

Lalit Great Eastern Kolkata Hotel Limited

April 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	106.67	CARE BB+ (CE) (CWN)	Revised from CARE BBB- (CE) [Triple B Minus (Credit Enhancement)]; Continues to be on Credit watch with Negative Implications
Short Term Bank Facilities	5.00	CARE A4+ (CE) (CWN)	Revised from CARE A3 (CE) [A Three (Credit Enhancement)]; Continues to be on Credit watch with Negative Implications
Total Bank Facilities	111.67 (Rs. One Hundred Eleven Crore and Sixty-Seven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the bank facilities of Lalit Great Eastern Kolkata Hotel Limited (LGEKHL) are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Bharat Hotels Limited (BHL) towards bank facilities of LGEKHL. The above rating is solely based on CARE's view on guarantor's credit profile and accordingly the rating rationale highlights the key credit risk assessment parameters for the guarantor.

Detailed Rationale & Key Rating Drivers of Bharat Hotels Ltd (BHL; Guarantor)

The revision in the ratings assigned to the bank facilities of Bharat Hotels Limited (BHL) takes into account sharp moderation in the operational and financial performance during 9MFY21 caused by covid-19 pandemic leading to deterioration in capital structure and liquidity profile of the company. Further, the ratings continue to remain constrained by vulnerability of revenues to inherent industry cyclicity, economic cycles, and exogenous events, regional trends in tourism and competition risk.

Nevertheless, the ratings continue to derive strength from BHL's experienced promoters, long track record of operations in the hospitality business, established relationship with corporate clients and diversified portfolio of properties

The ratings assigned to the bank facilities of Bharat Hotels Limited (BHL) continue to remain on 'Credit Watch with Negative Implications'. The disruption caused by Covid-19 continues to adversely impact the hospitality and tourism industry. In the backdrop of uncertainty created by resurgence in covid infections, there has been further continuation in unfavorable customer sentiments and elongation in recovery period. CARE also notes that BHL has applied for One-time restructuring (OTR) and the restructuring plan so approved is currently under implementation. Further, the approved plan assumes monetization of certain assets resulting in de-leveraging of the balance sheet of BHL, which will also remain a key rating monitorable. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above events on the credit risk profile of the company are clear.

Key Rating drivers of Lalit Great Eastern Kolkata Hotel Ltd (LGEKHL; Borrower)

The unsupported rating assigned to the bank facilities of LGEKHL is constrained by the subdued operational performance in FY20 and 9MFY21, high level of competition in the hotel industry and industry outlook of Indian hospitality industry in the near-term, specifically, in the backdrop of outbreak of covid-19 pandemic. However, ratings derive strength from its strong and resourceful promoter (BHL) with demonstrated support in the form of corporate guarantee.

Rating Sensitivities

Positive Factors

- Sustained improvement in operational performance of properties leading to improvement in margins beyond 35%
- Deleveraging of balance sheet through fund infusion or asset monetization such that overall gearing ratio improves to below 1.00x

Negative Factors

- Decline in Occupancy level and RevPAR, thereby affecting its liquidity & debt coverage indicators
- Decline in PBILDT margin going below 22% on a sustained basis leading to adverse impact on its debt coverage indicators

- Inability to reduce debt on balance sheet or further increase in debt levels leading to overall gearing to above 2.86x times

Detailed description of the key rating drivers

Key Rating Weaknesses

Sharp moderation in the operational and financial performance caused by covid-19 pandemic

During FY20, BHL witnessed around 10% dip in its total income which stood at Rs.732 cr (PY: Rs.810.93 cr). This was mainly on account of decline in occupancies across majority of the properties. The company's PBILDT margin stood stable at 31.40% during FY20 as compared to 31.61% in FY19. However, SHL has booked exceptional items amounting to Rs.32 cr, mainly pertaining to impairment at Mangar property and IPO expenses written off. This has led to losses at PAT level of Rs.78.54 cr. Further, the overall gearing ratio stood at 1.92x as on March 31, 2020 as against 1.59x as on March 31, 2019 owing to increase in debt coupled with reduction in net worth owing to net losses.

During 9MFY21, there has been sharp deterioration in the operational and financial profile of the company with revenue of Rs.98 cr coupled with EBIDTA loss of 2.03%. This was accompanied by decline in occupancy levels to 25% in 9MFY21 (FY20: 60%) and ARR to Rs.3,957 (PY: Rs.6,737). Financial and operational performance was marred on account of disruption caused by covid-19 pandemic. The adverse impact caused by covid-19 led restrictions is expected to have long-lasting implications for the liquidity profile and already over-leveraged capital structure of the company. CARE believes that stringent steps such as debt reduction and cost containment measures shall be imperative in the near-term for a sequential recovery.

Vulnerability of revenues to inherent industry cyclicity, economic cycles and exogenous events

Operating performance of the properties remain vulnerable to seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, the risk to revenues is partially mitigated by BHL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.

Regional trends in tourism and competition risk

Although the risk is mitigated to some extent owing to the geographical diversification and favourable locations of the group's projects, going forward the pace of the recovery in the economic cycle and stabilization of the hotel properties in competitive markets will be critical for the company's financial risk profile. In segmental terms the company's major exposure is towards up-scale (luxury) hotels. The company's 'The Lalit' brand faces intense competition from brands like Grand Hyatt, Taj, The Leela, Sahara Star, Hilton etc.

