ICRA

March 28, 2024

Icon Hospitality Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	18.94	16.24	[ICRA]BBB- (Stable); reaffirmed
Unallocated Facilities	1.06	3.76	[ICRA]BBB- (Stable); reaffirmed
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors the implicit support enjoyed by Icon Hospitality Private Limited (Icon), from Royal Orchid Hotels Limited (ROHL). ROHL holds 100.00% stake in Icon currently and has committed to extending timely and adequate financial support to Icon, as and when required, to meet its operating and financial commitments in a timely manner. Apart from the strong parentage, the rating also takes into account Icon's healthy demand momentum in 9M FY2024 and anticipated sustenance of the same in the coming quarters.

However, the rating is constrained by Icon's financial profile with modest scale of operations (revenues of Rs. 20.3 crore in 9M FY2024), relatively high debt levels for its scale of operations and moderate coverage indicators. Further, Icon is exposed to geographical concentration risk with only one property in Bengaluru and its revenues are vulnerable to the inherent cyclicality of the hospitality industry, economic cycles and exogenous events, akin to other hotel players.

Key rating drivers and their description

Credit strengths

Strong parentage; ROHL is committed to extending timely financial support to Icon, as and when required – Royal Orchid Hotels Limited (ROHL) holds 100.0% stake in Icon (increased from 51.07% in October 2023). ROHL has demonstrated its financial support to Icon in the past, by issuing Compulsorily Convertible Debentures (CCDs) to the company. ROHL is committed to extending timely and adequate financial support to Icon, as and when required, to ensure that Icon meets its operating and financial commitments in a timely manner going forward.

Healthy improvement in revenues in 9M FY2024; favourable demand outlook – The company has reported an operating income of Rs. 20.3 crore in 9M FY2024 (YoY growth of 4.3%), with demand stemming from weddings/MICE, transient passengers, gradual pick up in business travel and foreign tourist arrivals (FTAs). The operating margins also remained healthy, supported by better operating leverage and sustenance of cost optimisation measures undertaken during the covid period and stood at 28.2% for 9M FY2024 (9M FY2023: 33.0%). The healthy demand outlook for hotels in FY2025 is likely to support revenues and accruals for Icon in the next 6-12 months.

Credit challenges

Modest scale of operations; relatively high debt levels for scale of operations and moderate coverage metrics – Icon is a modest player in the hotel industry with revenues of around Rs. 20.0 – Rs. 30.0 crore per annum. The company has undertaken debt-funded capex in the past, and its accruals have remained low in the last several years. This has resulted in relatively high debt levels for its scale of operations. The company also has moderate debt coverage metrics, with Debt Service Coverage

Ratio (DSCR) at 1.6 times for FY2023. Despite demand uptick, ICRA expects Icon's coverage metrics to remain moderate in FY2025.

Exposed to geographical concentration risk; vulnerability of revenues to the inherent cyclicality of the hospitality industry, economic cycles and exogenous events – Icon operates a single 4-star hotel under the brand name of Royal Orchid Central with inventory of 130 rooms in Bengaluru, exposing it to region-specific risks. Akin to other players in the industry, the company is exposed to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when Icon's performance was significantly impacted by the pandemic.

Liquidity position: Stretched

Icon had negligible cash balances free bank balances of Rs. 0.6 crore as on December 31, 2023. As against this it has repayments of Rs. 3.4 crore in FY2025 and Rs. 2.6 crore in FY2026 on its existing loans and minimal capex commitments of Rs 0.5 crore per annum over the medium term. ROHL is committed to extending timely and adequate financial support, as and when required, to Icon to ensure that its financial and operational commitments are met in a timely manner.

Rating sensitivities

Positive factors – Sustained improvement in operating metrics and profitability indicators leading to improvement in debt coverage indicators on a sustained basis or strengthening of linkages/improvement in credit profile of parent could lead to a rating upgrade.

Negative factors – Negative pressure on Icon's ratings could arise from any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability or significant capex, leading to weakening of debt coverage metrics and liquidity position. Further, weakening in the parent's credit profile/Icon's linkages with ROHL or absence of timely and adequate financial support from ROHL, as and when required, would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Royal Orchid Hotels Limited (ROHL), rated [ICRA]A- (Stable), holds a 100.0% stake in the company. ROHL is expected to extend timely and adequate financial support to Icon, as and when required.
Consolidation/Standalone	Standalone

About the company

Established in 2003, Icon Hospitality Private Limited (Icon) is currently a wholly owned subsidiary of ROHL and owns and operates a 130 -room, four-star 'Royal Orchid Central' Hotel in Manipal centre, Bengaluru. Mr Dayanand Pai and Mr. Satish Pai held 48.93% stake in Icon previously. However, their entire stake was bought by ROHL in October 2023. The land and building are owned by Icon.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	10.9	26.1
PAT	-4.9	1.9
OPBDIT/OI	10.4%	31.6%
PAT/OI	-45.0%	7.3%
Total outside liabilities/Tangible net worth (times)	2.2	1.9
Total debt/OPBDIT (times)	17.9	2.5
Interest coverage (times)	0.5	3.1

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Note: 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 (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Mar 28, 2024	Mar 20, 2023	Oct 20, 2022	Oct 04, 2021	Dec 07, 2020	Apr 13, 2020
1	Term Loans	Long term	16.24	16.24	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB(CE) (Negative) withdrawn and [ICRA]BBB- (Stable) simultaneously assigned	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Stable)
2	Unallocated	Long term	3.76	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB(CE) (Negative) withdrawn and [ICRA]BBB- (Stable) simultaneously assigned	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Unallocated Facilities	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loans**	FY2024	8.75%	FY2025-FY2030	16.24	[ICRA]BBB- (Stable)
NA	**Unallocated**	NA	NA	NA	3.76	[ICRA]BBB- (Stable)

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Sriraman Mohan
+91 44 4596 4316
sriraman.mohan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches