great Kebab Factory' (TGKF), 'Neung Roi', 'NYC', 'R-The Lounge', The Pastry Shop, 'The Orb' and 'Savannah Bar', banquet and conference facilities.

ABHL has a license agreement with Radisson Hotels International Inc. (RHI), as per which it operates under the brand 'Radisson'. The agreement was first signed in 1994 for a 10-year duration and has been subsequently renewed twice. Most recently, the agreement was renewed in 2014 for a tenure of ten years. The hotel was upgraded to Radisson Plaza in 2004 and it was re-branded to Radisson Blu Plaza in 2010. The hotel is operated on a property which is leased from Airport Authority of India (AAI) for 30 years lease which expires in December 2021. The company is undergoing an arbitration with AAI for the renewal of the lease expiring in December 2021.

In FY2020, ABHL generated an operating income of ~Rs. 111.6 crore at marginal growth of 2% over the previous year and an OPBITDA of Rs. 12.8 crore at OPM of 11.5%. As per the provisional figures of FY2021, the company achieved revenues of Rs. 48.7 crore and OPBITDA of Rs. 15.6 crore.

## Key financial indicators (audited)

ABHL	FY2019	FY2020
Operating Income (Rs. crore)	109.5	111.6
PAT (Rs. crore)	7.4	(0.8)
OPBDIT/OI (%)	23.6%	11.5%
PAT/OI (%)	6.8%	-0.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	1.2	1.3
Interest Coverage (times)	5.3	4.3

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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of April 30, 2020 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018
					May 31, 2021	Mar 03, 2020	Apr 08, 2019	Nov 02, 2018	Nov 23, 2017
1	Term Loans	Long-term	6.21	3.10	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)
2	Fund based Working Capital	Long-term	6.50	NA	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	-	-
3	Unallocated	Long-term	0.00	NA	-	-	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)	[ICRA]BB+(Stable)

&= Under watch with developing implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term– Fund Based Working Capital	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 analyzing 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, is available on ICRA's 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	Term Loan – I	Jul-2011	12.65%	Mar-2021	0.80	[ICRA]BBB-(Stable)
NA	Term Loan – II	Feb-2011	12.30%	Jul-2021	3.20	[ICRA]BBB-(Stable)
NA	Term Loan - III	Mar-2014	12.30%	Oct-2021	2.21	[ICRA]BBB-(Stable)
NA	Cash Credit Facility	NA	NA	-	6.50	[ICRA]BBB-(Stable)

*Source: Company*

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

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