

July 07, 2021

IHHR Hospitality (Andhra) Pvt.Ltd.: [ICRA]BBB- (Negative)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	66.31	[ICRA]BBB- (Negative); assigned
Short-term – Fund-based Working Capital	3.00	[ICRA]A3; assigned
Total	69.31	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view on IHHR Hospitality Private Limited (IHHR), its subsidiaries (including IHHR Hospitality (Andhra) Pvt. Ltd., or IHHR Andhra) and sister concern (IHHR Hospitality Ananda Private Limited, or IHHR Ananda) (collectively referred to as IHHR/company hereon), while assigning the credit ratings, given the common management, significant operational and financial linkages between the entities.

The assigned ratings favourably factor in the extensive experience of IHHR's promoters in the hospitality industry and their demonstrated support in meeting the company's funding requirements as well as IHHR's geographically diversified and favourably located portfolio, operations under well-recognised brands and management tie-ups with reputed hospitality service provider, Hyatt International.

IHHR owns and operates four upscale and one luxury hotel in India with a portfolio of 844 rooms. The hotels are spread over five cities—viz., Pune (Maharashtra), Hyderabad, Bangalore, Amritsar (Punjab) and Rishikesh (Uttarakhand)—which reduces the vulnerability of revenues to regional events to some extent. Further, favourable locations in prominent business and tourist districts support revenue growth and reduce concentration risk. Four of the five properties are managed by Hyatt International under its various upscale brands and one resort-cum-spa luxury property (leased) at Rishikesh is managed by in-house brand, "Ananda in the Himalayas". IHHR's longstanding association with Hyatt International provides it access to the latter's global reservation system, strong loyalty programme and corporate clientele, thereby supporting IHHR's operational profile. The company's key promoter is London-based billionaire, Mr. Sudhir Choudhrie and his family (~87% stake), who have significant experience in the hospitality business by virtue of owning a portfolio of 32 properties (including the IHHR properties) across various geographies—India, the UK, the US, Switzerland, and Mauritius.

In FY2021, the Covid-19 pandemic severely impacted the company's performance. IHHR reported operating revenues of ~Rs. 60 crore in FY2021 (provisional results), marking a ~75% YoY decline over ~Rs. 226 crore in FY2020. Given the high operating leverage of the hospitality business, the sharp decline in revenues led to operating losses of approximately Rs. 15-16 crore for FY2021 (provisional results), despite the management undertaking stringent cost control measures. Even as the operational performance of various hotel properties had sequentially improved in H2 FY2021, the second wave of the pandemic and the resulting lockdowns have impacted operations. Moreover, with a portfolio comprising almost entirely of business hotels, IHHR, barring its Ananda property, is unlikely to benefit from any surge in leisure travel (expected to revive faster than corporate travel), which could delay its near-term revenue recovery prospects.

The rating is thus constrained by the subdued demand environment caused by the Covid-19 pandemic (which limits visibility on revenues) and resulting refinancing risk emanating from large repayment obligations over the medium term. The company had an outstanding external debt of ~Rs. 300 crore as on March 31, 2021, of which nearly a third (~Rs. 115 crore) is repayable over the next three years, in a ballooning repayment structure. Additionally, the debt burden is expected to increase in the

near-term (due to drawdown of sizable GECL¹ loans), which would weaken IHHR's leverage and coverage metrics. Even as the backing of financially strong promoters provides comfort, timely refinancing of maturing debt or infusion of long-term equity funds would be crucial over the medium term and remains a key rating sensitivity. ICRA notes that the promoters provided some funding support (Rs. 13 crore) in the form of equity in FY2021 to support its cash flows and remain committed to provide timely and adequate funding support in future as well.

The Negative outlook on the long-term rating reflects the likelihood of the extended impact of the Covid-19 pandemic on the global travel and hospitality industry, which is in line with ICRA's Negative outlook for the sector. Nonetheless, the increasing pace of the vaccination programme (in India and globally) and expectation of economic recovery are favourable for the industry's recovery trajectory over the medium term.

