June 24, 2019

Adyar Gate Hotels Limited: Ratings downgraded to [ICRA]B (Stable)/[ICRA]A4 from [ICRA]BB+ (Stable)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund based Term Loans	349.75	340.20	[ICRA]B (Stable); downgraded from [ICRA]BB+ (Stable)
LT Fund based facilities	30.00	45.00	
LT Unallocated	6.25	0.80	
ST Non fund based	2.00	2.00	[ICRA]A4; downgraded from [ICRA]A4+
Total	**388.00**	**388.00**	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings reflects the postponement in anticipated equity infusion of Rs. 100 crore by Adyar Gate Hotels Limited (AGHL) and continued net-worth erosion due to net losses since FY2014. As against ICRA's expectation of Rs. 100 crore equity infusion in mid FY2019, the company now plans to infuse the aforesaid funds by H1 FY2020 through monetization from asset sale. The deferment of the fund infusion has increased AGHL's debt repayment commitments (principal and interest) in the near term compared to ICRA's earlier expectation. AGHL has cumulative principal and interest obligations to the tune of Rs. 13.1 crore to be paid over the next three months. On the operational front, while AGHL's RevPAR has improved across properties and the company's revenues grew by 5%, the operating margins dipped by 60 bps from 19.2% in FY2018 to 18.6% in FY2019 (Unaudited financials) following weaker absorption of fixed operating costs. The net losses at Rs.40.5 crore for FY2019 (unaudited financials) were steeper than ICRA's expectations because of lower-than-anticipated operating margins and higher interest expenses consequent to deferment of equity infusion. AGHL's continues to incur cash losses since FY2015, with cumulative cash losses of Rs.73.8 crore for FY2015 to FY2019 (Unaudited financials).

AGHL's debt remains high at Rs.419.3 crore as on March 31, 2019 (according to unaudited financials) – the debt is skewed towards long-term loans (Rs.341.4 crore as on March 31, 2019 – Unaudited financials), largely from term loan from banks. The company's short-term debt has also increased gradually from Rs. 54.6 crore as on March 31, 2018 to Rs. 77.9 crore as on March 31, 2019 (Unaudited financials), mainly because of loss-funding. Of the short-term debt, Rs.43.7 crore is in the form of OD (with enhancement of sanctioned limits in June 2018 and average utilization of 97% in the last one year), while the remaining is in the form of unsecured loans from promoters. The continued high debt levels and gradual net-worth erosion because of net losses over the last six years resulted in weakening of AGHL's already stretched capital structure and coverage indicators; the company's gearing stood at 23.4 times as on March 31, 2019 (according to Unaudited financials, PY: 6.9 times), while its TD/OPBITDA stood at 14.3 times in FY2019 (according to unaudited financials, PY: 13.9 times). While the proposed fund infusion of Rs. 100 crore would provide some respite in the near to medium term (in the form of reduction in interest costs and reduction in cumulative repayment of Rs.9.6 crore over FY2020-FY2022), materialization of the same is imperative. AGHL would still continue to have debt repayment totalling to Rs.50.8 crore over FY2020 – FY2022 post the aforementioned fund infusion. Over the medium term, the company would further need significant equity infusion to report healthy debt levels for the scale of operations.

The ratings positively factor in the extensive experience of the promoters in the hospitality industry, presence of management tie-ups with IHG/ITC and the company's stable rental income of Rs.13.5 crore in FY2019 (Unaudited financials) from IT Park which provides stability and diversity to revenues to an extent. However, AGHL has relatively modest scale of operations and its revenues are concentrated in the Chennai market, exposing it to city-specific risks. Akin to its counterparts, AGHL's revenue also remains susceptible to exogenous shocks such as natural calamities and economic or political instability.

Outlook: Stable

ICRA believes AGHL will continue to benefit from the extensive experience of its promoters and management tie-ups with ITC and IHG. The outlook may be revised to 'Positive' if there is higher-than-anticipated paring down of debt together with substantial growth in profit margins, resulting in strengthening of AGHL's debt metrics and financial risk profile. The outlook may be revised to 'Negative' if the fund infusion does not happen in the near term or there is continued net losses, weakening the liquidity position further.

