

The Lake Palace Hotels & Motels Private Limited

April 8, 2021

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
1.	Long-term Bank Facilities @	98.00 (reduced from 98.88)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE A- (SO); Stable [Single A Minus (Structured Obligation); Outlook: Stable]
2.	Long-term Bank Facilities	20.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
	Total Facilities	118.00 (Rupees One Hundred Eighteen Crore only)		

@ these bank facilities are backed by a ring-fenced cash flow structure by way of securitization of lease rental receivables from The Indian Hotels Company Limited (IHCL, rated CARE AA; Stable/CARE A1+).

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating for the bank facility [at Sr. No. 1] of The Lake Palace Hotels & Motels Private Limited (LHMPL) continues to derive strength from the ring-fenced cash flow structure by way of securitization of lease rental receivables from The Indian Hotels Company Limited (IHCL; rated CARE AA; Stable/CARE A1+). Under the lease model which has been in operation since very long, IHCL has agreed to deposit the minimum guaranteed amount (MGA) of lease rental in the escrow account, which is exclusively utilised towards the payment of instalments, due interest and other charges pertaining to the securitized debt. These steady lease rentals from a strong counterparty like IHCL provides a very healthy debt coverage against the rated lease rental loan which underpins its rating. Pursuant to changes in "Guidelines for Enhanced Disclosure by Credit Rating Agencies (CRAs)" issued by Securities and Exchange Board of India (SEBI), the suffix structured obligation (SO) has been removed from the rating of lease rental discounted (LRD) loan in the light of absence of bankruptcy remoteness of such internally credit enhanced ring-fenced cash flow structure in the lease rental model from that of the borrower (i.e. LHMPL).

The rating for bank facility [at Sr. No. 2] continues to derive strength from the resourceful promoters of LHMPL who own multiple prestigious heritage hotel properties in Rajasthan, its established brand and marketing set up, steady cash flows of the company from lease rent under the revised lease agreement for Lake Palace Hotel and new lease agreement for Fateh Prakash Palace along with receipt of refundable & non-refundable deposits which have led to its adequate liquidity position and overall moderate debt coverage indicators.

The ratings, however, continue to remain constrained on account of decline in its scale of operations and losses incurred during FY20 & 10MFY21, its low net worth base & leveraged capital structure, significant amount of loans and advances & equity investment by LHMPL in its various subsidiaries & associates and its presence in a highly competitive & inherently cyclical hospitality industry which is adversely impacted by Covid-19 pandemic. CARE also notes that LHMPL had availed moratorium on servicing of its term loan instalments falling due in April & July 2020, as a Covid-19 relief measure in line with Reserve Bank of India (RBI) guidelines, to shore up its liquidity amidst the pandemic.

Rating Sensitivities

Positive Factors

- Satisfactory running of lease arrangement with IHCL for its two leased hotel properties with significant incentive income beyond the minimum guaranteed amount of lease rental and healthy income from the revenue sharing model resulting in improvement in its debt coverage indicators
- Growth in scale of operations with TOI above Rs.100 crore on a sustained basis
- Improvement in PBILDT margin to more than 42% on a sustained basis
- Improvement in overall gearing below 2x on a sustained basis with repayment of term loan obligations and reduced reliance on borrowings for working capital requirement

Negative Factors

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

- Cancellation of lease arrangement with IHCL for any of the leased hotel properties
- Invocation of Force Majeure in the lease agreement with IHCL leading to shortfall in receipt of MGA of lease rental from IHCL
- Significant decline in scale of operations or decline in PBILDT margin below 25% on a sustained basis
- Any major debt funded capex leading to significant deterioration in the company's overall debt coverage indicators on a sustained basis.
- Significant decline in occupancy level and average room rate of the hotels, due to adverse effect of Corona virus over a prolonged period of time.
- Extension of material amount of investments/loans to subsidiaries and/or group companies adversely affecting its liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters who own many prestigious heritage hotel properties in Rajasthan

LHMPL is the flagship company of "HRH Group of Hotels", Udaipur, promoted by the royal family of Mewar, Rajasthan. LHMPL is currently led by Mr. Arvind Singhji Mewar, Chairman and Managing Director, who has an extensive experience in the hospitality business. LHMPL has 6 heritage hotel properties, namely, The Lake Palace Hotel, Fateh Prakash Palace, Jagmandir Island Palace, Garden Hotel, Aodhi Hotel and Fateh Bagh. The Lake Palace Hotel, flagship hotel property of LHMPL, is more than two and half centuries old. It was originally built by Maharana Jagat Singh II in 1754 and later converted into a hotel in 1963. It has been leased out to IHCL from FY01 and later on the lease was renewed in October 2018 for the period of further 22 years. In January 2020, LHMPL also leased out Fateh Prakash Palace to IHCL for the period of 25 years and 3 months.