Key rating drivers and their description

Credit strengths

Comfortable capital structure aided by demonstrated promoter support – IHHR has a comfortable capital structure, as reflected in gearing of 0.7 time as on March 31, 2020 (and estimated to remain lower than 1.0 time as on March 31, 2021). This has been aided by demonstrated funding support from the promoters over the years. During FY2013-FY2017, the promoters provided sizeable funding support of over Rs. 300 crore through equity infusion and unsecured debt, to enable prepayment of external debt and support operations, while the hotels were in stabilisation phase. In FY2021, the promoters infused incremental equity of Rs. 13 crore to fund a part of the entity's loss funding requirements. ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant increase in external borrowings.

Healthy geographical diversification; strong brand recognition of Ananda and Hyatt in domestic and international markets – IHHR's flagship property, Ananda, has established its position as an internationally acclaimed luxury spa destination with a niche clientele. IHHR's other four properties are managed by the Hyatt Group under its well-established upper-upscale brands. These hotels benefit from Hyatt's global distribution, strong loyalty programmes and corporate relationships, allowing them to have better rates and occupancies. Further, IHHR benefits from healthy geographical diversification as the five properties are in business-centric and favourable tourist locations. While ICRA notes that the flagship property, Ananda in the Himalayas, was demerged from IHHR and vested in IHHR Ananda w.e.f. FY2019, it has taken a consolidated view as both the companies operate in the same business sector, sharing common promoters and a management team. Furthermore, IHHR Ananda has extended corporate guarantee to the lenders of IHHR and IHHR Andhra, while Ananda assets continue as collateral for their debt.

Experienced promoters with established track record in hospitality industry both in India and in select international markets – IHHR was established by Mr. Gautam Khanna and his son, Mr. Ashok Khanna, who have over five decades of experience in the hospitality industry through their association with the Oberoi and Indus Hotels. The largest shareholder in IHHR is London-based Sudhir Choudhrie and family (~87% stake), with interests in hospitality, aviation, financial services, real estate, and utilities businesses. In the hospitality sector, the family owns a portfolio of 32 properties (including the IHHR properties) across various geographies—viz., India, the UK, the US, Switzerland, and Mauritius, through Shanti Hospitality Group.

Credit challenges

Limited medium term revenue visibility due to demand disruption caused by Covid-19 pandemic – The company is expected to report a sharp decline in revenues (estimated at 70-75% YoY) and cash accruals in FY2021 due to extensive impact of the Covid-19 pandemic. With the recent spike in Covid-19 cases during the second wave, the recovery in operating and financial

¹ Loans granted under the Government's Emergency Credit Line Guarantee Scheme (ECLGS).

performance in FY2022 is likely to be weaker than previously anticipated. ICRA expects the hotel operations to remain impacted in the short-to-medium term due to the likelihood of the extended impact of the pandemic on the global travel and hospitality industry. With most of its properties in business-centric locations and depending on corporate clientele, IHHR is unlikely to benefit extensively from any surge in leisure travel, thereby keeping IHHR's cash accruals under pressure. A sustained recovery in operational metrics will remain a key rating monitorable.

High debt and sizeable medium-term repayments to constrain debt coverage metrics – With operating losses in FY2021 and high debt levels of ~Rs. 300 crore as on March 31, 2021, the company witnessed a sharp deterioration in its coverage metrics. Owing to the weak accruals, it opted-in for sanction of GECL loan under the ECLGS 2.0. While this would support near-term liquidity, the incremental debt (of approximately Rs. 56 crore) would lead to further deterioration in coverage indicators over the medium term. With limited visibility on demand and ballooning debt repayments, timely refinancing of debt and/or fund infusion from the promoters, to support any cash flow mismatch and leverage metrics, remains the key. While all discretionary capex has been put in abeyance in the near term, any unanticipated and large debt-funded capex, which could impact company's financial profile, remain a rating monitorable.

