

January 06, 2022(Revised)

Urbanedge Hotels Private Limited: Rating downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	64.71	64.71	[ICRA]D; Rating downgraded from [ICRA]C+
Total	64.71	64.71	

*Instrument details are provided in Annexure-1

Rationale

The rating action follows delays in debt servicing by Urbanedge Hotels Private Limited (UHPL/the company), owing to weak demand amid the pandemic and consequent impact on cash flows. The company had initially availed moratorium for the period of March–August 2020. Post that, UHPL applied for a loan restructuring relief under the resolution framework for pandemic-related stress specified by the Reserve Bank of India (RBI). While the restructuring proposal was not invoked by the lender and the same was communicated to the company on December 28, 2020, UHPL had cleared all the principal and interest obligations for the period of March 2020–December 2020, using the proceeds from the sale of its Ahmedabad property. Additionally, the company had received sanction of Rs. 30.0 crore under ECLGS 2.0 and ECLGS 3.0 from its lender, which supported its operational and financial commitments during February to October 2021. Post that, UHPL was expected to fund its operating and financial commitments through asset monetization. In the absence of timely closure of the property sale and the weak ramp-up in demand, the company delayed on its debt repayment obligations. ICRA had earlier received a written confirmation from the company on regular debt servicing for November 2021. However, basis the debt servicing declaration received on January 05, 2022 and subsequent discussions with the company and its lender, ICRA understands that the company currently has overdues of Rs. 6.8 crore, pertaining to interest obligations for the months of November and December 2021 and the principal payment for December 2021.

Key rating drivers and their description

Credit strengths

Periodic equity fund infusion till FY2021 – The company is yet to achieve break-even at the operating level and requires constant financial support. The company has had equity infusion of Rs. 353.4 crore over the past nine years (since April 1, 2013 till March 31, 2021) for loss funding and towards servicing of debt obligations. With the company’s accruals likely to remain under pressure in the near term, timely and adequate equity infusion or asset monetization will be critical for timely repayment of principal and interest obligations going forward.

Strategic location of hotels– UHPL’s hotel properties are strategically located near business/information technology parks, airport, etc., attracting corporate customers and business travellers. The company’s overall occupancy is presently low, given the steep fall in the demand amid the pandemic and the company’s high dependence on the IT sector for two of its properties (in Chennai and Bangalore). Nevertheless, its strategy to focus on corporate customers is expected to drive improvement in occupancy over the longer term.

Credit challenges

Delay in debt servicing; financial profile characterised by modest scale of operations, stretched coverage indicators and insufficient cash flows from operations to meet debt obligations – UHPL has a modest scale of operations and has been incurring net losses since its inception in FY2007 resulting in stretched capitalisation and coverage indicators. The company's operating cash flows were not sufficient to meet the term loan obligations (both interest and principal) and has resulted in delays in debt servicing.

Sharp deterioration in performance amid the impact of pandemic on the Indian hospitality industry; vulnerability of revenues to inherent industry cyclicality and economic cycles – The Covid-19 pandemic had a severe impact on the hospitality industry for the past two years, with a sharp decline in international tourist arrivals and domestic travel. Further, with corporate customers and business travellers being the primary demand driver for the company's properties, UHPL witnessed a sharper dip in revenues as compared to the properties which were located in leisure destinations. With the emergence of the Omicron variant and sharp rise in infections, several states have imposed partial lockdowns, which is expected to curtail business travel over the next few weeks at least. The situation is evolving, and prolonged lockdowns and high infection rates will impact demand in Q4 FY2022.

Liquidity position: Poor

The company's liquidity is poor with net losses since its inception, resulting in negative cash flow from operations. The company has cash and bank balances of Rs. 1.7 crore as on December 31, 2021. ICRA understands that the term loan outstanding of Rs. 33.0 crore is expected to be prepaid in Q4 FY2022 with the sale proceeds of the Coimbatore property, post which the company is likely to have Rs. 5.6 crore of debt obligations in FY2023 (Rs. 3.8 crore of principal and Rs. 1.8 crore interest obligations) and Rs. 8.6 crore of debt obligations in FY2024 (Rs. 6.6 crore of principal and Rs. 2.0 crore interest obligations) pertaining to ECLGS loans. Part of the sale proceeds is likely to be used for meeting the operational and financial commitments in FY2023.

Rating sensitivities

Positive factors: ICRA could upgrade the ratings upon timely servicing of debt obligations for an adequate period of time aided by improvement in cashflows and liquidity position.

Negative factors: Not applicable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Hotel Industry Policy on default recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

UHPL was incorporated in 2006 as a special purpose vehicle (SPV) between Auromatrix Hotels Private Limited (Auromatrix 1.67% stake) and CPI India I Limited (CPI). CPI, a fund managed by Apollo Global Management LLC¹, owns a 98.35% stake in UHPL. UHPL owns three hotels, operated under franchisee with the 'Aloft' brand, one each in Chennai (Old Mahabalipuram Road IT Expressway), Bangalore (Whitefield) and Coimbatore (Singanallur) with a total inventory of 462 rooms. In December 2020, the company sold its hotel at Ahmedabad (SG Road) for a total consideration of Rs. 67.5 crore. The company is the midst of sale of the Coimbatore property, which is likely to be concluded shortly.

