

Lulu International Convention Center Private Limited

August 18, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	166.70 (Enhanced from 145.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	9.50	CARE A4+ (A Four Plus)	Reaffirmed
Total Bank Facilities	176.20 (Rs. One Hundred Seventy-Six Crore and Twenty Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Lulu International Convention Center Private Limited (LICC) continue to be constrained by the company's modest scale of operation, leveraged capital structure, weak debt coverage indicators and cyclic nature of hotel industry. The ratings, however, derive strength from vast experience of the promoters, strong presence of the group and demonstrated support from the promoters

Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Scaling up of operations and improving the occupancy levels above 70% in hotels
- Increased bookings in the newly established Convention center.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any prolonged impact of the restrictions imposed on account of Covid Pandemic adversely affecting occupancy levels, thereby leading to any stretch in liquidity.
- Deterioration in Capital Structure below the current levels.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with moderate occupancy levels

The Total Operating income of the Company remained small in the range of Rs.15 - 20 crore in the last few years which further moderated to Rs. 10 crore in FY21 due to impact of Covid-19 pandemic. The operation of the Convention Centre and Hotel at Thrissur, Kerala commenced in 2006 while the new hotel under Hyatt Brand started operations in January 2020. The occupancy levels of the hotel had been moderate above 30% during pre-covid times. However, with the hospitality industry being the worst hit post covid, the occupancy levels have deteriorated in FY21 and current year, with the company incurring operating level losses. The scaling up of the operations in the new convention center also remains to be seen.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the company stood leveraged with overall gearing of 6.02x as on March 31, 2021 (Provisional). LICC has built a new Convention center along with a hotel with 77 rooms which is largely debt funded with a term debt of Rs.134 crore and unsecured loan of Rs. 60 crores from the promoters as on March 31, 2021, towards the above. The new Convention center commenced operations in January 2020. On account of the above debt funded capex and erosion in net worth due to losses in past two years, the debt coverage indicators also stood weak in FY21 (Provisional).

Cyclic nature of the industry with significant Covid impact

The performance of hotel depends on the parameters like location of property, demand supply scenario, target customers etc. Also, Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across all regions, which intensifies competition. The Indian

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

hospitality industry is among the sectors that have been impacted the earliest by the outbreak of the Covid-19 pandemic on account of its inextricable linkage with travel and tourism, especially foreign travel and tourism, which evidently bore the first brunt of the global crisis. The upcoming 2-3 quarters and green shoots are expected to be crucial for the players in the hospitality sector.

Key rating Strengths

Vast experience of the promoters and strong presence of the group

The promoter of LICCPL, Mr Yusuff Ali is the Managing Director of the Emke Group (Lulu International). Emke group, a large, diversified conglomerate having varied business operations including retailing, imports & exports, trading, shipping, IT, travel & tourism and education sectors and primarily having operations in the Gulf Cooperation Countries (GCC), Egypt, India, Indonesia, Thailand, Hong Kong, China, Kenya, Tanzania and Benin.

Financial support extended by the Promoters:

The promoters have demonstrated considerable support towards the projects in the past and the total amount of interest-free unsecured loans extended by the promoters stood at Rs.75.88 crore as on March 31, 2021 (Provisional) as against Rs.60.88 crore as on March 31, 2020. The unsecured loans from the promoters are subordinated to the bank borrowings and are treated as part of the network

Locational advantage with proximity to tourist places.

Thrissur is traditionally a leisure destination also known as the cultural capital of Kerala. It is located approx. 55 km from cochin airport and is known for its ancient temples, churches, and backwaters. It is a major tourist destination for both domestic and international travellers. Sree Krishna temple in 'Guruvayur' (located 25 km from the LICCPL) attracts tourists from all over the world and is considered a holy place to conduct weddings. The hotel property and the convention center are located in vicinity to popular tourist destinations and is likely to get benefited on account of strategic location.

Operating service agreement with 'Hyatt Regency'.

LICCPL's operational risk is mitigated to a large extent as it has entered into operating agreement with Hyatt Group and the hotel will be operated under its brand- "The Hyatt Regency". The company has entered into the said agreement for a term of 8 years. Being associated with the brand, the hotel enjoys benefits like marketing, technology, design and operational aspects. Through periodical check-ups and audits Hyatt maintains the requisite standards in the hotel. Hotel has commenced operations under the brand name of "Hyatt Regency" from January 2020.

Liquidity: Stretched

The liquidity of the company is stretched marked by tightly matched accruals against debt repayment obligations of Rs. 6.03 crore in FY22. The promoters have been infusing funds from time to time which is being utilised towards meeting debt repayment obligations as well as funding losses. The current ratio of the company stood moderate at 1.59x (PY: 0.88x) as on March 31, 2021 (Provisional). The company had been sanctioned working capital limits of Rs.3 crore and the average utilization of the same stood at 70% for the 12 months ended July 2021. The cash balance stood at Rs.17 crore (PY: Rs. 10 crore) as on March 31, 2021 (Provisional). The company had availed moratorium for interest payments for the period April- August 2020 offered by the banks as a relief measure for Covid-19 crisis. Company has also availed covid GECL loan of Rs. 23.9 crore in January 2021. Timely funding from promoters would continue to remain a key monitorable from a credit perspective.

Analytical approach: Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Hotel Industry](#)

About the Company

Lulu International Convention Center Private Limited (LICCP) was incorporated on September 8, 2004, and located at Thrissur, Kerala. The Company is primarily engaged in the business of running a banquet hall, restaurant and a hotel. The Convention Centre built by the Emke group is divided into both indoor hall and open-air auditorium with dining facility for more than 2000 guests at a time. The Convention Centre also operates a hotel (The Garden Hotel) with 35 rooms. During January 2020, the group commenced the operations of new convention Centre and a new hotel with 77 rooms, managed by Hyatt group. The Company is promoted by Mr Yusuf Ali and Mr Ashraf Ali.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY21 (Prov)
Total operating income	17.92	21.27	10.92
PBILDT	3.66	3.42	-5.58
PAT	1.36	-7.64	-57.38
Overall gearing	1.30	1.79	6.02
Interest coverage (times)	73.17	1.13	-0.57

A: Audited; Prov: Provisional

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: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: 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-Term Loan	-	-	March 2031	166.70	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	6.50	CARE A4+
Fund-based - ST-Bank Overdraft	-	-	-	3.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	166.70	CARE BB+; Stable	-	1)CARE BB+; Stable (26-Aug-20)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	6.50	CARE A4+	-	1)CARE A4+ (26-Aug-20)	-	-
3.	Fund-based - ST-Bank Overdraft	ST	3.00	CARE A4+	-	1)CARE A4+ (26-Aug-20)	-	-

LT- Long term; ST- Short term

Annexure 3: Detailed Explanation of covenants of the rated instruments/facilities: N.A

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bank Overdraft	Simple
3.	Non-fund-based - ST-Bank Guarantees	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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