

January 02, 2020

## Eros Resorts and Hotels Private Limited: Ratings revised

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	5.00	5.00	[ICRA]B+ (Stable); upgraded from [ICRA]B- (Stable)
Term Loan	39.00	39.00	[ICRA]B+ (Stable); upgraded from [ICRA]B- (Stable)
Bank Guarantee	6.00	-	-
Unallocated	0.00	6.00	[ICRA]B+ (Stable) upgraded from [ICRA]B- (Stable); [ICRA]A4 reaffirmed
<b>Total</b>	<b>50.00</b>	<b>50.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's rating revision takes into account the year-on-year improvement in operating income (OI) of Eros Resorts and Hotels Private Limited (ERHPL) in FY2019 and the current year due to full-year operations of its banquet hall with an increase in revenue per available room (RevPar). This coupled with an improvement in operating margins resulted in positive cash accruals of Rs. 4.99 crore in FY2019. Moreover, there has been an overall improvement in interest coverage and DSCR ratios in FY2019. Further, ICRA factors in the established track record of its promoters in the hospitality industry and the consistent infusion of funds by promoters to meet the funding requirements towards operating losses and debt servicing.

The ratings are, however, constrained on account of its weak DSCR levels despite improvement in FY2019, which might require further promoter support in the near term. The rating continues to be constrained by the single location of ERHPL's operations and the intense competition in the Delhi-NCR market. The ratings are constrained by the company's modest financial profile with net loss of Rs. 1.33 crore and high TD/OPBIDTA of 14.06 times, coupled with stretched liquidity position as evident from high working-capital utilisation in the same financial year. Moreover, sustained net losses eroded its net worth, which stood at negative Rs. 54.32 crore in FY2019. The inherently high operating leverage of the hospitality industry, which increases the reliance on RevPAR to sustain profitability, and the cyclical nature of revenue generation owing to economic or seasonal cycles, remain credit challenges.

The Stable outlook on [ICRA]B+ rating reflects the benefits likely to be derived by the company from the extensive experience of its promoters in the hospitality industry.

### Key rating drivers and their description

#### Credit strengths

**Experienced promoters and management with established track record in Delhi hotel industry** – The promoters and their families have been involved in the hospitality business for more than three decades and have gained a thorough knowledge of the market. Such a long presence in the industry has helped the company in understanding the industry dynamics and establishing strong relationships with the key service providers. The Group owns a hotel property – Hotel Eros – in Nehru Place, Delhi.

**Association with Intercontinental Group provides access to global reservation systems, imparts strong brand recognition** – The company benefits from its management partnership with one of the leading global chains – Intercontinental – in terms of enhanced visibility and higher occupancies.

**Demonstrated track record of funding support from promoters** – The company’s promoters have consistently supported the entity by way of fund infusion over the years in the form of debentures, unsecured loans and preference shares.

**Positive cash accruals in FY2019 with improving trend in ARR** – ERHPL reported positive cash accruals of Rs. 4.99 crore in FY2019 for the first time in five years on account of better operating margin driven by higher ARR and full-year operations of its banquet hall.

## Credit challenges

**Low profitability and muted coverage indicators and negative net worth** – The company’s overall financial profile remained weak with net loss of Rs. 1.33 crore and high TD/OPBIDTA of 14.06 times, coupled with low DSCR of 1.01 times in FY2019.

**Revenues susceptible to adverse market conditions with operations limited to hospitality sector in East Delhi** – The hotel industry is typically susceptible to a wide range of adverse market conditions such as demand-supply dynamics, tourism industry, foreign tourist arrival, etc.

**Competition from other hotels** – The entity faces stiff competition from other four-star hotels located in Delhi-NCR including Holiday Inn, Fraser Suites, Park Inn by Radisson, etc.

## Liquidity position: Stretched

The company’s liquidity profile remains stretched, while the fund flow from operations (FFO) turned positive in FY2019. Its free cash flows remained negative due to long-term debt repayments. The working capital utilisation was high at 87% during the last eight months that ended in November 2019. Its overall liquidity is expected to remain stretched on account of scheduled debt repayment obligations and ongoing capex plans. Therefore, generation of adequate cash accruals will remain crucial. However, given the past track record, the promoters are likely to provide funding support for any cash flow mismatch over the medium term.

## Rating sensitivities

**Positive triggers** – An upward movement in rating could happen if there is substantial and sustained growth in revenue and profitability and/or infusion of long-term funds by promoters strengthens the financial risk profile. Interest coverage above 1.8 times and DSCR above 1.3 times on a sustained basis might trigger a rating upgrade.

**Negative triggers** – Negative pressure on ERHPL’s ratings could arise if there is deterioration in performance of the company evidenced by lower cash accruals, withdrawal of financial support by the promoters, or if any major debt-funded capital expenditure, weakens liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Hotel Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of ERHPL

## About the company

ERHPL has been promoted by the erstwhile Eros Group, a Delhi-based Group promoted by the Sood family. The company is present in the real estate and hospitality businesses in the National Capital Region (NCR). ERHPL is a closely-held company with its entire share capital held by the directors, the relatives of the directors and the Group entities. It owns a premium five-star hotel property in Mayur Vihar, Delhi under the brand name Crowne Plaza (earlier Hotel Hilton). The hotel property has been operational since October 2011 and has a management contract with the Intercontinental Hotels Group. Earlier, ERHPL used to own a four-star hotel in Mayur Vihar under the brand name Holiday Inn (erstwhile Double Tree by Hilton). However, the hotel was demerged into a separate company in a restructuring exercise completed in May 2015.

## Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	41.73	54.58
PAT (Rs. crore)	-10.39	-1.33
OPBDIT/OI (%)	20.16%	33.78%
RoCE (%)	-0.32%	4.45%
Total Outside Liabilities/Tangible Net Worth (times)	-5.55	-5.29
Total Debt/ OPBDITA (times)	31.32	14.06
Interest Coverage (times)	0.53	1.36
DSCR	0.38	1.01

Source: Company data

**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 in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
				02 January 2020	February 2019	21 August 2017	06 July 2016	
1	Cash Credit	Long-term	5.00	-	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]C+	[ICRA]D
2	Term Loan	Long-term	39.00	36.93	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]C+	[ICRA]D
3	Bank Guarantee	Short-term	-	-	-	[ICRA]A4	[ICRA]A4	[ICRA]D
4	Unallocated	Short/Long-term	6.00	-	[ICRA]B+ (Stable)/A4	-	-	-

## 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](http://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	Cash Credit	-	-	-	5.00	[ICRA]B+ (Stable)
NA	Term Loan	April 2017	-	March 2027	39.00	[ICRA]B+ (Stable)
NA	Unallocated	-	-	-	6.00	[ICRA]B+ (Stable)/A4

Source: ERHPL

## ANALYST CONTACTS

**K Ravichandran**

+91 124 4545304

[ravichandran@icraindia.com](mailto:ravichandran@icraindia.com)

**Manish Ballabh**

+91 124 4545812

[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Gaurav Singla**

+91 124 4545366

[gaurav.singla@icraindia.com](mailto:gaurav.singla@icraindia.com)

**Sanjay Pal**

+91 124 4545348

[sanjay.pal@icraindia.com](mailto:sanjay.pal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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

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