

April 29, 2022

Nehru Place Hotels and Real Estates Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	95.00	74.00	[ICRA]A+ (Stable); reaffirmed
Cash Credit	200.0	200.0	[ICRA]A+ (Stable); reaffirmed
Total	295.00	274.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation reflects the continued healthy inflows from Nehru Place Hotels and Real Estates Pvt. Ltd.'s (NPHREPL) key commercial property, Eros Corporate Tower. The property, having a leasable area of 2.01 lakh sq. ft., is favourably located in a major commercial hub, Nehru Place, Delhi and the tenant profile of the assets continues to remain strong. Further, the debt protection metrics of NPHREPL remains healthy, with consolidated five-year-average DSCR expected to be at 1.35 times and Net debt/ Net operating income (NOI) expected at 3.02 times in FY2023. The presence of the unencumbered completed commercial properties and hotel properties along with undrawn credit lines of Rs. 170 crore provide financial flexibility; nevertheless, judicious use of the financial flexibility will be a credit monitorable.

The rating is, however, constrained by the asset concentration risks, given that over 90% of NPHREPL's current revenues derive from this single commercial project. The rating is also constrained by the low leasing in the other two commercial properties of NPHREPL, While ICRA notes that a second property with leasable area of ~80,000 sq. ft. has been available in Sector 32, Gurgaon, though leasing levels for the same have remained limited and around 20% of the area was leased as on April, 2022. Another property with leasable commercial area of around 12,400 sq. ft. in Eros City Centre (Gurgaon, Haryana) is only 30% leased as on March 2022, Overall, despite some impact of Covid-19 on occupancies and rentals, modest leveraging has kept debt protection metrics healthy.

ICRA also notes that the company has leveraged the lease rentals being generated from Eros Corporate Tower in Q4 FY2020 to obtain a bank sanction amounting to Rs. 295 crore. Around Rs. 75 crore of the same was drawn initially to carry out the acquisition of James Hotel Limited, which owns and operates James Hotel having 138 rooms, in Chandigarh. Over and above this, a refurbishment cost of Rs. 100 crore is expected of which Rs. 60 crore has already been invested till FY2022. Refurbishment cost has increased for James Hotel Limited vis a vis initial estimates owing to design changes, resulting in an increased leverage of the company in FY2022. ICRA also notes that, consequent to the healthy liquidity, NHPREPL has extended funds to group companies in the past. While the sanctioned quantum of debt is Rs. 274 crore, ICRA expect the drawdown is expected to be limited to Rs. 150 crore considering the pending refurbishment cost of James Hotel Limited. Any incremental debt drawn for new investments or for extending advances to group entities would result in pressure on the credit rating.

The stable outlook reflects NPHREPL's ability to generate adequate cash flows from operations over the medium, aided by the healthy occupancy and lease rentals in its key commercial project, Eros Corporate Tower. However, stabilization of the hotel asset and extent of new acquisitions or advances extended to group concerns would remain a key rating monitorable.

Key rating drivers and their description

Credit strengths

Favorable location and healthy operational track record of key property – Eros Corporate Tower Eros Corporate Tower is located at Nehru Place, which is one of the key commercial hubs of the National Capital Region, and enables the company to have a reputed tenant profile, consistently healthy occupancies (although moderated recently due to impact of Covid-19) and high lease rentals

Reputed tenant profile – The reputed tenant profile of the property including entities such as Barclays Bank, Axis Bank, Japan External Trade Organization etc., mitigates counter party risks to a large extent. Top 5 leases contributes for 41% of the total revenue

Healthy debt protection metrics and financial flexibility- NPHREPL has healthy liquidity in the form of undrawn bank lines of Rs. 170 crore as on March 2022 which, in addition to the presence of the unleveraged completed commercial properties in Sector 32, Gurgaon and in Eros City Centre, provides financial flexibility. The debt protection metrics of the company are healthy, with consolidated five-year-average DSCR at 1.35 times and Net debt/ Net operating income (NOI) expected at 3.02 times in FY2023. Nevertheless, further draw down of the LRD loan for additional acquisitions or extending advances to group companies exert pressure on credit rating

Credit challenges

Decline in occupancy of the key commercial property in FY22 due to impact of Covid-19: The occupancy stood at 87% (net of captive leasing) as in March, 2022 with an average rental of Rs. 202 per sq. ft. per month, against at 94% and rentals at Rs. 195 per sq. ft. in January, 2021. Although the occupancy has recently declined in the company's key property due to the impact of Covid-19, the company is expected to continue to generate healthy inflows over medium-to-long term on the back of favourable location and limited upcoming supply in its micro-market. The vacancy of the two Gurgaon based properties of the company is expected to remain elevated, as per the trend in the past

Asset concentration risks - Asset and revenue concentration risks exist, given that over 95% of NPHREPL's current revenues derive from Eros Corporate Tower.

