July 17, 2023

Pride Hotels Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	118.36	98.83	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB-(Stable)
Long-term – Fund-based – Overdraft	16.00	16.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB-(Stable)
Short-term – Non-fund Based	1.00	1.00	[ICRA]A4+; Upgraded from [ICRA]A4
Long-term – Unallocated	16.17	0.00	
Total	**151.53**	**115.83**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings outstanding on the bank lines of Pride Hotels Limited (PHL/the company) factors its healthy operating and financial performance in FY2023 and anticipated sustenance of the same going forward given the healthy demand outlook for hotel industry. Further, improved operating leverage and sustenance of cost-optimisation measures undertaken by the company during the pandemic period have resulted in healthy improvement in margins and consequent strengthening of debt metrices and liquidity profile. The same is expected to continue going forward as well.

PHL reported revenues of Rs. 241.5 crore in FY2023[1], 21.0% higher than FY2020 (pre-Covid) levels and 82.9% higher on YoY basis, aided by leisure travel, social MICE (Meeting, Incentives, Conferences and Exhibitions), weddings and pickup in business travel and FTAs (foreign tourist arrivals). The benefits from operating leverage and sustenance of cost-optimisation measures undertaken during the pandemic resulted in an improvement in operating margins to 44.4% in FY2023[1], compared to 29.4% in FY2020 and 28.0% in FY2022. PHL's capital structure and coverage metrics improved as a result of its healthy accruals, asset-light expansion and absence of incremental debt, with Total Debt/Tangible Net Worth of 0.4 times and Total Debt/OPBITDA of 1.1 times as on March 31, 2023[1], as against Total Debt/Tangible Net Worth of 0.7 times and Total Debt/OPBITDA of 2.8 times as on March 31, 2020. The favourable demand outlook and PHL's asset-light expansion strategy are likely to support its revenues, margins and debt metrics in FY2024. PHL's liquidity is adequate, supported by anticipated healthy cash flow from operations and undrawn working capital lines of Rs. 10.1 crore as on March 31, 2023, as against principal repayment obligations of Rs. 20-25 crore per annum for FY2024–FY2026 and minimal capex commitments over the medium term. The ratings also consider PHL's diversified presence across geographic locations and price points/segments with presence in twenty-two cities across twelve Indian states. However, the company has moderate scale of operations with a total inventory of 1,997 rooms as of June 2023.

[1] Unaudited

Key rating drivers and their description

Credit strengths

Diversified presence across geographic locations and price points/segments – PHL has seven owned/leased properties (in Pune, Nagpur, Ahmedabad, Kolkata, Bengaluru, Chennai and New Delhi), while fifteen hotels are on management contract basis (Jaipur, Goa (North), Vadodara, Puri, Indore, Gangtok, Bharatpur, Jabalpur, Udaipur, Agra, Mussoorie, Somnath, Gir and Bhopal). Further, the company also has new signings under the management contract route in Gujarat, Maharashtra, Haryana, Karnataka, Rajasthan, Delhi, West Bengal, Uttar Pradesh, Uttarakhand, and Daman and Diu, to name a few places. The geographical diversification reduces the vulnerability of the company's revenues to any localised downturn/unforeseen events or region-specific risks and helps in capitalising on demand growth across regions. Further, the hotel portfolio is diversified across multiple segments, with presence in upper upscale, upscale and midscale/economy segments. This helps the company capture a wide range of customers, including those travelling for leisure as well as business.

Comfortable capital structure – PHL's capital structure is comfortable with gearing of at 0.4 times as on March 31, 2023[2]. ICRA expects it to remain comfortable over the medium term as well, as PHL envisages only asset-light expansion with minimal capex and no incremental debt going forward.