Liquidity position: Adequate

IHHR's liquidity is expected to remain **adequate**, supported by sizeable free cash balances, debt service retention account (DSRA) balances and undrawn GECL loans, cumulatively aggregating to Rs. 80-85 crore as on March 31, 2021. The company is eligible for incremental loans of Rs. 56 crore under ECLGS 3.0, which may be used to further support liquidity. Against the same, it has interest and repayment obligations of around Rs. 55 crore in FY2022 (excluding any incremental GECL debt at present). While the capex commitments are likely to be marginal in FY2022, some loss funding for properties may be required. ICRA expects its promoter's commitment to infuse timely equity funds and IHHR's financial flexibility with its lenders to support its refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A rating upgrade in the near-term is unlikely, given the Negative outlook on the industry's performance. Nonetheless, a healthy recovery in operational metrics and profitability indicators and/or higher-than-expected infusion of equity funds leading to a material improvement in liquidity and leverage metrics, could be a trigger for a rating improvement.

Negative factors – Negative pressure on IHHR's rating could arise for reasons including a prolonged impact of the second wave of the pandemic leading to slower-than-anticipated recovery in operating metrics, any large debt-funded capex, and any delay in timely infusion of equity by the promoters leading to more-than-expected weakening of its debt coverage indicators and deterioration in its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Consolidation and Rating approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials and taken a consolidated view of IHHR, its subsidiaries and sister concern, IHHR Ananda, as there are significant operational and financial linkages between the entities. The list of entities consolidated for analysis are enlisted in Annexure-2.

About the company

Incorporated in 2005, IHHR Andhra is a 74% subsidiary of IHHR. The remaining stake in the company is held by the State Government of Andhra Pradesh. The company owns a single 166-key hotel in Hyderabad, which is operated under the 'Hyatt' brand. The hotel became operational in 2007.

IHHR, incorporated in 1998, on a consolidated basis, owns and operates four five-star hotels in India. These hotels managed by Hyatt Hotels Corp. under its premium and luxury brands, including Hyatt, Hyatt Regency and Hyatt Centric. The properties are in prime cities of Bangalore, Pune, Amritsar, and Hyderabad with an aggregate room inventory of 766.

Originally, IHHR had commenced operations by launching a 78-room destination spa—Ananda in the Himalayas (Ananda)—near Dehradun (Uttarakhand) in 2000. Initially, the spa was developed under a joint venture (JV) between IHHR and Rafael Group Hoteliers; however, the JV was dissolved in December 2001. In November 2019, the company received NCLT approval on the scheme of demerger of the Ananda property from IHHR Hospitality and its merger into IHHR Hospitality Ananda Private Limited (IHHR Ananda, erstwhile subsidiary company). The company was demerged w.e.f. April 1, 2018 and is now a sister concern of IHHR.

The majority shareholders of IHHR include the C&C Alpha Group (comprising the holding companies Amanind Investments Holdings Ltd. & Associates, Turquoise Holding Pvt. Ltd., DBA Propbuild Pvt. Ltd. and Elsegundo Estate Pvt. Ltd., owned by Mr. Sudhir Choudhrie, his family and friends), which holds an 87.2% stake in the company and Mr. Ashok Khanna and family, who hold ~6.1% stake.

Key financial indicators (audited)

IHHR Consolidated*	FY2019	FY2020	FY2021 Prov.
Operating Income (Rs. crore)	226.3	226.0	58.8
PAT (Rs. crore)	1.2	-10.2	--
OPBDIT/OI (%)	18.9%	18.3%	--
PAT/OI (%)	0.5%	-4.5%	--
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9	--
Total Debt/OPBDIT (times)	6.4	6.6	--
Interest Coverage (times)	1.3	1.3	--

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: FY2021 data is provisional

*ICRA estimates, including IHHR Ananda Financial results. Line-by-line consolidation used to arrive at the consolidated results.

