June 02, 2022

Hyacinth Hotels Private Limited: Rating reaffirmed; Outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	145.69	143.43	[ICRA]A- (Stable); reaffirmed, outlook revised to Stable from Negative
Long term Unallocated Limits	-	2.26	[ICRA]A- (Stable); reaffirmed, outlook revised to Stable from Negative
Total	**145.69**	**145.69**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Lemon Tree Hotels Limited (LTHL), its subsidiaries, step-down subsidiaries (including Hyacinth Hotels Private Limited, or Hyacinth), and associate companies[1], while assigning the credit ratings (together referred to as LTHL or the company), given the common management team and significant operational and financial linkages between the entities.

The revision in rating outlook to Stable factors in the healthy improvement in the operating performance of LTHL's portfolio over the past year, despite two waves of the pandemic, and expectation of sustenance of this recovery pace over the near to medium term. Aided by demand recovery and sustained cost control measures, the company has posted a 60% YoY growth in revenues and ~120% growth in operating profits (adjusted for one-off stamp-duty expenses of Rs. 15.3 crore) in FY2022. After a debilitating second pandemic wave in Q1 FY2022, which saw the portfolio occupancy drop to 24% in May 2021, the room occupancy picked-up sharply to average at 50% in Q2 and touched 60% in December 2021. The Omicron wave, which hit the country in January 2022, was short lived and operations were only impacted for 4-5 weeks, leading to decent YoY recovery in revenues in Q4 FY2022. Meanwhile, the portfolio average room rent (ARR) also saw healthy traction and posted a 54% YoY growth in Q3 FY2022 and Q4 FY2022. The recovery was driven by improving vaccination coverage leading to reduced travel restrictions, pent-up demand, staycations, weddings and reopening of corporate travel. Going forward, increase in in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE (meetings, incentives, conferences, and exhibitions) activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. While the pandemic situation continues to evolve, and demand may be potentially impacted by further waves of the Covid-19 in the near-term, ICRA expects such disturbances to be less severe and short-lived and the industry may well touch pre-pandemic levels of operations by the end of FY2023.

The rating reaffirmation continues to reflect LTHL's diversified business profile, characterised by a large scale (87 hotels; 8,500+ rooms), geographically spread hotel portfolio (54 cities), well-recognised brands across price-points (economy, midscale, and upscale segments) and extensive experience of its promoter and management team in the hospitality industry.

Despite drawdown of incremental GECL[2] loans, the debt on LTHL's books (excluding operating lease liabilities) remained unchanged on YoY basis, at around Rs. 1,700 crore. Even as the coverage indicators remain weak, ICRA expects Debt/OPBDITA

[1] *Enlisted in Annexure 2*

[2] *Loans granted under the Governments Emergency Credit Line Guarantee Scheme (ECLGS).*

to improve to around 7x by the end of FY2023 aided by improvement in operating performance. Meanwhile, the company was able to reduce its repayment obligations over the next two years via refinancing of near-term loan maturities, bringing down its average cost of borrowing to 8% p.a. (from 8.3% at the end of FY2021). ICRA expects that with an improving operating leverage and leaner cost structure, the company's coverage ratios will approach pre-pandemic levels within the next 18-24 months. LTHL's liquidity position also remains adequate for the next 12-15 months, supported by free cash in hand (~Rs. 60 crore as on March 31, 2022), undrawn working capital limits (Rs. 60 crore) and GECL loans (~Rs. 175 crore). It can also tap into the second tranche of funding from its strategic investor, APG Asset Management NV (up to Rs. 125 crore, subject to the consent of LTHL and APG), if required.

Apart from its two ongoing projects (Mumbai airport and Shimla), LTHL continues to target portfolio expansion through an asset-light route—viz. entering management contract with property owners. This is expected to limit funding requirement for capex over the medium-to-long-term. ICRA also draws comfort from the company's financial flexibility emanating from its healthy asset base and the management's demonstrated track record of raising timely debt against projects and refinancing of high cost debt.