Key rating drivers

Credit strengths

Significant experience of promoters in hospitality industry; management tie-up with IHG/ITC – The promoters have been in the business for over three decades – the Goyal Family acquired controlling stake in the erstwhile Park Sheraton (Crowne Plaza) in 1985. Two of the company's properties –Mahabalipuram and Crowne Plaza – have management and marketing arrangements with Intercontinental Hotels Group (IHG), while the other two properties have management tie-ups with ITC. The hotels benefit from the network of these chains for customer acquisitions.

Location advantage and established presence of flagship property in Chennai; Mahabalipuram resort commands premium rates – Crowne Plaza, the erstwhile Park Sheraton, has been in existence since 1970. The hotel is one of the renowned five-star properties in the Central Business District in Chennai. While the Mahabalipuram property commenced operations relatively recently in October 2015, it is one of the premium resort properties in the East Coast Road, on the way to Mahabalipuram. Also, with minimal incremental rooms expected in the Chennai market, occupancy and ARR are likely to move up gradually over the medium term.

Rental income from IT Park provides stability and diversification to revenues – The company generates about Rs. 13.5 crore rental income as rent for its space in an IT Park in Velachery – a relatively recently developed suburb in Chennai. The revenues are a stable source of income for the company and provide diversification of income stream to an extent. With Velachery being a prime location in Chennai, the rentals are likely to increase going forward.

Credit challenges

Deferment of equity infusion of Rs. 100 crore to H1 FY2020 – The promoters planned to infuse Rs. 100 crore equity by mid FY2019 to retire part debt and ease repayment commitments over the medium term. This did not materialize and the company now plans to infuse the aforesaid funds by H1 FY2020 through proceeds from asset sale. As a result of the postponement of the fund infusion, AGHL's debt interest and principal commitments in the near term are higher compared to ICRA's earlier estimates – Rs. 4.2 crore principal to be paid over the next three months as against nil repayments for the said period expected earlier.

Continued net losses from FY2014- The company continues to witness net losses because of inability to absorb high operational costs and significant interest costs due to high debt levels. The company reported net losses of Rs.40.5 crore in FY2019 (according to unaudited financials, PY: Rs.46.7 crore), with cash losses of 14.4 crore in FY2019 (Unaudited financials, PY: Rs.20.4 crore). Going forward, while the net losses are expected to narrow down with increase in scale and reduction in interest costs to an extent following the fund infusion, the liquidity position is expected to remain stretched until further equity capital is infused and AGHL's debt levels reduce significantly.

Weak capital structure and coverage metrics - AGHL's debt stood at Rs. 419.3 crore as on March 31, 2019 (Unaudited financials, PY: Rs.400.9 crore) - the significant debt-funded capex incurred in the last few years and additional loans availed to fund losses have resulted in high debt levels for the company; adjusted for unsecured loans outstanding of Rs.31.2 crore, the debt stood at Rs.388.1 crore as on March 31, 2019(Unaudited financials). The high debt levels and loss-related net-worth erosion have resulted in stretched gearing of 23.4 times as on March 31, 2019 (Unaudited financials, PY: 6.9 times as on March 31, 2018). AGHL's coverage metrics also continue to remain weak – with TD/OPBITDA and interest coverage ratio of 14.3 times and 0.7 times in FY2019 (Unaudited financials, PY: 13.9 times and 0.6 times) respectively. Although the capital structure and coverage metrics are likely to improve with anticipated debt reduction post the fund infusion, the debt metrics are likely to remain stretched in the medium term, in the absence of a further round of significant fund infusion.

Moderate scale; heavy concentration in the Chennai market – AGHL has relatively moderate scale of operations, with an aggregate inventory of 564 rooms as on date, and operates across 3 cities in South India. Further, close to 80% of the company's revenues are derived from the Chennai market, exposing it to city-specific event risks.

Vulnerable to external threats, similar to other hotel players – Akin to its counterparts, AGHL's revenue also remains susceptible to exogenous shocks such as natural calamities and economic or political instability.

