



## Interglobe Hotels Private Limited

Instrument	Amount (In Rs.)	Rating Action December 2014
Term Loans	Rs. 711 crore	[ICRA]BBB+ (stable); Rating Upgraded

ICRA has upgraded the long term rating assigned to Rs. 711 crore\* bank facilities of Interglobe Hotels Private Limited (IHPL)<sup>†</sup> from [ICRA]BBB (pronounced ICRA Triple B) to **[ICRA]BBB+** (pronounced ICRA Triple B plus). The outlook on the rating is **stable**.

The rating upgrade reflects IHPL's reduced exposure to project risks as three new hotels (Delhi Aerocity (DIAL) – 316 Keys, SIPCOT - 180 & Bangalore City Centre – 173 Keys) commenced operations in FY2015YTD, taking the number of operational hotels to 10, out of portfolio of 18, with ~1850 Keys. Further, expected improvement in IHPL's revenue and gross operating profits (GOP) with the stabilization of already operational properties is likely to result in improvement in company's cash flows and debt coverage indicators.

The rating continues to derive comfort from IHPL's exclusive agreement with Accor Group to develop 3- Star hotels under the brand name "**Ibis**" in India, Bangladesh, Nepal and Sri Lanka and with its geographically diversified portfolio of projects the fact that the financial closure for most of the projects has been achieved and its comfortable capital structure led by upfront capital infusion by the promoters. IHPL's association with Accor Group, besides fetching investment, provides strong brand recognition and offers IHPL access to Accor's global reservation systems. ICRA notes that the Revpars (Revenue per Available Room) for IHPL's properties will be further supported by favourable location of Ibis hotels in various cities, which are mostly located close to commercial centers, city centres or airports. The rating also factors in the emphasis on prudent cost rationalisation embedded in the Ibis business model which is expected to bolster the profitability indicators for the company. The equity funding support from the promoters and fiscal conservatism adopted by them in relation to the overall leverage along with deliberate deferment of debt drawdown are expected to keep the capitalisation indicators moderate; though the leverage of the company is expected to increase from current levels as the incremental capex will be largely funded through debt.

The rating is however constrained by expected dependence on promoter support to make interest and principal payments in the medium term, due to weak operational cash flows as some of the hotels are currently in stabilization phase {Jaipur (Rajasthan), Delhi Aerocity, Chennai SIPCOT, Bangalore City Centre} and some old properties are performing moderately- Pune (Maharashtra), Nashik (Maharashtra), Hosur Road Banaglore (Karnataka). Due to the subdued performance of abovementioned properties, IHPL's debt protection indicators are currently modest.

The rating continues to be constrained by inherently high operating leverage of the hospitality industry which increases the reliance on remunerative Revpars to sustain profitability, cyclical nature of revenue generation owing to economic or seasonal cycles and anticipated oversupply situation in various pockets due to slowdown in economic activity coinciding with huge supply additions. Moreover, for its eight under-construction hotels, the company remains exposed to project and approvals risk. The Indian budget hotel segment remains largely unorganized, characterized by relatively low entry barriers; IHPL faces significant competition from brands such as Lemontree, Ginger, RedFox, Keys etc. in addition to the standalone players in the individual markets.

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\* 100 lakh = 1 crore = 10 million

<sup>†</sup> For complete rating definition please refer to ICRA website [www.icra.in](http://www.icra.in) or any of the ICRA Rating Publications



Going forward, company's ability to improve operational metrics of its hotels, timely complete its under-development projects and prompt support from the promoters, pending the ramp-up in RevPars of new properties will remain key rating sensitivities. Further, the pace of future expansion and its impact on IHPL's overall business and financial risk profile will remain a key rating monitorable,

### **Company Profile**

Interglobe Hotels Private Limited (IHPL), a 60:40 JV between Interglobe Enterprises Limited along with its affiliates and Accor SA, is developing 18 budget hotels (expected to increase further as the company is actively looking at various locations in multiple cities) under the brand name Ibis in India. IHPL is expected to have a cumulative inventory of approximately ~3350 rooms in the next four to five years across India. Accor SA, a Euro 7 billion group, is a leading player in the hospitality industry with more than 4,000 hotels in 90 countries. Interglobe Enterprises Limited, on its part, is an established player in aviation management, travel distribution services and ground handling services. Out of the portfolio of 18 hotels, ten have started operations while eight are under various stages of construction and planning.

### **Recent Results**

In FY2014, Interglobe Hotels Private Limited (IHPL) reported operating income of Rs. 104 crore and net loss of Rs. 24 crore against operating income of Rs. 81 crore and net loss of Rs. 20 crore in FY2013.

**December 2014**

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