

Hotel Excelsior Limited

April 06, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term working capital limits	15.00	20.00	[ICRA]A (Stable); Reaffirmed
Long term fund-based – term loans	98.65	109.00	[ICRA]A (Stable); Reaffirmed
Long-term non-fund based	5.00	0	-
Total	118.65	129.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long -term rating of [ICRA]A (pronounced ICRA A) assigned to the Rs. 129.0 crore¹ (enhanced from Rs. 118.65 crore) bank facilities of Hotel Excelsior Ltd (HEL)². The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation takes into account the conclusion of the room renovation which was ongoing in its Hotel Shangri La (New Delhi) over the past two years resulting higher available rooms from November 2017 onwards. This is expected to result in an increase in the room revenues for Shangri La in the near to medium term. Further, rating also favourably factors in the adequate ramp-up in the operational performance of Radisson Blu hotel (Faridabad, Haryana) marked by increasing occupancy and average room rent (ARR) over the last one year.

The rating reaffirmation continues to take into account the established position of hotel Shangri-La in the premium hotel segment in Delhi and the strong brand image of the 'Shangri-La' and 'Radisson Blu' chain of hotels which provides each hotel access to its respective global marketing and reservation systems. Besides, the rating also factors in the sustained growth in food and beverages (F&B) revenues, which in the past also helped partly offset the shortfall from room revenues at Shangri-La. Further, hotel Shangri La has depicted healthy ARR and occupancy over the last 12 months ending February 2018, more importantly since November 2017 onwards when the balance under-renovation rooms also became operational. The rating continues to draw comfort from the healthy financial risk profile of the company reflected by healthy capital structure (gearing of 0.43 times as on 31st March, 2017). The rating also takes into account HEL's experienced management and strong promoter background being part of the Eros group.

The rating is, however, constrained by the low diversification of operations and modest scale of operations with the company having only two operational hotels with room inventory of 444 keys as on date. Moreover, the risk is further accentuated with high concentration of revenues from Hotel Shangri-La. The rating also remains constrained on account of limited operational track record of HEL's new hotel facility – Radisson Blu, Faridabad, which commenced operations in November 2016. Rating is also constrained by the muted net profitability leading to low return indicators over the last two years with net loss reported in FY2017 on account of high depreciation expense and the same is expected to continue in FY2018 as well. Nevertheless, ICRA notes that the company generated net cash accruals (NCA) which adequately covers its fixed obligations. Further, ICRA expects that, with the ramp-up of revenues, at both the facilities, and income tax benefit available under section 35AD of the Income Tax Act, the profitability and return indicators are

¹100 lakh = 1 crore = 10 million

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

expected to improve from FY2019 onwards and will remain a key monitorable. Further, there has been an increase in the debt level to Rs. 109crore (as on February 28, 2018) as compared to Rs. 94.89 crore (as on Mar 31, 2017) on account of debt availed for the room renovation at Shangri-La. However, with the conclusion of the renovation in Shangri-La and scaling up of operations in Radisson Blu, the debt level is expected to come down from FY2019 onwards in absence of any major funding requirement that may be funded through debt. The rating also takes into account HEL's exposure to the inherent cyclicity in the hospitality industry owing to economic and seasonal cycles.

ICRA believes the ability to maintain the current occupancy and ARR in Shangri-La and to ramp up operations at Radisson Blu in the initial years coupled with improvement in profitability, debt coverage and capitalisation indicators will be the key rating sensitivities.

Outlook: Stable

ICRA believes HEL will be able to maintain its financial profile, aided by stable operations in Shangri-La and healthy ramp-up in the operating metrics of Radisson Blu. The outlook may be revised to 'Positive' if the company is able to achieve higher-than-expected occupancy resulting in significant ramp-up in its operating income thereby witnessing improvement in its profitability or is able to reduce its leverage ratios in the near to medium term. The outlook may be revised to 'Negative' in case of reduction in occupancy or ARR of the two hotel properties or further increase in the debt levels leading to deterioration of the capital structure.

Key rating drivers

Credit strengths

Long experience of promoters - Being a part of the Eros group, the company has strong promoter background with management having vast experience in the hospitality business.

Tie-up with 'Shangri-La' and 'Radisson Blu' brands – Tie-up with international hotel chains, for both the hotels imparts strong brand recognition and gives access to global reservation systems.