The company's return indicators remain weak, attributable to a reduced scale of operations (and negative operating leverage) due to the pandemic and a large nascent stage inventory (1,900 rooms became operational 1–1.5 years before the pandemic), which is yet to scale up adequately for meaningful contribution to profitability. Moreover, while the project execution risk remains limited, with only the Mumbai Airport project under active execution, the company has leveraged almost all its operational hotels to fund the ongoing capex and operational funding requirements during the pandemic. While it intends to use internal accruals to fund the balance project capex (estimated around Rs. 500-550 crore) over the next 1-1.5 years, this would limit LTHL's ability to reduce debt on its books. While project debt is yet to be tied up for the Mumbai Airport project, ICRA does not anticipate any delays in the financing tie-up (in case the management chooses to raise debt) given the favourable location and almost the entire project equity having been invested upfront.

As on March 31, 2022, the promoters held 23.95% equity stake in the company, of which around 23.20% was pledged or encumbered; while there has been a marginal increase in the pledging status from previous year levels (20.75% as on March 31, 2021), the management has indicated that the same declined in April 2022, pursuant to repayment of partial debt by the promoters. This would remain a monitorable.

Key rating drivers and their description

Credit strengths

Well-recognised brands and geographically diversified product portfolio – LTHL is among India's largest hotel chains, with 87 operational properties (as on March 31, 2022) spread across 54 cities. It benefits from a robust distribution system, loyalty programmes and corporate relationships. The company has well-established and recognised midscale (Lemon Tree) and economy segment (Red Fox) brands and with the successful launch of its upscale brand, Aurika, as well as the acquisition of the Keys brand in FY2020, it has further diversified and consolidated its presence across price points. This diversified presence reduces the vulnerability of the Group's revenues to cyclical downturns to some extent. The favourable location of its properties in prominent business and tourist districts supports revenue growth and reduces concentration risk.

Experienced promoters and management team – LTHL is promoted by Mr. Patu Keswani, who has been associated with the hospitality industry for over 30 years. From two properties in 2004, the Group has expanded its portfolio to 87 properties (owned/leased and managed) under seven brands, as of March 31, 2022. This has been made possible by the efforts of an experienced and professional management team, with a track record of delivering consistent performance through well-planned refurbishments and project development, centralised sales and marketing, and disciplined cost control measures.

Comfortable capital structure backed by regular equity infusion – Healthy equity infusions from private equity players (Warburg Pincus and APG) in the past has helped LTHL maintain a comfortable capital structure (TOL/TNW+ Minority interest of 1.6 times as on March 31, 2022), despite undertaking significant and consistent capex towards portfolio expansion. During the pandemic as well, APG had infused Rs. 175 crore early on (June 2020) with the commitment to further infuse Rs. 125 crore, if required (subject to mutual consent of LTHL and APG). The management policy of relying on debt against cash flows of operational properties for funding ongoing projects, deferment of project debt towards later stages and its ability to raise low-cost debt, continues to be a credit positive for LTHL.

Strategy to expand through management contract route to limit capital requirement and minimise development risk – The company has been expanding its footprint through an asset-light model that involves leasing of properties or entering into franchise agreements/ management contracts with property owners. As of March 31, 2022, almost 40% of its more than 8,500 room inventory was under management contracts (up from 35% in March 2020). These business models are expected to provide long-term operational benefits to LTHL, as properties can be quickly put into operation with minimal (or nil) capex and limited project implementation risk.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, the several non-metro markets also face seasonality in guest traffic. Over the past two years, the performance of LTHL (and the entire hotel industry) has been significantly impacted by the Covid-19 pandemic. While improving vaccination coverage remains positive, any prolonged and severe resurgence in infections could derail the recovery in revPARs and will remain a key monitorable in the near-term.