Increase in estimated cost of under-development hotel, leading to higher leverage in FY22 – In FY2020, NPHREPL carried out the acquisition of James Hotel Limited, a company operating a sole hospitality asset named James Hotel, having 138 rooms, in Chandigarh, Punjab. James Hotel Limited was under liquidation and was acquired under IBC proceedings at the reserve price of Rs. 150 crore, with Rs. 75 crore being funded by bank debt and the balance through NPHREPL's internal accruals/existing liquidity. Total acquisition cost for James Hotel was Rs. 150 crore funded by Rs. 75 crore debt and remaining from internal accruals. Over and above this, a refurbishment cost of Rs. 100 crore is expected of which Rs. 60 crore has already been. Refurbishment cost has increased for James Hotel Limited vis a vis initial estimates owing to design changes, resulting in an increased leverage of the company in FY2022, which has impacted debt protection metrics, although the same still remains comfortable. While the acquisition will provide asset and revenue diversification for NPHREPL on a consolidated basis, ICRA notes that the acquisition cost per room is significant, and the overall operational and financial stabilization of the will be critical.

Advances/investments in group companies - NHPREPL invested Rs 150 crore in 100% subsidiary – James Hotel for acquisition of the hotel. In FY2019, NPHREPL also purchased around 12,400 sq. ft. commercial area in Eros City Centre (Gurgaon, Haryana), a development being undertaken by group company, Ajay Enterprises Private Limited (rated [ICRA]BBB+/[ICRA]A3+), for a consideration of around Rs. 13 crore, funded through internal accruals. ICRA expect the drawdown is expected to be limited to Rs. 150 crore considering the pending refurbishment cost of James Hotel Limited. Any additional debt drawn for new investments or for extending advances to group entities would result in pressure on the credit rating.

Liquidity position: Adequate

ICRA expects NPHREPL to generate stable cash flows from operations over the medium term, aided by the healthy occupancy and lease rentals in its key commercial project, Eros Corporate Tower. The liquidity is also supported by high undrawn bank limits of Rs. 170 crore as on March 31 2022, which, in addition to the presence of the unleveraged completed commercial properties in Sector 32, Gurgaon and in Eros City Center, provides financial flexibility. Further draw down of the LRD loan or overdraft to fund any additional acquisitions will remain a key rating monitorable going forward.

Rating sensitivities

Positive factors – An upgrade in the rating is unlikely over the near term. However, a substantial increase in scale and diversification of the asset portfolio while improving debt protection metrics and liquidity position will have a positive bearing on the rating.

Negative factors – The rating may be revised downwards if leasing revenues decline, or in case of lower-than-expected accruals in the hotel operations leading to deterioration in the debt protection metrics. Also, any further debt funded acquisition leading to deterioration in the leverage, liquidity, or debt protection metrics will remain a key rating monitorable. Specific credit metrics that could lead to downgrade include average DSCR below 1.5 and Net Debt to NOI below 3.25

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the cash flows for NPHREPL and James Hotel Limited given strong managerial and financial linkages between the two entities.

About the company

Nehru Place Hotels & Real Estate Private Limited (NPHREPL) is part of the Delhi-based Eros Group promoted by Mr. Ajay Sood and Mr. Raman Sood. Other key entities in the group include Hotel Excelsior Ltd. (rated [ICRA]A (Stable)) and Ajay Enterprises Private Ltd. (rated [ICRA]BBB+ (stable)/[ICRA]A3+).

NPHREPL owns a commercial property Eros Corporate Tower (ECT), which is located in Nehru Place, a major commercial hub of Delhi. The total leasable area of ECT is 2,01,094 square feet. The tenant base of the property includes reputed entities such as Barclays Bank, Axis Bank, Japan External Trade Organization. The property also includes a parking lot with capacity for 1002 cars. The company has also constructed a commercial property in Gurgaon having a total leasable area of 83,938 sq.ft., which is 20% leased at present. In FY2019, NPHREPL also purchased around 12,400 sq. ft. of fully leased commercial area in Eros City Centre (Gurgaon, Haryana), a development being undertaken by group company, Ajay Enterprises Private Limited.

In 2020, the company further acquired James Hotel Limited in Chandigarh under IBC proceedings and thus have diversified its assets. The hotel will have 145 rooms and the branding and management rights have been awarded to Hyatt Centric. The hotel is expected to commence operations in FY2023 after some renovations.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	60.7	55.7
PAT (Rs. crore)	30.4	20.5
OPBDIT/OI (%)	67%	67%
PAT/OI (%)	50%	37%
Total Outside Liabilities/Tangible Net Worth (times)	0.41	0.33
Total Debt/OPBDIT (times)	1.86	1.62
Interest Coverage (times)	24.84	5.60

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Apr 29, 2022				
1	Cash Credit	Long-term	200.0	30.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund-based Term Loan	Long-term	74.0	74.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based-Term Loan	Simple
Cash Credit	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

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	Cash Credit	Feb-20	7.85%	FY2034	200.0	[ICRA]A+(Stable)
NA	Term Loan	Feb-20	7.85%	FY2034	74.0	[ICRA]A+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
James Hotel Limited	100%	Full Consolidation

Source: Company annual report FY2021

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