Key financial indicators (audited)

	Standalone	
	FY2019	FY2020
Operating Income (Rs. crore)	61.8	61.6
PAT (Rs. crore)	-35.8	-33.1
OPBDIT/OI (%)	-10.8%	-10.8%
PAT/OI (%)	-58.0%	-53.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.7
Total Debt/OPBDIT (times)	-14.1	-11.5
Interest Coverage (times)	-0.4	-0.5

Source: Company, ICRA Research; Note: Amount in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; 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: No

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 Dec 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2018	
					Jan 06, 2022	Mar 15, 2021	Feb 26, 2021	Jan 07, 2021	Dec 16, 2019	Sep 04, 2018
1 Term loan	Long Term	64.71	63.00	[ICRA]D	[ICRA]C+	[ICRA]C+	[ICRA]C+	[ICRA]C+	[ICRA]C+	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term Fund-based -Term Loan	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: www.icra.in

¹ CPI Capital partners Asia Pacific, L.P. (CPI Fund), Cayman Islands holds 100% stake in CPI. Apollo Global Management LLC is the ultimate owner of the investment manager of the CPI Fund

Annexure-1: Instrument details

ISIN No/ banker name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
State Bank of India	Term loan	Restructured in FY2012	15.3%	FY2023	49.71	[ICRA]D
State Bank of India	Term loan	FY2021	7.95%	FY2026	15.00	[ICRA]D

Source: UHPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation approach
NA	NA	NA

Source: UHPL

Corrigendum

Document dated January 06, 2022, has been corrected with revisions as detailed below:

Content under section "Analytical Approach" sub head "Applicable rating methodologies", on page number 2 has been updated.

Earlier mentioned rating methodologies: "Corporate Credit Rating Methodology" and "Rating methodology for Hotel Industry".

Revised content: "Corporate Credit Rating Methodology", "Rating methodology for Hotel Industry" and "Policy on default recognition".

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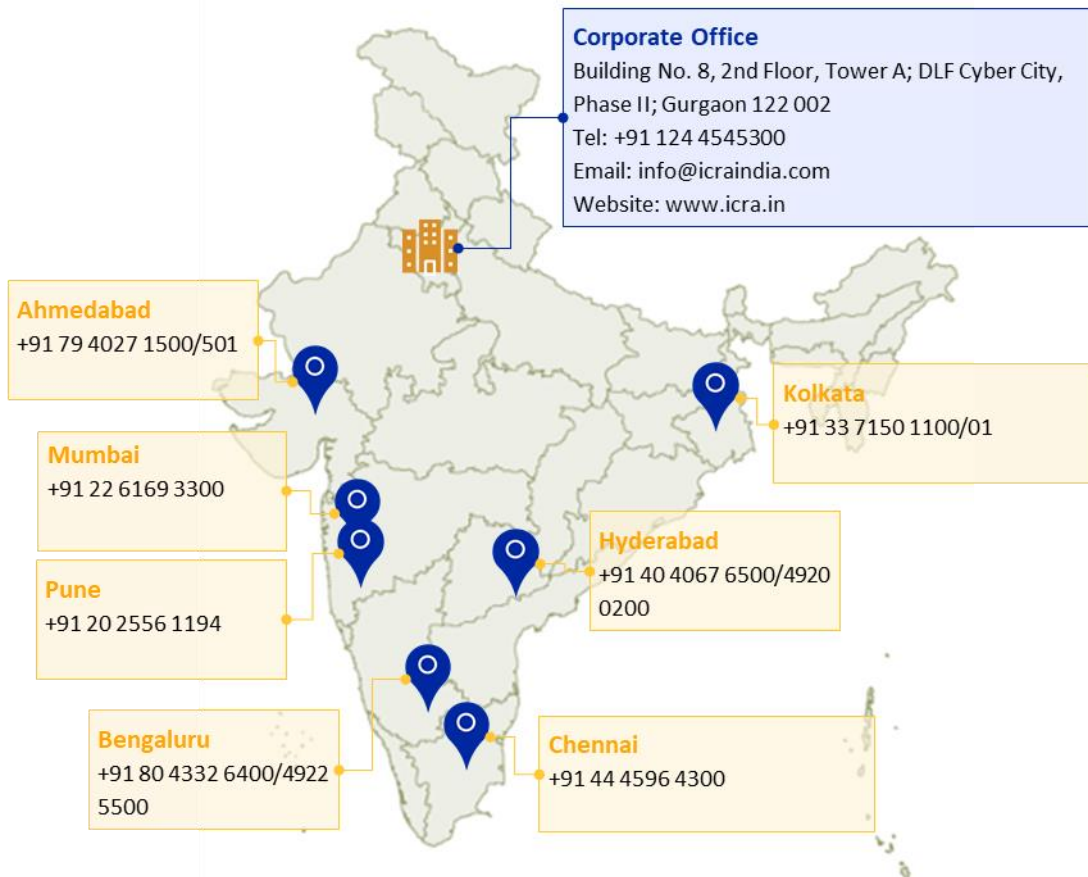
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