Liquidity Position:

The company has relatively high interest costs compared to its operating profits and this has resulted in cash losses for AGHL over the last five years. Also, with the deferment of equity infusion, the company had repayment commitments of Rs. 2.5 crore in April-May 2019 and has Rs. 14.2 crore over the next 10 months, as against no repayment commitments expected earlier for FY2020. Due to this, the company has had strained liquidity position over the last few months and has been meeting its funding requirements through enhanced working capital borrowings and unsecured loans from promoters on need basis. The anticipated Rs.100 crore fund infusion by July 2019 is expected to provide some respite in the near term through reduction in interest expenses and marginal reduction in principal repayment commitments, though the company will continue to have cumulative principal repayment obligations Rs.50.8 crore for FY2020-FY2022 (as against Rs.60.4 crore if the fund infusion does not happen). The company would need significant equity infusion over and above the expected Rs.100 crore, in the near term, for comfortable liquidity.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Hotels
Parent/Group Support	Parent/Group Company: NA
Consolidation / Standalone	Standalone

About the company:

Adyar Gate Hotels Limited (AGHL / the company) is owned by the Goyal Family and has over three decades of presence. The company has four properties in South India and its flagship property is located in the Central Business District in Chennai. The flagship property operated under the name 'Sheraton Park Hotels and Towers' for several years, as a 287 room five star deluxe hotel with tie-up with ITC and Starwood for using the 'Sheraton' brand. In July 2015, the hotel changed brand to 'Crowne Plaza' under the IHG umbrella.

AGHL also commenced operations of a 106-room resort in Mahabalipuram under the name 'InterContinental Chennai Mahabalipuram Resort' operated by IHG from Oct 2015. The company has two other operational properties – WelcomHotel Grand Bay in Vizag with 104 rooms and Fortune Hotel Sullivan Court in Ooty with 67 rooms - both managed by ITC.

Apart from the hotels, AGHL also owns ~2,50,000 square feet space in Sai Real Tech Park, an IT park in Velachery, Chennai - this space is currently leased to Tata Consultancy Services (TCS). AGHL also has two wholly owned non-operational subsidiaries with land holdings in Kodaikanal, Tamil Nadu.

In FY2019, on a provisional basis, the company reported a net loss of Rs.40.5 crore on an operating income of Rs. 157.8 crore, as compared to a net loss of Rs.46.7 crore on an operating income of Rs.150.1 crore in the previous year.

Key financial indicators

	FY2018 (audited)	FY2019 (Unaudited)
Operating Income (Rs. crore)	150.1	157.8
PAT (Rs. crore)	-46.7	-40.5
OPBDIT/OI (%)	19.2%	18.6%
RoCE (%)	-0.3%	0.8%
Total Debt/TNW (times)	6.9	23.4
Total Debt/OPBDIT (times)	13.9	14.3
Interest coverage (times)	0.6	0.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2019	Date & Rating in FY2019 Apr 2018	Date & Rating in FY2018 Apr 2017	Date & Rating in FY2017 Apr 2016
1	Term Loan	Long Term	340.20	**340.20**	**[ICRA]B (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA] BBB- (Stable)**	**[ICRA] BBB (Negative)**
2	LT Fund based	Long Term	45.00	-	**[ICRA]B (Stable)**	**[ICRA]BB+ (Stable)**		
3	LT Unallocated	Long Term	0.80	-	**[ICRA]B (Stable)**	**[ICRA]BB+ (Stable)**		
4	ST Non fund based	Short Term	2.00	-	**[ICRA]A4**	**[ICRA]A4+**	**[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	FY2015	10.8%	FY2031	340.2	[ICRA]B (Stable)
-	LT Fund based	-	-	-	45.00	[ICRA]B (Stable)
-	LT Unallocated	-	-	-	0.80	[ICRA]B (Stable)
-	ST Non fund based	-	-	-	2.00	[ICRA]A4

Source: Adyar Gate Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

Vinutaa
+91 44 4596 4305
Vinutaa.s@icraindia.com

Ganapathy R
+91 44 4297 4316
ganapathy.r@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999