

May 13, 2022^(Revised)

IHHR Hospitality Private Limited: Rating reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	269.02	263.49	[ICRA]BBB- (Stable); outlook revised to Stable from Negative
Total	269.02	263.49	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view on IHHR Hospitality Private Limited (IHHR), including its subsidiaries and a sister concern, IHHR Hospitality Ananda Private Limited (IHHR Ananda), while assigning the credit ratings, given the common management, significant operational and financial linkages between the entities.

The revision in rating outlook to Stable factors in the better-than-expected improvement in the operating metrics of IHHR's portfolio in FY2022, despite two waves of the pandemic, and expectation of a sustained recovery pace over the near to medium term. Aided by demand recovery and sustained cost control measures, the company generated operating profits during the year. While the debt on its books increased with drawdown of GECL¹ loans, infusion of Rs. 20 crore equity by the promoters (in line with expectations) supported the company's capital structure. ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant impact on the leverage ratios. The reaffirmation of rating continues to factor in the extensive experience of IHHR's promoters in the hospitality industry and their demonstrated support in meeting funding requirements, its geographically diversified and favourably located portfolio as well as operations under well-recognised brands, and management tie-ups with the reputed hospitality service provider, Hyatt International.

The healthy pace of vaccination in India has led to abatement of pandemic related fears and easing of restrictions after the second wave of the pandemic in April-May 2021. This was reflected in the healthy pick-up in the operating metrics of IHHR's portfolio, which saw occupancy levels rise from the lows of 10-15% in April-May 2021 to 73% in March 2022. The average room rate (ARR) has also been improving on a month-on-month basis, averaging at ~80% of pre-Covid levels for the full fiscal. Resultantly, the company has reported provisional revenues of ~Rs. 152 crore for FY2022, marking a 2.6 fold YoY increase. In line with the industry trend, IHHR's leisure destination based properties—Ananda and Amritsar—led the recovery during the year, touching 80-85% of pre-pandemic revenues in FY2022. With reopening of international travel, the industry expects a further boost to ARR of its upscale/leisure properties. In contrast, IHHR's business centric hotels—Bangalore, Pune and Hyderabad—saw a relatively gradual recovery and touched only 50-60% of FY2020 revenue levels in FY2022. However, with continuously improving vaccine coverage, increase in in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE (meetings, incentives, conferences, and exhibitions) activities, these hotels are also likely to improve their performance and aid the company's overall performance.

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

Despite the above, the rating remains constrained by the inherent cyclical and seasonality in the hospitality industry, which exposes IHHR's revenues to risks associated with economic slowdown and exogenous shocks (though the same is partially mitigated by its geographically diversified portfolio). The pandemic situation continues to evolve, and demand may be potentially impacted by further waves of the Covid-19 in the near-term. However, ICRA expects such disturbances to be less severe and short-lived (like the Omicron wave in January 2022) and the industry may well touch pre-pandemic levels of operations by the end of FY2023.

The company had outstanding external debt of ~Rs. 315 crore as on March 31, 2022, of which nearly half (~Rs. 150 crore) is repayable over the next three years in a ballooning manner. While IHHR's liquidity profile remains adequate, with free cash balances, maintenance of debt service reserve account (DSRA) for one quarter's debt repayment obligations and undrawn GECL loans (cumulatively amounting to Rs. 85-90 crore as on March 31, 2022), its debt protection metrics are expected to remain stretched over the near to medium term. Even as the backing of financially strong promoters—the UK-based Sudhir Choudhrie and family—coupled with their track record of fund infusion in the entity remains a positive, 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.

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 0.9 time as on March 31, 2021 (and estimated to remain around 1.0x as on March 31, 2022). 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. Since March 2020, the promoters have infused incremental equity of ~Rs. 35 crore to partly support cash flows during the pandemic. ICRA expects the promoters to continue to provide need-based and timely support to IHHR to meet any operational funding mismatch and limit significant impact on the leverage ratios.

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 are in the same business sector, with common promoters and management team. Furthermore, IHHR Ananda has extended corporate guarantee to the lenders of IHHR, and Ananda assets continue as collateral for IHHR's debt.

Experienced promoters with established track record in hospitality industry in India and 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 Oberoi and Indus Hotels. The largest shareholder in IHHR is London-based Sudhir Choudhrie and family (~87% stake), having 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, such as India, the UK, the US, Switzerland and Mauritius, through Shanti Hospitality Private Limited.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, the several non-metro markets also face seasonality in guest traffic. Over the past two fiscals, the performance of IHHR (and the entire hotel industry) has been significantly impacted by the Covid-19 pandemic. Moreover, with most of its properties in business centric locations and dependent on its corporate clientele, IHHR saw only a gradual recovery relative to peers who had more leisure centric locations. While improving vaccination coverage remains positive, any prolonged and severe resurgence in infections could derail the recovery in revPARs and will remain a key monitorable in the near-term.

