

August 11, 2017

Triton Hotels & Resorts Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (Term Loan)	90.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Non-fund based bank facilities (Bank Guarantee)	5.52	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Fund-based bank facilities (Overdraft)	13.00	[ICRA]A2; upgraded from [ICRA]A3+
Proposed bank facilities	1.48	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB(Stable)
Total	110.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating for the Rs. 97 crore¹, fund-based, non-fund based and proposed bank facilities of Triton Hotels and Resorts Private Limited (THRPL) to [ICRA]BBB+ (pronounced as ICRA triple B plus)² from the earlier [ICRA]BBB (pronounced as ICRA triple B). The outlook on the long-term rating continues to be Stable. Further, ICRA has also upgraded the short-term rating for the Rs. 13 crore, fund-based bank facilities of the company to [ICRA]A2 (pronounced as ICRA A two) from [ICRA]A3+ (pronounced as ICRA A three plus) earlier.

Rationale

The ratings upgrade factor in the improvement in operating performance of the company in FY2017, favourable demand outlook and limited supply additions expected in luxury hotels at Jaipur. The steady improvement in the revenue per available room (RevPARs) over the last two years and healthy growth in operating profits, supported by lower interest outgo and resultant healthy cash accruals, has facilitated improved capitalisation and debt-coverage metrics. With healthy cash accruals, the company is well positioned to fully fund its capex requirements for expanding room capacity and banqueting space with limited reliance on external borrowings. Going forth, the increase in the number of operational rooms (46 additional rooms starting in second half of FY2018) is expected to enhance the property's revenue and profitability potential and in turn support further improvement in debt-coverage indicators, as no incremental borrowings have been undertaken for the ongoing expansion. Additionally, given the healthy demand for MICE events and destination weddings, the company took a strategic decision to demolish six of the nine villas (constructed earlier but not operational) to create additional outdoor banqueting space, especially to cater to smaller local events. The same is also expected to support revenue growth in the short to medium term. Furthermore, the pending dues to the operator (~Rs. 5 crore from the FY2013–FY2015 period) are expected to be waived (subject to additional room inventory becoming operational), in line with a settlement agreement entered into with the owners in March 2016. This would provide additional cushion for debt servicing, given the ballooning repayments in the short term. The ratings continue to take cognisance of considerable experience of the promoters in the hospitality industry and association with “Fairmont” brand, which offers access to its large global network and established client base.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

The ratings are, however, constrained by the single location operations of the company, lack of other “Fairmont” brand hotels in the country and sub-optimal operating metrics of the property owing to high competitive intensity in the Jaipur hospitality market. Though the property’s average room rates (ARRs) saw traction in FY2017, RevPARs continue to be sub-optimal, resulting in modest return indicators. Furthermore, the property continues to be highly dependent on events business (primarily weddings), which accounts for more than three-fourth of the company’s total revenues and is highly seasonal. This exposes the property to market risk resulting from lack of novelty factor. Additional inventory of ~200 rooms is expected in the property’s vicinity in H2 FY2018, which may put pressure on the operating metrics during the peak season.

Going forward, further improvement in the property’s operating metrics along with quick ramp-up of additional room supply and additional banqueting space will be the key determinant of the company’s credit profile, and hence will be the key rating sensitivity.