Status of non-cooperation with previous CRA: CARE ratings revised from [CARE]BBB-(CE); Stable to [CARE]BB+(CE); Stable and moved to Issuer Not Cooperating category in March 2021 due to lack of adequate information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in July 7, 2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1	Term Loans	Long-term	66.31	55.4	[ICRA]BBB-(Negative)	--	--	--
2	Overdraft	Short-term	3.0	--	[ICRA]A3	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Overdraft limits	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: 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	Term Loan-I	Sep-2016	NA	May-2032	52.70	[ICRA]BBB-(Negative)
NA	Term Loan-II	Sep-2020	NA	May-2032	2.51	[ICRA]BBB-(Negative)
NA	Term Loan-III	Feb-2021	NA	Apr-2026	11.10	[ICRA]BBB-(Negative)
NA	Overdraft	Feb-2021	NA	-	3.00	[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	IHHR Ownership	Consolidation Approach
IHHR Hospitality Private Limited	100.00% (Parent of rated entity)	Full Consolidation
IHHR Hospitality (Andhra) Private Limited	74% (rated entity)	Full Consolidation
IHHR Hospitality (Jaipur) Private Limited	100%	Full Consolidation
IHHR Hotels Private Limited	100%	Full Consolidation
IHHR Hospitality Ananda Private Limited	- (Sister concern/ Fellow subsidiary company)	Full consolidation

Source: IHHR annual report FY2020

Note: ICRA has taken a consolidated view of IHHR, its subsidiaries and sister concern, IHHR Ananda, while assigning the ratings.

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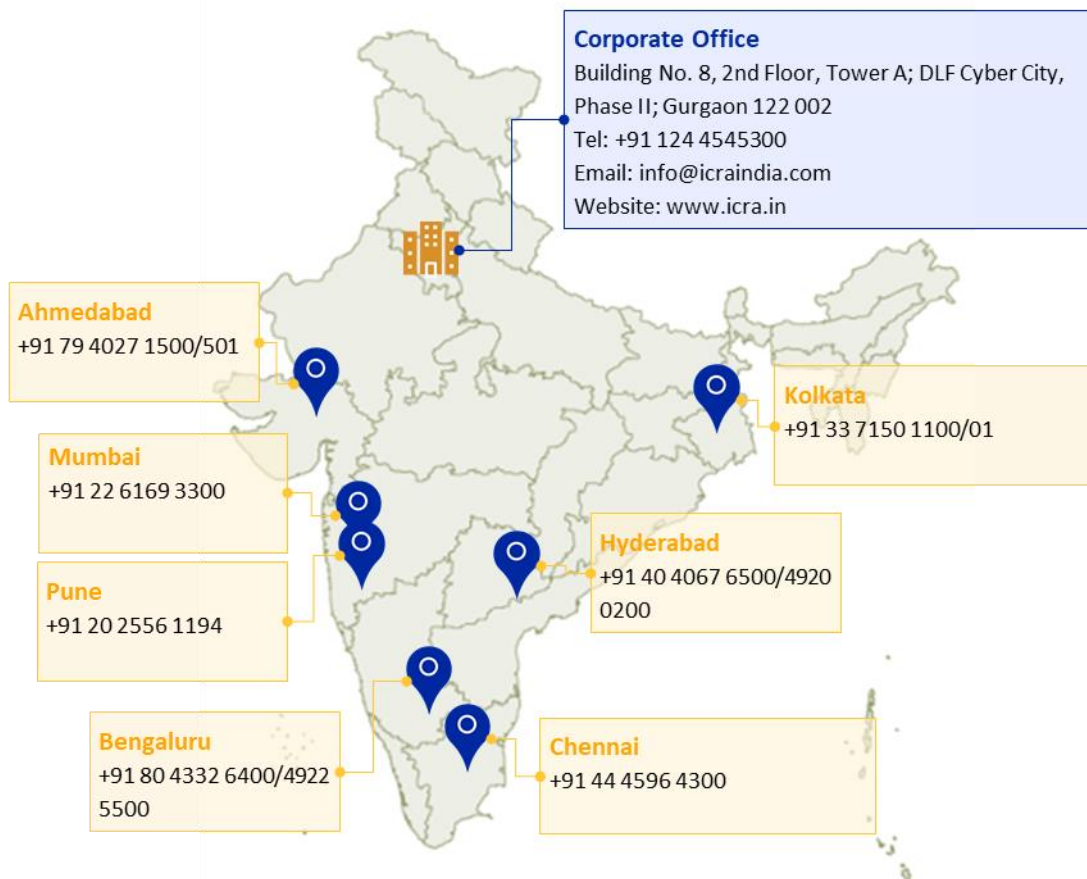


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