High debt and sizable repayments to constrain debt coverage metrics in medium-term – The company reported operating losses in FY2021 and while the performance improved YoY in FY2022, given the higher debt levels (~Rs. 310 crore as on March 31, 2022 vis-à-vis Rs. 272 crore in FY2020), its coverage metrics have deteriorated significantly. Owing to the weak accruals, the company opted for sanction of a GECL loan under the ECLGS 2.0 (almost fully disbursed) and ECLGS 3.0 (undisbursed as on March 31, 2022). While this would support near-term liquidity, incremental debt drawdown may keep the coverage indicators sub-par over the next 12-18 months. With a dynamic demand environment and ballooning debt repayments, timely fund infusion from the promoters to support any cash flow mismatch, would remain a key rating sensitivity.

Liquidity position: Adequate

IHHR's liquidity is expected to remain **adequate**, supported by continued recovery in operations, sizable free cash balances of ~Rs. 45-47 crore as at March 31, 2022 (of which ~Rs. 40-42 crore is parked at IHHR Ananda), DSRA balances (equivalent to one quarter debt servicing) of ~Rs. 11-12 crore and undrawn GECL loans of Rs. 33 crore. Against the same it has interest and repayment obligations of ~Rs. 45 crore in FY2023; capex commitments are likely to be marginal (Rs. 2-3 crore). ICRA expects the promoter's commitment to infuse timely equity funds (if required) and IHHR's financial flexibility with its lenders to support refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators and/or higher than expected infusion of equity funds leading to significant improvement in liquidity and leverage metrics, could be a trigger for positive rating movement.

Negative factors – Negative pressure on IHHR's rating could arise from slower than anticipated recovery in its portfolio's operating metrics and/or any large unforeseen debt-funded capex and/or 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 Rating approach- Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of IHHR, its subsidiaries and a sister concern, IHHR Ananda, as there are significant operational and financial linkages between them. The list of entities

consolidated for analysis are enlisted in Annexure-2.

About the company

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

Originally, IHHR had commenced operations by launching a 78-room destination spa, Ananda in the Himalayas, 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 Ananda (erstwhile subsidiary company, which 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 (owned by Mr. Sudhir Choudhrie, his family and friends) that 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*	FY2020	FY2021	FY2022**
Operating Income (Rs. crore)	226.0	58.8	151.0
PAT (Rs. crore)	-10.2	-52.8	-
OPBDIT/OI (%)	18.3%	-41.5%	-
PAT/OI (%)	-4.5%	-89.8%	-
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0	-
Total Debt/OPBDIT (times)	6.6	-12.1	-
Interest Coverage (times)	1.3	-0.7	-

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

Note: **FY2022 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: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 13, 2022	Jun 1, 2021	Jan 7, 2021 Oct 28, 2020 May 1, 2020	Jul 29, 2019
1	Term Loans	Long-term	263.49	247.9	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)
2	Fund Based Working Capital	Long-term	--	--	-	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	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	Apr-2016	NA	Sep-2026	124.83	[ICRA]BBB-(Stable)
NA	Term Loan-II	Mar-2017	NA	Sep-2027	41.02	[ICRA]BBB-(Stable)
NA	Term Loan-III	Dec-2017	NA	Jun-2028	47.69	[ICRA]BBB-(Stable)
NA	Term Loan-IV	Dec-2020	NA	Dec-2025	42.37	[ICRA]BBB-(Stable)
NA	Drop Line Overdraft facility	Dec-2017	NA	Sep-2028	7.58	[ICRA]BBB-(Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	IHHR Ownership	Consolidation Approach
IHHR Hospitality Private Limited	- Rated entity	Full Consolidation
IHHR Hospitality (Andhra) Private Limited	74%	Full Consolidation
IHHR Hospitality Ananda Private Limited	- (Sister concern/ Fellow subsidiary company)	Full consolidation

Source: IHHR annual report FY2021

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

Corrigendum

Document dated May 13, 2022, has been corrected with revisions as detailed below:

Section where revision has been made	Details of change (s) made
Annexure-2, Page 5	Removed name of 2 companies from the table viz. IHHR Hospitality (Jaipur) Private Limited and IHHR Hotels Private Limited as these entities were no longer subsidiaries since FY2020.

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