Healthy revenue growth and margins in FY2023; demand outlook remains healthy – About 50% of PHL's demand stems from corporate travel, while the remaining comes from weddings, MICE, FIT (Free independent traveller) and leisure travel. Supported by improvement in demand in FY2023, the company reported revenues of Rs. 241.5 crore in FY2023[2], 21.0% higher than FY2020 (pre-Covid) level and 82.9% higher on YoY basis. The benefits from operating leverage and sustenance of cost-optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 44.4% in FY2023[2], compared to 29.4% in FY2020 and 28.0% in FY2022. PHL's revenue growth and margins are likely to remain healthy over the medium term given the healthy demand outlook for the industry, amidst limited supply addition.

Credit challenges

Moderate coverage metrics – The company has relatively high borrowings for its scale of operations (Total Debt of Rs. 116.8 crore as on March 31, 2023) due to debt-funded capex incurred in the past and net losses during the pandemic period. As a result, its coverage metrics remained moderate in FY2023. However, the coverage metrics improved with healthy accruals and absence of incremental debt and are likely to improve further going forward.

Moderate scale of operations; revenues vulnerable to exogenous shocks, similar to other hotel players – PHL has relatively moderate scale of operations, with an aggregate inventory of 1997 rooms as of June 2023. Despite the proposed increase in room inventory, the scale is expected to remain moderate going forward as well. Akin to other hoteliers, the company is also exposed to industry cyclicality/seasonality, macroeconomic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when PHL's performance was significantly impacted by the pandemic.

[2] Unaudited

Liquidity position: Adequate

PHL's liquidity is adequate, supported by anticipated healthy cash flow from operations in FY2024. Further, it had undrawn working capital lines of Rs. 10.1 crore as on March 31, 2023. As against these sources of cash, PHL has principal repayment obligations of Rs. 20-25 crore per annum for FY2024–FY2026 and minimal capex commitments over the medium term. Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds and be left with adequate buffer in working capital/cash surplus.

Rating sensitivities

Positive factors - Continued improvement in PHL's operating metrics leading to improvement in financial performance and debt metrics could accelerate the transition to a higher rating.

Negative factors - Negative pressure on PHL's ratings could arise if the company witnesses weakening of liquidity position and pressure on earnings or weakening of debt metrics.

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	The ratings are based on PHL's consolidated financial statements. The company's subsidiaries and associates are enlisted in Annexure-2.

About the company

Pride Hotels Limited (PHL) has seven owned/leased hotels and fifteen properties under management contract, spread across twenty-two cities pan-India and multiple segments. The company has presence in the upper upscale, upscale and midscale/economy segments through its brands like The Pride Plaza hotels, The Pride Hotels and Resorts/Biznotels. About 50% of PHL's demand stems from corporate travel, while the remaining comes from weddings, MICE, FIT and leisure travel. The company's day-to-day operations are run by Mr. S. P. Jain (promoter), who also has interests in other businesses including a Non-Banking Financial Company (NBFC).

Key financial indicators

Consolidated	FY2022 (audited)	FY2023 (unaudited)
Operating Income (Rs. crore)	132.0	241.5
PAT (Rs. crore)	3.8	59.2
OPBDIT/OI (%)	28.0%	44.4%
PAT/OI (%)	2.9%	24.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.6
Total Debt/OPBDIT (times)	4.4	1.1
Interest Coverage (times)	2.4	7.3

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; 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: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as of Mar 31, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2021		Date & Rating in FY2019
					Jul 17, 2023	Apr 29, 2022	Jan 08, 2021	Apr 17, 2020	Mar 29, 2019
1	**Term loans**	Long-term	98.83	98.83	**[ICRA]BB+ (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]D**	**[ICRA]BBB (Negative)**	**[[ICRA]BBB (Stable)**
2	**Fund-based Overdraft**	Long-term	16.00	-	**[ICRA]BB+ (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]D**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**
3	**Non-fund based**	Short-term	1.00	-	**[ICRA]A4+**	**[ICRA]A4**	**[ICRA]D**	**[ICRA]A3+**	**[ICRA]A3+**
4	**Unallocated**	Long-term	0.00	-	-	**[ICRA]BB- (Stable)**	-	-	-