Subdued debt coverage metrices and return on capital employed – LTHL intends to undertake the capex on the Mumbai Airport project through internal accruals, which reduces the scope for material deleveraging. The company may draw upon available GECL loans, which could keep the debt levels at around current levels of Rs. 1,700 crore over the next few years. As a result, while the company's profitability is expected to continue to improve from the lows of pandemic-hit FY2021, the debt coverage indicators will likely remain subdued (DSCR ranging between 1-1.5x and TD/OPBDITA over 5x) over the next two years. Further, due to the pandemic, nearly 30% of the company's operational owned/leased inventory is yet to stabilise (less than three years since commencement of its operations as on March 31, 2020 and two years of pandemic thereafter) and is yet to meaningfully start contributing to profitability. This has led to muted RoCE. While the same is expected to improve in the medium term, it will likely remain at sub-cost of capital for 1.5–2 years. Despite these factors, ICRA draws comfort from the financial flexibility emanating from LTHL's healthy asset base and the management's demonstrated track record of maintaining low leverage and raising debt at competitive terms. Focus on network expansion via the management contract route would also limit capex requirements and support growth in returns over the long-term.

Liquidity position: Adequate

LTHL's liquidity is expected to remain **adequate**, supported by free cash and liquid investments of ~Rs. 60 crore, undrawn working capital limits of ~Rs. 60 crore and undrawn GECL loans of ~Rs. 175 crore as on March 31, 2022 and expectation of improved accruals stemming from business recovery. Against the available sources of cash, LTHL has capex obligations of ~Rs. 150-200 crore and term loan repayments of ~Rs. 110 crore in FY2023. As such, the liquidity is expected be sufficient in covering its obligations in the near term. LTHL also has stand-by funds of up to Rs. 125 crore, which it can draw from APG at short notice (subject to the consent of LTHL and APG), in addition to the option of accessing capital markets. ICRA expects LTHL's large asset base, strategic partnership, and financial flexibility with its lenders to continue to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators leading to significant improvement in leverage and coverage metrics and liquidity profile, could be a trigger for improvement in the rating.

Negative factors – Negative pressure on LTHL's rating could arise from slower than anticipated recovery in its portfolio's operating metrics leading to sustained pressure on its earning and profitability and/or higher-than-expected increase in debt levels leading to deterioration in its leverage and coverage indicators and weakening of liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating approach- Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LTHL. As on March 31, 2022, the company had 11 wholly owned subsidiaries, 12 subsidiaries, three associates, a limited liability partnership and a trust, which are all enlisted in Annexure-2.

About the company

Incorporated in 2007, Hyacinth is a 100% subsidiary of Fleur Hotels Private Limited (FHPL, a subsidiary of LTHL) and a part of the Lemon Tree Group. Hyacinth owns and operates the 280-room Lemon Tree Premier (LTP) hotel in Aerocity, the hospitality district of Delhi International Airport Limited (DIAL). The property has two components—LTP and Red Fox—built adjacent to each other. While Hyacinth owns LTP, the Red Fox property is owned by LTHL. The properties began operations from December 2013.

Incorporated in 2002 by Mr. Patanjali Keswani, his friends and associates, LTHL is a publicly listed company that owns and operates 87 hotels with more than 8,500 rooms under seven brands across 54 cities in India and abroad. The company's portfolio spans upscale, midscale and economy segments. Its brands include—Aurika (upscale), Lemon Tree Premier and Keys Prima (upper midscale), Lemon Tree and Keys Select (midscale), Red Fox and Keys Lite (economy). In terms of ownership, ~24% stake in the company is held by the promoters (the Keswani family), ~15% by APG (a Dutch pension fund) and the rest by foreign portfolio investors, mutual funds, employees and the public.

The company designs, develops and manages properties directly or under its subsidiaries (collectively referred to as the Lemon Tree Group). While most properties in its portfolio are owned by the company directly or through its subsidiaries, a few are operated on long-term lease basis. As on March 31, 2022, the Group had 41 owned and leased operational properties and two properties under development. The total owned/leased inventory across the operational properties stood at 5,192 rooms. Further, 738 rooms are under development and are expected to be added over the next 1.5–2 years.

To facilitate rapid expansion of LTHL's brands across the country, the Group's subsidiary, Carnation Hotels Private Limited, enters management contracts with asset owners. As on March 31, 2022, 3,297 rooms across 46 properties were under management contracts with an additional 1,441 rooms (20 properties) under negotiation.