Key Rating Strengths

Experienced promoters with long track of operations in the hotel industry

BHL has been operating various hotels in the hospitality industry for more than 30 years now. Dr. Jyotsna Suri has been associated with BHL since 1989 and was appointed as the Chairperson & Managing Director in 2006. She has a long experience of more than two decades in the hospitality industry. She is Immediate Past President, FICCI and is currently the Chairperson of FICCI Tourism Committee. The hotels are maintained under the brand 'The Lalit' and the operations are managed by the company itself.

Established relationship with corporate and consortia clients

The company also operates two business & commercial towers in Delhi, namely World Trade Centre and World Trade Tower with a total office and commercial space of over 286,000 sq ft spread over eight floors in each tower. Apart from this, the company also operates a commercial tower within the premises of The Lalit Mumbai called The Lalit Residency with office and commercial space of 44,000 sq ft across five floors. The company over the years has developed an established relationship with various leading corporate. These tie-ups have been providing BHL consistent customer sourcing and assured revenue.

Geographically diversified assets marked by a portfolio of 2261 rooms in 12 properties with favourable hotel locations

BHL's portfolio is strengthened by its geographical diversification with hotels situated in commercial/industrial cities as well as leisure destinations. BHL (on a consolidated basis) is operating twelve 5-star hotels spread across the major business and tourist destinations of India. As on March 31, 2020; BHL had an inventory of 2,261 rooms in 12 properties. The twelfth property started operations in April 2017 at Mangar (Faridabad) with 35 rooms.

In addition, BHL holds the exclusive rights to provide management consultancy services in connection with the operation and management of a hotel in London, The Lalit London, which offered 70 rooms as on March 31, 2020.

Out of BHL's portfolio of 12 operating hotels 4 are owned, 5 are on lease and 3 are licensed comprising of 2,261 keys in total. The hotel properties have been developed at various locations in order to leverage on both business and leisure guests. Favorable location of hotel properties lends visibility which coupled with connectivity results in higher occupancy.

Liquidity: Stretched

BHL had availed moratorium of 6 months on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments in FY21 were deferred till Aug 31, 2020. Post Aug-20, the company had applied for OTR on account of cash flow shortfall for meeting its sizeable debt repayment obligations. The OTR has been invoked in Dec-20 and the inter-creditor agreement has been signed in Jan-21. Under the approved restructuring plan, the company has been allowed deferment of its principal repayments for 2 years and reduction in interest rates.

Analytical approach: Consolidated financials of BHL. Unconditional and Irrevocable corporate guarantee provided by Bharat Hotel Limited (BHL, rated CARE BB+ (Under Credit watch with negative implications)/CARE A4+ (Under Credit watch with negative implications) for bank facilities of KHPL.

Applicable criteria

- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Criteria for Short-term Instruments
- Rating Methodology – Hotel Industry
- CARE's methodology for Service Industry
- CARE's methodology for financial ratios (Non-Financial Sector)

About the Company- LGEKHL

Lalit Great Eastern Kolkata Hotel Ltd (LGEKHL) is a 90% subsidiary of the BHL and owns the Kolkata property. It has developed a 215 rooms 5 star hotel in Kolkata under the brand name of 'The Lalit'. The company has commenced commercial operations in 2014.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	61.47	57.96
PBILDT	15.94	17.01
PAT	-4.75	-4.91
Overall gearing (times)	0.82	0.88
Interest coverage (times)	1.74	1.56

A: Audited

About the Company- BHL; Guarantor

Bharat Hotels Ltd (BHL) incorporated in 1981 was founded by Late Mr. Lalit Suri and his family members. Presently the operations of the company are managed by Mrs. Jyotsna Suri. As on March 31, 2019, BHL on a consolidated basis operates 12 luxury hotels, palaces and resorts under The LaLiT brand and two mid-market segment hotels under The LaLiT Traveller brand across India with total inventory of 2261 rooms.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	810.93	732.39
PBILDT	256.31	230.00
PAT	28.43	-78.54
Overall gearing (times)	1.59	1.92
Interest coverage (times)	1.66	1.34

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar-21	89.65	CARE BB+ (CE) (CWN)
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BB+ (CE) (CWN)
Fund-based - LT-External Commercial Borrowings	-	-	Mar-31	10.02	CARE BB+ (CE) (CWN)
Non-fund-based - ST-BG/LC	-	-	-	5.00	CARE A4+ (CE) (CWN)
Un Supported Rating- Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BB / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	89.65	CARE BB+ (CE) (CWN)	1)CARE BBB- (CE) (CWN) (26-May-20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)	1)CARE BBB- (SO); Stable (14-Jul-17)
2.	Term Loan-Long Term	-	-	-	-	-	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)	1)CARE BBB- (SO); Stable (14-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB+ (CE) (CWN)	1)CARE BBB- (CE) (CWN) (26-May-20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)	1)CARE BBB- (SO); Stable (14-Jul-17)

4.	Fund-based - LT- External Commercial Borrowings	LT	10.02	CARE BB+ (CE) (CWN)	1)CARE BBB- (CE) (CWN) (26-May- 20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)	1)CARE BBB- (SO); Stable (14-Jul-17)
5.	Non-fund-based - ST- BG/LC	ST	5.00	CARE A4+ (CE) (CWN)	1)CARE A3 (CE) (CWN) (26-May- 20)	1)CARE A3+ (CE) (CWD) (30-Jul-19) 2)CARE A3+ (CE) (CWD) (09-Jul-19)	1)CARE A3+ (SO); Stable (26-Sep-18) 2)CARE A3 (SO) (06-Apr-18)	1)CARE A3 (SO) (14-Jul-17)
6.	Un Supported Rating- Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BB / CARE A4	1)CARE BB / CARE A4 (26-May- 20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-External Commercial Borrowings	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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