Key rating drivers

Credit strengths

- **Consistent year-on-year improvement in operating metrics** - Supported by healthy events business and overall recovery observed in the domestic hospitality market, together with high operating leverage inherent in the business, have resulted in consistent improvement in operating metrics. In FY2017, on a provisional basis, the company reported net cash accruals of Rs. 15.9 crore on an operating income of Rs. 72.3 crore, as against Rs. 9.6 crore in FY2016.
- **Reduction in debt and improvement in performance leading to comfortable capitalisation and coverage indicators in FY2017** - Backed by improved performance, equity infusion and pre-payment of Rs. 50 crore debt in FY2016 and FY2017 and refinance of remaining debt at reduced interest rate, the capitalisation and debt coverage ratios of the company improved to 8.1% (ROCE), 1.4x (DSCR) and 2.5x (Interest cover) in FY2017.
- **Limited supply additions in Jaipur’s luxury segment** - The pace of new hotel supply entering Jaipur market has slowed down with FY2016 registering just a 4.5% growth over the previous fiscal, the lowest in five years, leading to an increase in citywide average rate. With only 960 rooms proposed until FY2021, of which 89% is currently under active development, it is anticipated that market wide occupancies and average rate will continue improving over the short-to-medium term.
- **Experienced promoters with an established track record of operations in the Jaipur hospitality market** - Besides owning one operational five-star property—Le Meridian—the promoters have had ownership interests in other five-star hotels in the past, including Hotel Jaipur Palace in Jaipur and Hotel Majestic in Goa
- **Demonstrated support by the promoters by way of infusion of equity/unsecured loans** - The promoters have infused funds on a regular basis during construction and ramp-up of the property support the operations and fund cash losses.

Credit weaknesses

- **Asset and geographical concentration risk** - Dependence on a single operational property exposes the company to adversities of a particular market.
- **Intensely competitive and seasonal nature of the Jaipur hospitality market** - Events account for ~80% of total revenues of the property, particularly destination weddings business. It exposes the property to market risk resulting from lack of novelty factor. Moreover, the peak season

coincides with winter (which has traditionally been the wedding season); though corporate events have been lately supporting the occupancies in the off-season.

- **Sub-optimal operating metrics despite an improvement, as reflected in a modest return on capital employed** - Despite improvement in operating metrics, RevPARs continue to be sub-optimal, resulting in modest return indicators as reflected in a ROCE of ~8% in FY2017.
- **Lack of other Fairmont properties in the country constrains brand recognition among domestic travellers to some extent** - Fairmont Jaipur is the sole property under the said brand in India. Though the operator had plans for developing additional properties in Hyderabad and Nagpur, the same have not fructified. Nonetheless, recognition of brands under the “Accor Group” (which now owns “Fairmont”) in India and worldwide, provide some comfort.
- **Cyclical industry, vulnerable to general economic slowdown and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, etc.)**

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Hotel Industry](#)

About the company:

Incorporated in March 2007, Triton Hotels and Resorts Private Limited (THRPL) owns a five-star deluxe hotel in Kookas, Rajasthan (on the Delhi–Jaipur Highway) under the “Fairmont” brand. The property has been operational since August 2012 with an inventory of 199 rooms. In the first phase of expansion, 46 rooms are proposed to be launched during H2 FY2018. The property also offers facilities like convention centre, meeting rooms, swimming pool, fitness centre and dining options at five restaurants and bars. The company is promoted by Mr. Ratankant Sharma, whose family also owns Le Meridien in Jaipur, and is developing another hotel property in Udaipur, Rajasthan.

Key Financial Indicators (Audited)

	FY2015	FY2016
Operating Income (Rs. crore)	55.0	65.7
PAT (Rs. crore)	(6.6)	(0.6)
OPBDIT/ OI (%)	31.1%	35.4%
RoCE (%)	6.1%	7.6%
Total Debt/ TNW (times)	2.8	1.5
Total Debt/ OPBDIT (times)	8.7	4.9
Interest coverage (times)	1.0	1.6
NWC/ OI (%)	-12.8%	-5.8%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Aug 2017	July 2016	July 2015	July 2014
1	Term Loan	Long Term	90.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Bank Guarantee	Long Term	5.52	--				
3	Proposed facilities	Long Term	1.48	--				
4	Overdraft Facility	Short Term	13.00	--	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Sr. No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
1	Term Loan	July 2016	--	March 2024	90.0	[ICRA]BBB+ (Stable)
2	Bank Guarantee	July 2016	--	--	5.52	[ICRA]BBB+ (Stable)
3	Overdraft Facility	July 2016	--	--	13.0	[ICRA]A2
4	Proposed (Unallocated)	--	--	--	1.48	[ICRA]BBB+ (Stable)

Source: The company

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