Key financial indicators (audited)

LTHL (Consolidated)	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	669.4	251.8	402.2
PAT (Rs. crore)	-10.4	-182.5	-138.4
PAT (Rs. crore) including share of profit/Loss from Associate	-13.1	-186.5	-137.4
OPBDIT/OI (%)	36.4%	24.4%	29.5%
PAT/OI (%)	-1.6%	-72.5%	-34.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5	1.6
Total Debt/OPBDIT (times)	8.3	35.1	17.9
Interest Coverage (times)	1.5	0.3	0.7

*Source: Company results, ICRA Research *Limited results*

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

Sl. No.	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore) as on Mar 31, 2022	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020^	
					Jun 2, 2022	Aug 11, 2021	Nov 2, 2020	Apr 13, 2020	Nov 5, 2019	Jul 8, 2019
1	Term Loans	Long-term	143.43	143.43	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (CE) &
2	Unallocated	Long-term	2.26	-	[ICRA]A- (Stable)	-	-	-	-	-
3	Unallocated	Long-term and short term	-	-	-	[ICRA]A2+ reaffirmed and withdrawn	[ICRA]A- (Negative)/ [ICRA]A2+	-	-	-

& = Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Unallocated	Not applicable

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, 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	Term Loan -I	Dec-14	--	FY2025	11.38	[ICRA]A-(Stable)
NA	Term Loan-II	Dec-14		FY2024	8.81	[ICRA]A-(Stable)
NA	Term Loan-III	Mar-17	--	FY2034	74.47	[ICRA]A-(Stable)
NA	Term Loan-IV	Dec-20	--	FY2026	24.13	[ICRA]A-(Stable)
NA	Term Loan- V	Jun-21	--	FY2028	24.64	[ICRA]A-(Stable)
NA	Unallocated	--	--	--	2.26	[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
Lemon Tree Hotels Limited	100.00%	Full Consolidation
Fleur Hotels Private Limited	58.91%	Full Consolidation
Hyacinth Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
PSK Resorts & Hotels Private Limited	100.00%	Full Consolidation
Canary Hotels Private Limited	100.00%	Full Consolidation
Sukhsagar Complexes Private Limited	100.00%	Full Consolidation
Oriole Dr Fresh Hotels Private Limited	100.00%	Full Consolidation
Grey Fox Project Management Company Private Limited	100.00%	Full Consolidation
Dandelion Hotels Private Limited	100.00%	Full Consolidation
Lemon Tree Hotel Company Private Limited	100.00%	Full Consolidation
Red Fox Hotel Company Private Limited	100.00%	Full Consolidation
Poplar Homestead Holdings Private Limited	100.00%	Full Consolidation
Madder Stays Private Limited	100.00%	Full Consolidation
Jessamine Stays Private Limited	100.00%	Full Consolidation
Berggruen Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full consolidation
Manakin Resorts Private Limited (Subsidiary of PSK Resorts & Hotels Private Limited)	100.00%	Full Consolidation
Celsia Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
Inovoa Hotels & Resorts Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
Iora Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
Ophrys Hotels Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
Bandhav Resorts Private Limited (Subsidiary of Fleur Hotels Private Limited)	58.91%	Full Consolidation
Valerian Management Services Private Limited (Subsidiary of Grey Fox Project Management Company Private Limited)	100.00%	Full Consolidation
Carnation Hotels Private Limited	74.90%	Full Consolidation
Hamstede Living Private Limited	100.00%	Full Consolidation
Mind Leaders Learning India Private Limited	36.56%	Equity Method
Pelican Facilities Management Private Limited (Subsidiary of Mind Leaders Learning India Private Limited)	36.56%	Equity Method
Glendale Marketing Services Private Limited	36.56%	Equity Method
Mezereon Hotels LLP (Capital contribution by Fleur Hotels Private Limited & Celsia Hotels Private Limited)	58.91%	Equity Method
Krism Hotel Private Limited Employee Welfare Trust	-	Trust

Source: Company

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