Note: Amounts in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long term - Fund based – Overdraft	Simple
Short term – Non-fund based	Very 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, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Term Loans**	FY2018	8.10%-9.25%	FY2029	98.83	[ICRA]BB+ (Stable)
NA	**Overdraft**	NA	10.50%	NA	16.00	[ICRA]BB+ (Stable)
NA	**Bank Guarantee**	NA	NA	NA	1.00	[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation approach
Indralok Hotels Private Limited	100.0%	Full Consolidation
Somti Hotels Private Limited	100.0%	Full Consolidation
Rohan Hotels Private Limited	100.0%	Full Consolidation
Pride Beach Resorts Private Limited	100.0%	Full Consolidation
Jagsons Hotels Private Limited	22.3%	Equity Method

Source: Company

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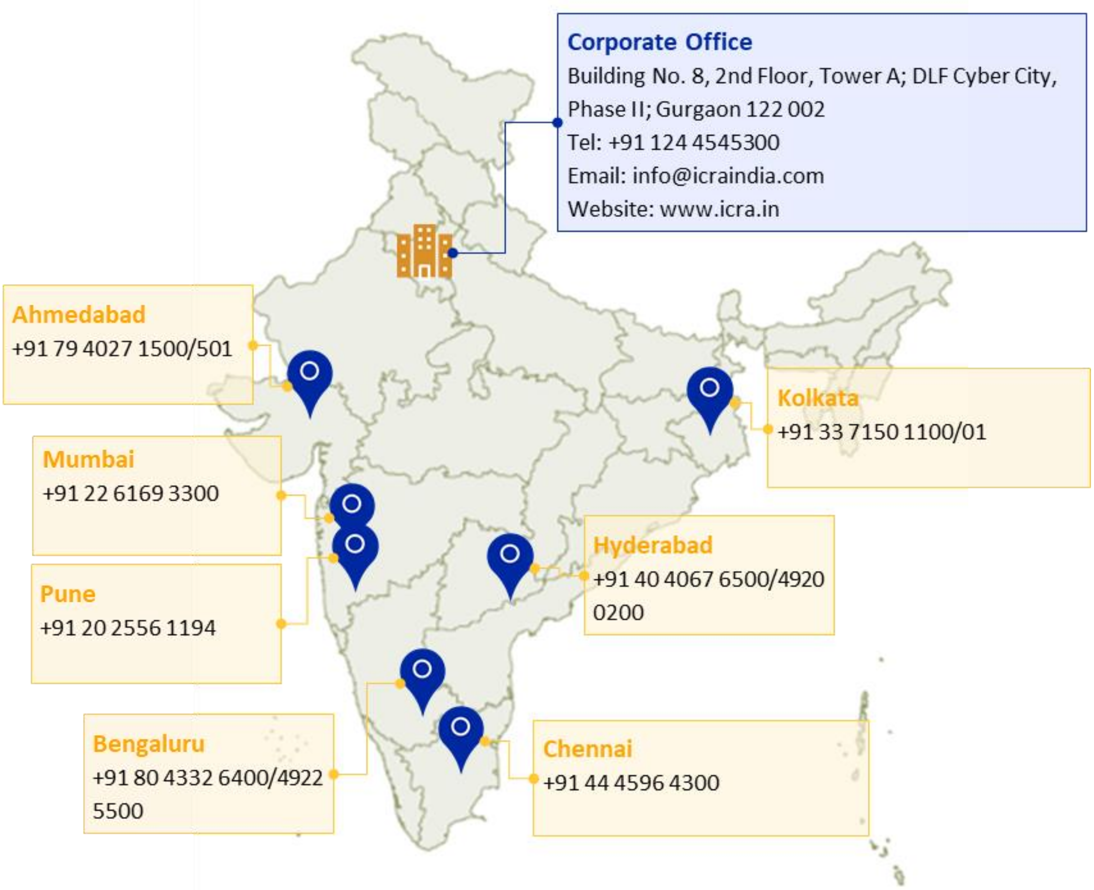

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