

March 20, 2023

Eros Resorts and Hotels Private Limited: Long-term rating upgraded and short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash Credit	5.00	5.00	[ICRA]BB-(Stable); upgraded from [ICRA]B+ (Stable)
Long-term – Fund-based - Term Loan	39.00	39.00	[ICRA]BB-(Stable); upgraded from [ICRA]B+ (Stable)
Long-term / Short-term Unallocated	6.00	6.00	[ICRA]BB-(Stable) upgraded from [ICRA]B+ (Stable); [ICRA] A4 reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Rationale

The long-term rating upgrade considers ICRA's opinion that Eros Resorts and Hotels Private Limited (ERHPL) will be able to sustain its improved operating performance in the current fiscal in the near to medium term supported by the healthy demand recovery in the hotel sector. The company's single hotel's revenue per available room (RevPARs) have surpassed the pre-pandemic levels and the company is expected to report healthy revenue and earnings growth in FY2023. The ratings also positively factor in the long track record of its promoters in the hospitality industry and the consistent infusion of funds by them to meet the funding requirements for operating losses and debt servicing. The ratings also consider the presence of a management tie-up with the reputed brand, InterContinental Hotels Group (IHG), which provides strong brand recognition.

However, the rating remains constrained by the company's continued modest financial risk profile despite the improved operating performance. This is owing to the company's eroded net worth from accumulated losses and weak coverage indicators given high debt repayments. The ratings further continue to remain constrained by the single location of ERHPL's operations, the competitive intensity of the business and the cyclical nature of revenue generation owing to economic or seasonal cycles.

The Stable outlook reflects ICRA's expectation that ERHPL will continue to draw support from the extensive experience of its promoters in the hospitality industry, their continued financial support as well as improving demand in the hospitality industry.

Key rating drivers and their description

Credit strengths

Improvement in operating metrics in FY2023 supported by demand revival in hospitality industry – In 9MFY2023, the hotel registered a healthy recovery in average occupancy and ARRs to 92% and Rs. 6,776, respectively, over 77% and Rs. 4,011, respectively, in FY2022, supported by demand recovery in both corporate and leisure customer segments. Consequently, the hotel revenues reached a RevPAR of Rs. 6,254 and revenues of Rs. 49 crore in 9M FY2023 over Rs. 3,221 and Rs. 32 crore, respectively, in FY2022.

Experienced promoters and management with a long track record in the hospitality industry – The promoters have been involved in the hospitality and real estate business for more than three decades. The long presence in the industry has helped the company in understanding the industry dynamics and establishing strong relationships with key service providers. The

promoter group also owns a hotel property, Hotel Eros, in Nehru Place, New Delhi. In addition, the promoters own multiple commercial properties in New Delhi, which provide alternative cash flow avenues.

Association with international hospitality chain and favourable location support guest footfalls – The company benefits from its management partnership with a leading global chain, IHG, which provides the brand, Crowne Plaza, for the hotel property, resulting in enhanced visibility. This enables the five-star property to attract corporate customers from the nearby commercial hubs in Noida and Greater Noida, thus providing healthy occupancies and better pricing.

Demonstrated track record of funding support from the promoters – The promoters have consistently supported the company by fund infusion over the years in the form of unsecured loans, convertible debentures, and preference shares. As on March 31, 2022, around 66% of the total debt comprised the promoters' unsecured loans and convertible debentures. ICRA notes that the promoters also converted part of their debt to equity in FY2021; although ERHPL's net worth continued to remain negative.

Credit challenges

High geographical and asset concentration risk; moderately high competitive intensity – ERHPL's revenues are susceptible to adverse market conditions as its operations are limited to a single location (East Delhi) and a single asset. The hospitality industry is typically susceptible to a wide range of adverse market conditions like demand-supply dynamics, tourism industry, foreign tourist arrival, etc. In addition, the company faces stiff competition from other five-star hotels in its vicinity, which compete for both corporate and leisure guests.

Modest financial risk profile –The company's overall financial profile has remained weak owing to high leverage and eroded net worth resulting from accumulated losses. Owing to high finance costs and lower OPBITDA levels (OPM of 21%) in FY2022, the debt coverage metrics remain weak at 0.6 time and DSCR at 0.4 time, necessitating funding support from the promoters. In 9M FY2023, as per provisional estimates, the company registered a healthy OPBITDA of Rs. 18 crore at an OPM of 37%. The company's debt coverage metrics are thus expected to improve. However, due to high debt servicing, the liquidity remains stretched and the repayments for some term loans are supported by rentals cash flows from the Group's commercial properties. ICRA also notes that the funds from promoters in the form of unsecured loans and compulsorily convertible debentures do not bear any interest or repayment schedule.

Liquidity position: Stretched

ERHPL's liquidity position is stretched owing to high debt repayments of Rs. 10-11 crore, modest cash balances and unutilised working capital limits of Rs. 2-3 crore. Although the company is witnessing a healthy recovery in its cash flows, the company would need promoter support in the near to medium term.

Rating sensitivities

Positive factors - Sustained improvement in earnings and/or infusion of equity leading to an improvement in leverage and coverage metrics, could be a trigger for a rating upgrade. Specific triggers would be DSCR greater than 1.3 times on a sustainable basis.

Negative factors - Any significant decline in operating metrics or any major debt-funded capital expenditure (capex) resulting in deterioration of debt coverage indicators on a sustained basis could trigger a rating downgrade.

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

ERHPL is promoted by the erstwhile Eros Group, a Delhi-based Group promoted by Mr. Satish Sood and family, who also own other commercial properties across New Delhi. ERHPL is a closely held company with its entire share capital held by the directors, their families, and the Group entities. It owns a premium five-star hotel property in Mayur Vihar, Delhi, under the brand name, Crowne Plaza. The hotel has been operational since October 2011 and has a management contract with IHG. The hotel is a 5-star property with 160 rooms, and facilities that include a restaurant, a banquet hall and six meeting rooms.

Key financial indicators (audited)

ERHPL	FY2021	FY2022	9M FY2023*
Operating Income (Rs. crore)	11.9	32.2	49.3
PAT (Rs. crore)	(19.3)	(10.0)	3.1
OPBDIT/OI (%)	-33.5%	21.4%	36.5%
PAT/OI (%)	-162.3%	-31.1%	6.3%
Total Outside Liabilities/Tangible Net Worth (times)	(11.1)	(7.79)	
Total Debt/OPBDIT (times)	(55.0)	32.9	
Interest Coverage (times)	(0.3)	0.5	1.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization; Amount in Rs crore; *provisional estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)			Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
									Mar 20, 2023
1	Term Loans	Long-term	39.00	32.20	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	
2	Cash Credit	Long-term	5.00	-	[ICRA]BB-(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	[ICRA]B+(Stable)	
3	Unallocated	Long-term / Short-term	6.00	-	[ICRA]BB-(Stable)/[ICR A] A4	[ICRA]B+(Stable)/ [ICR A] A4	[ICRA]B+(Stable)/ [ICR A] A4	[ICRA]B+(Stable)/ [ICR A] A4	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash Credit	Simple
Long-term / Short-term – Unallocated	NA

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: [Click Here](#)

Annexure-I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	11.35%	NA	5.00	[ICRA]BB-(Stable)
NA	Term Loan	Feb 2017	11.35%	March 2027	39.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	6.00	[ICRA]BB- (Stable)/ [ICRA] A4

Source: Company

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

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