Satisfactory operations of the lease arrangement with IHCL w.r.to 'The Lake Palace Hotel' property

LHMPL had availed term loan of Rs.100 crore (Rs.98 crore outstanding as on January 7, 2021) which is securitized against the lease rent receivables from IHCL. The repayment of term loan is spread over 20 years and is structured in line with the Minimum Guaranteed Amount (MGA) receivable from IHCL. MGA from IHCL is sufficient to repay the entire debt servicing obligation of the company. Low counterparty credit risk, timely payment track record by IHCL in the past, routing of lease rent through an escrow account and its sufficiency to repay the principal and interest cost ensures cash flow adequacy and sustainability in the long-term and aids liquidity of the company. Amidst Covid-19 induced lockdown, both IHCL & LHMPL mutually decided to waive off lease rental for Q1FY21 and LHMPL has been regularly receiving lease rental from IHCL subsequently, even scheduled escalation in lease rent was also provided by IHCL from October 2020 onwards.

Additional lease of 'Fateh Prakash Palace' with IHCL

During January 2020, LHMPL entered into a lease arrangement with IHCL for its another hotel property viz. Fateh Prakash Palace for a period of 25 years and 3 months. However, unlike 'The Lake Palace' hotel leased to IHCL wherein there is MGA of lease rental, lease of Fateh Prakash Palace is based on revenue sharing model without any MGA lease rental. With the execution of this lease, LHMPL received refundable deposit of Rs.35.75 crore in FY20 and non-refundable deposit of Rs.26.32 crore in 9MFY21.

Liquidity: Adequate

LHMPL's liquidity remained adequate marked by low utilization of fund based working capital limit at ~22% in the trailing 12 months ended January 2021. Further, LHMPL's operating cycle shortened from 45 days in FY19 to 18 days in FY20 along with healthy cash flow from operations of Rs.18.03 crore. LHMPL has long term debt in the form of securitized term loan backed by lease rent receivables of 'The Lake Palace Hotel' which are sufficient to repay its principal as well as interest obligations. Further, with the realization of Rs.35.75 crore of refundable deposit & Rs.26.32 crore of non-refundable deposit from IHCL against the lease of 'Fateh Prakash Palace', LHMPL repaid unsecured loans from promoters of ~Rs.5 crore, repaid outstanding OD of ~Rs.10 crore and invested ~Rs.30 crore in fixed deposits which has shored up its liquidity. However, with the outbreak of corona virus and its immediate impact on the hotel industry, LHMPL's cash flow from Fateh Prakash Hotel and other self-managed properties declined significantly. Further, LHMPL had also provided lease rent waiver of 90 days (from March 11, 2020 to June 10, 2020) for Lake Palace Hotel to IHCL. Consequently, LHMPL availed moratorium on its 2 term loan installments falling due in April & July 2020. However, with gradual resumption of its operations from July 2020 onwards, in addition to its October 2020 & January 2021 installment, LHMPL paid one additional installment.

Key Rating Weaknesses

Decline in scale of operations and losses incurred during FY20 & 10MFY21

During FY20, LHMPL's total operating income declined by 14% y-o-y to Rs.60.36 crore on account of lease out of Fateh Prakash Palace to IHCL from January 1, 2020 which contributed to 63% in total room revenue (76% in FY19) and 29% in total food & beverages revenue (55% in FY19) in FY20. Further, PBILDT margin also declined from 36.51% in FY19 to 23.64% in FY20 due to lease out of Fateh Prakash Palace during peak season of January-March whereas its lease rent was supposed to commence from April 2020 as per agreement. Moreover, profitability was also affected by decline in revenue from venue charges, poor absorption of its fixed overheads and consequently LHMPL reported net loss of Rs.1.45 crore in FY20. Further, LHMPL reported meagre TOI of Rs.23.93 crore in 10MFY21 amidst halting of its operations and no occupancy in Q1FY21 due to Covid induced lock down. LHMPL gradually started its operations from July 2020 onwards with minimal occupancy of 14% during Q2FY21 which later picked up to 34% in Q3FY21. Consequently, LHMPL reported net loss of Rs.6.66 crore on account of poor absorption of its overheads along with lower lease rent due to lease rent waiver for one quarter for Lake Palace Hotel and minimal lease rent income from Fateh Prakash Palace.

Leveraged capital structure

Capital structure of LHMPL continued to remain highly leveraged marked by overall gearing of 4.50x as on March 31, 2020 (4.02x as on March 31, 2019). Low net worth base, primarily on account of negligible carrying value of its hotel properties of heritage category and reliance on term debt has resulted in a leveraged capital structure. Debt coverage indicators also weakened during FY20 due to decline in profitability; albeit it had adequate interest coverage of 1.39x apart from cushion in the form of its adequate liquidity.

Loans and advances extended to subsidiaries/associates

LHMPL has extended support to its subsidiary/associates in terms of equity investment/unsecured loan to aid their operations. As on March 31, 2020, the overall investment stood at Rs.104.35 crore (Rs.93.77 crore as equity investment and Rs.10.58 crore as unsecured loan/deposit) which is significantly higher than its net worth. Further, during 11MFY21, LHMPL extended unsecured loans of Rs.7.50 crore and made equity investment of Rs.0.44 crore, to support the business operations of its subsidiaries which were adversely affected by Covid-19. Future policy regarding extending support to group entities would be a key credit monitorable.

