

January 07, 2020

Laila Hotels and Resorts Pvt. Ltd.: [ICRA]BB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	25.00	[ICRA]BB(Stable); Assigned
Unallocated Limits	35.00	[ICRA]BB(Stable); Assigned
Total	60.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the low execution risk of the hotel and mall-cum-multiplex project by Laila Hotels and Resorts Pvt. Ltd (LHRPL) in Vijayawada, Andhra Pradesh with 88% of the project cost incurred as on November 30, 2019. Further, the company is planning to do a soft launch of the hotel and handover the mall-cum-multiplex to tenants by January 2020. The rating factors in the low occupancy risk for its mall-cum-multiplex with the shopping mall completely leased to Future Market Networks Limited (FMNL) and multiplex leased to INOX Leisure Ltd.

The rating is, however, constrained by the limited experience of the promoters in the hospitality business. However, the same is mitigated with LHRPL entering into a management contract with Carnation Hotels Private Limited for operating the hotel under the Lemon Tree Premier brand. The rating is constrained by the high market risk for the hotel due to stiff competition with presence of a large number of hotels in Vijayawada region and weak demand outlook for hotel industry in Vijayawada owing to uncertainty prevailing on the capital city of Andhra Pradesh. ICRA notes that the hotel industry is cyclical and vulnerable to general economic slowdown and external threats. Further, timely completion of project and its ability to ramp up hotel operations leading to an improvement in the scale of operations and credit metrics would be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Low execution risk – The project is in the advanced stage of execution with 88% of project cost incurred as on November 30, 2019. Further, the mall-cum-multiplex would be handed over to tenants for fit outs and the soft launch of the hotel is expected in January 2020.

Low occupancy risk for mall-cum-multiplex – The mall-cum-multiplex is completely leased out to INOX and Future Markets Networks Limited (FMNL, part of the Future Group), respectively, resulting in low market risk. The company expects to receive Rs. 0.56-crore monthly rental from the mall-cum-multiplex operations and the lease rentals are likely to commence in Q1 FY2021.

Credit challenges

Limited experience in hospitality business – The promoters have limited experience in the hospitality business. However, the same is mitigated by the company entering into management contract with Carnation Hotels Private Limited for operating the hotel under Lemon Tree Premier brand. The commercial operation of the hotel is expected to start from April 2020.

High market risk for hotel operations – The Vijayawada market is characterised by intense competition with the presence of a large number of hotels in the region. Further, subdued demand for the hotel industry in the region due to uncertainty prevailing on the capital city of Andhra Pradesh may adversely impact the occupancy and in turn revenues for the hotel.

Cyclical industry, vulnerable to general economic slowdown and external threats – The hotel market is exposed to economic cycles, given the fact that a significant part of the demand arises from business travellers impacting revenue and profitability. Akin to its counterparts, LHRPL’s revenue remains susceptible to exogenous shocks such as natural calamities and economic or political instability.

Liquidity position: Stretched

The liquidity position is stretched with pending cost of Rs. 15.5 crore being contingent on disbursement of new loans or infusion of promoter funds. However, the cash flows from operations are expected to be sufficient to meet the debt obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade LHRPL’s rating upon timely completion of project without cost overruns. Further, quick ramp up of operations of the hotel and higher-than-estimated cash flows are likely to positively impact the ratings.

Negative triggers – The ratings may witness a downgrade pressure if there is a delay in completion of the project or any cost overruns, or delay in ramp up of operations of hotel with low occupancies resulting in lower-than-estimated cash flows.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in 2001, LHRPL is setting up a 120 room three-star hotel in Vijayawada, Andhra Pradesh under the brand Lemon Tree Premier. In the same premises, the company is constructing a shopping mall and multiplex. LHRPL has completely leased the shopping mall to Future Market Networks Limited (FMNL) and the multiplex is leased to INOX Leisure Ltd. LHRPL is promoted by Mr. G. Ganga Raju and his family members and is a part of the Laila Group of Companies, which is into diverse businesses such as sugar, paper, nutraceuticals, education, etc. The total estimated cost of the project is Rs. 131.00, crore which is to be funded by a debt of Rs. 45.00 crore, promoter’s equity of Rs. 15.00 crore and unsecured loans worth Rs. 71.00 crore. As on November 30, 2019, LHRPL incurred a cost of Rs. 115.76 crore funded by Rs. 18.00 crore of equity, Rs. 69.02-crore unsecured loans from promoters, Rs. 16.90-crore term loans and the remaining from security deposits and advances from customers.

Key financial indicators: NA

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 07-Jan-20	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund Based – Term Loan	25.00	16.9	[ICRA]BB(Stable)	-	-	-
2	Unallocated Limits	35.00	-	[ICRA]BB(Stable)	-	-	-

Amount in Rs.crore

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
NA	Term Loan -1	Jun-19		Dec-27	20.00	[ICRA]BB(Stable)
NA	Term Loan -2	Jun-19		Oct-26	5.00	[ICRA]BB(Stable)
NA	Unallocated Limits			-	35.00	[ICRA]BB(Stable)

Source: Laila Hotels and Resorts Pvt. Ltd.

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