Improvement in occupancy level and ARR in FY2017 and FY2018- Hotel Shangri-La witnessed improvement in both the key operating metrics because of lower available rooms till October 2017. Further, Shangri La has also been able to maintain steady ARR and occupancy levels after the operationalisation of the entire room inventory. Further, Radisson Blu, which became operational in November 2016, also witnessed rising ARR and occupancy.

Strong growth witnessed in the food and beverages segment in FY2017 and FY2018– Owing to the renovation of the restaurants in Shangri La, the F&B segment of the hotel has demonstrated sustained growth in revenues over the last few years.

Credit challenges

Low diversification of operations in the company – With only two operational hotel properties having 444 keys, the company has modest scale of operations, with high concentration of revenues from Shangri-La as the new hotel Radisson Blu is yet to scale up its operations.

Increase in debt level - Owing to the construction cost incurred in the new hotel combined with the renovation of rooms in Shangri La, the debt level has gone up as on February 2018, marginally impacting the gearing and coverage indicators. However, with the conclusion of renovation in Shangri-La and stabilization of operations of Radisson Blu and limited capex envisaged, ICRA expects the debt levels will come down from FY2019 onwards and will remain a key monitorable

Low profitability and return indicators – The company has reported low operating margins and low return indicators in the last two years with net loss in FY2017 because of high depreciation expenses on the recently constructed ‘Radisson Blu’ hotel. Nevertheless, ICRA notes that the company generated net cash accruals (NCA) which adequately covers its fixed obligations. Also, ICRA expects that, with the ramp-up of revenues from Radisson Blu, the profitability and return indicators are expected to improve over the near to medium term and will remain a key monitorable.

Exposure to inherent risk of cyclicity of revenue generation in the hospitality industry-The hospitality industry is cyclical in nature and is vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, disease outbreak etc.). Further, the Indian hospitality industry has started witnessing a significant improvement in operating metrics from FY2016 onwards. This is expected to lead to a pick-up in new project announcements over the medium-term, strengthening the supply pipeline, which could constrain improvement in operating metrics.

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:

Hotel Excelsior Ltd. (HEL) is the flagship company of the Delhi-based Group promoted by Mr. Ajay Sood and Mr. Raman Sood, the other entities in the group being Nehru Place Hotels and Real Estate Private Ltd. (rated [ICRA]A+ (stable)) and Ajay Enterprises Private Ltd. (rated [ICRA]BBB+ (Stable)/[ICRA]A3+). HEL currently operates two hotels – ‘Shangri-La’, New Delhi (320 rooms) and ‘Radisson Blu’, Faridabad (124 rooms). ‘Shangri-La’ has concluded renovation of its restaurant section which has led to healthy F&B revenues from FY2017 onwards and has also completed capex towards renovation of rooms in the hotel. Radisson Blu is in its initial stage of operations, with commencement of operations from November 2016 onwards.

In FY2017, the company reported a net loss of Rs. 6.2 crore on an operating income of Rs. 157.0 crore, as compared to a net profit of Rs. 7.0 crore on an operating income of Rs. 144.7 crore in the previous year.

Key financial indicators (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	144.7	157.0
PAT (Rs. crore)	7.0	-6.2
OPBDIT/ OI (%)	16.94%	15.12%
RoCE (%)	6.62%	0.45%
Total Debt/ TNW (times)	0.17	0.43
Total Debt/ OPBDIT (times)	1.65	4.27
Interest coverage (times)	28.31	4.72
NWC/ OI (%)	0%	-1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating April 2018	Date & Rating in FY2017 April 2017	Date & Rating in FY2016 June 2016	Date & Rating in FY2015 Aug 2015
1 Working Capital Limits	Long Term	20.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Term Loan	Long Term	109.0	109.0	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Limits	NA	NA	NA	20.00	[ICRA]A (Stable)
NA	Term Loan 1	March 2014	9.25%	March 2027	80.00	[ICRA]A (Stable)
NA	Term Loan 2	September 2016	10.20%	September 2021	9.00	[ICRA]A (Stable)
NA	Term Loan 3	August 2017	9.50%	June 2026	20.00	[ICRA]A (Stable)

Source: Hotel Excelsior Ltd.

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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.

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