Presence in a cyclical and competitive hotel industry along with the adverse impact of prolonged Covid-19 pandemic

The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, cyclical nature of the hotel industry and increasing competition from already established hotels has impacted operating performance of the industry players. Udaipur is one of the most visited tourist destinations in India and attracts a large number of foreign tourists. Though HRH group manages the highest number of heritage hotel properties in Udaipur, it faces stiff competition from many established and organized players in the hospitality industry in Udaipur and nearby regions. Further, with the outbreak of corona virus and subsequent lockdown, Indian hospitality industry has witnessed decline in occupancies and room rates on account of business as well as leisure trips being cancelled or postponed by domestic and international travellers. Consequently, overall occupancy rate of hotel industry (OR) fell from 70.5% in January 2020 to as low as 11.7% in April 2020. The occupancy rate although improving on a monthly basis, has not reached pre-covid level of business yet. This is mainly due to the ban on FTAs (foreign tourist arrivals) which is not expected to be lifted in the near future. For the occupancy across hotels to reach pre-covid levels, it depends how quickly the virus is contained within India and globally and accordingly when the travel restrictions will be eased globally for foreign travel.

Risk of invocation of force majeure by IHCL under lease agreement

Lease agreement of LHMPL with IHCL for 'The Lake Palace Hotel' carries force majeure clause allowing for non-payment of lease rental by IHCL under certain circumstances. Amidst prolonged Covid-19 pandemic and the possibility of intermittent lockdowns, in case if any of the terms of the force majeure clause is triggered, in such a case the lease payments from IHCL could be delayed, thereby affecting the cash flows for servicing of the LRD loan. However, LHMPL carries adequate liquidity to take care of any temporary disruption in receipt of lease payment.

Analytical Approach:

For debt backed by lease rent: Ring-fenced cash flow structure for servicing the debt from securitization of lease rental receivables into an escrow account by virtue of a long-term lease rent agreement with a strong counterparty, The Indian Hotels Company Limited (IHCL, rated CARE AA; Stable/CARE A1+).

For other debt: Standalone

Applicable Criteria:**Criteria on assigning Outlook and Credit Watch to Credit Ratings****CARE's Policy of Default Recognition****Rating Methodology – Hotel Industry****Financial Ratios – Non-Financial Sector****Rating Methodology for Debt backed by Lease Rentals****Rating Methodology – Notching by Factoring Linkages in Ratings****Liquidity Analysis of Non-Financial Sector Entities****About the Company**

LHMPL is the flagship company of “HRH Group of Hotels”, Udaipur, promoted by the royal family of Mewar, Rajasthan. The group manages heritage properties and luxury hotels mainly in the state of Rajasthan. “Lake Palace Hotel, Udaipur” was established in 1963 (under LHMPL) by Late Maharana Bhagwat Singhji Mewar as the Mewar family's first interest in the hospitality business.

Presently, The HRH group consists of LHMPL, its five subsidiaries, one fellow subsidiary and one associate company, namely, Historic Resort Hotels Pvt. Ltd., Shikarbadi Hotels Pvt. Ltd., The Lake Palace Hotels & Motels UK Ltd., Gorbandh Hotel Pvt. Ltd., Ramgarh Resorts & Polo Complex Pvt. Ltd., Rajput Hotel & Resorts Pvt. Ltd. and The Lake Shore Palace Hotel Pvt. Ltd. respectively. The HRH group manages 9 hotel properties spread across the State of Rajasthan, most of them being heritage properties.

LHMPL has leased out two of its hotel properties to IHCL under a long-term lease whereas balance 4 hotel properties with a total inventory of 80 rooms is being managed by LHMPL.

Brief Financials (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	70.30	60.36
PBILDT	25.67	14.27
PAT	4.83	(1.45)
Overall gearing (times)	4.02	4.50
Interest coverage (times)	1.92	1.39

A- Audited

Further, LHMPL reported total operating income of Rs.23.93 crore with net loss of Rs.6.66 crore during 10MFY21.

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:** Please refer Annexure 3**Complexity level of various instruments rated for this company:** Please refer Annexure 4**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-Bank Overdraft	-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	December 2038	98.00	CARE A-; Stable

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	-	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable

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
								(12-Mar-18)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)
4.	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-20)	1)CARE BBB-; Stable (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)
5.	Fund-based - LT-Term Loan	LT	98.00	CARE A-; Stable	1)CARE A-(SO); Stable (06-Apr-20)	1)CARE A-(SO); Stable (05-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities

Covenants	Detailed explanation
Non-financial covenants	Minimum Guaranteed Amount (MGA) after making such deductions as are provided for in the lease agreement shall be deposited by The Indian Hotels Company Ltd. in an escrow account only, opened with the bank, and the said amount shall be first utilized towards the payment of due interest, charges, expenses and installments of loan.

Annexure-4: Complexity Level of various facilities rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	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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About CARE Ratings:

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