

Historic Resort Hotels Private Limited

September 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	55.00	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Historic Resort Hotels Private Limited (HRHPL) derives strength from resourceful promoters of 'The Lake Palace Hotels and Motels Private Limited' {LPHMPL; rated CARE A-;Stable (Securitized debt)/ CARE BBB, Stable (Other debt)} which owns and operates multiple prestigious heritage hotel properties in Rajasthan with its established brand recall. The ratings also factors in strategic location of the hotels under HRHPL and envisaged scaling up of its property in Jaisalmer 'The Gorbandh Palace' consequent to the business arrangement with The Indian Hotels Company Limited (IHCL; rated 'CARE AA; Positive/CARE A1+').

The ratings, however, are constrained on account of HRHPL's modest scale of operations, moderate financial risk profile, geographical concentration risk along with its exposure to the risks associated with the cyclical and competitive hospitality industry. The rating also considers the project implementation risk associated with on-going debt-funded modernization capex of its existing property.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely commissioning of the modernisation capex of the hotel without any time or cost over run and achievement of envisaged TOI and profitability.
- Significant improvement in the financial risk profile of LPHMPL.

Negative factors

- Significant time and cost overrun in the project under implementation leading to moderation in financial risk profile or cancellation of the contract with IHCL.
- Inability to achieve average room occupancy of 40% on sustained basis.
- Deterioration in overall gearing to 3.00 times.
- Significant deterioration in the financial risk profile of LPHMPL.

Analytical approach: Standalone approach while factoring the strong parentage, operational & financial linkage and availability of need-based support (in case of any exigencies) from its parent LPHMPL.

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings) opinion on favourable business environment and expected growth in scale of operations over the near to medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters who own and operate multiple heritage hotel properties in Rajasthan

HRHPL is a wholly owned subsidiary company of LPHMPL. LPHMPL is the flagship company of "HRH Group of Hotels", Udaipur, promoted by the royal family of Mewar, Rajasthan. The group is currently led by Arvind Singhji Mewar, Chairman and Managing Director, who has an extensive experience in the hospitality business. The group manages a bouquet of 11 heritage properties out of which 9 are currently managed by the group itself and the two properties are managed (under the lease agreement) by IHCL under its brand name 'Taj'. From October 2023, 'The Gorbandh Palace' Jaisalmer, will be also managed by IHCL under its brand name 'SeleQtions'.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strategic location of the hotel

The hotel property 'The Gorbandh Palace' is located at Jaisalmer i.e. and 'Karni Bhawan' in Bikaner, Rajasthan. Jaisalmer is a popular tourist location and is well connected with major cities resulting to increase in tourist arrivals to Jaisalmer. The Karni Bhawan Palace is also located in the main city of Bikaner with good connectivity to roads and buses.

Key weaknesses**Moderate scale of operations**

HRHPL has reported total operating income (TOI) of 13.35 crore in FY23 (FY refers to the period from April 01 to March 31) (PY: Rs. 11.92 crore). The TOI includes Rs.12.58 crore of boat receipts (comprising 94% of the total revenue), followed by room revenue and F&B income of Rs.0.34 crore and Rs.0.15 crore respectively and balance by other income. The modest scale of operations of HRHPL in FY23 is on account of suspension of operations of The Gorbandh Palace for modernisation capex.

The company has reported operational loss in FY23 on account of suspension of operations of one of its two properties resulting in lower absorption of overheads along with low occupancy in its operational property (Karni Bhawan) which is having very minimal room keys of 12 rooms. However, the ARR from the same property improved by 22% in FY23 to Rs.3549/room as compared to Rs.2888/room in FY22. The PAT remains positive at Rs. 0.54 crore in FY23 (PY: loss of Rs. 0.88 crore) on account of recovery of excess selling expense of Rs. 2.04 crore.

Going forward, the company is expected to commence the operations of 'The Gorbandh Palace', under the brand name of IHCL and is envisaged to commence operations from October 15, 2023.

Moderate financial structure

The capital structure of HRHPL remains moderate marked by overall gearing of below unity over the period of last three years. The total debt of the company comprises majorly of unsecured loan from the holding company i.e. LPHMPL and promoters with minimal utilisation of working capital borrowings. The company had nil exposure to long term bank debt till FY22.

However, in FY23, owing to commencement of modernisation capex at The Gorbandh Palace, the company has availed term debt and overdraft facility of Rs. 55 crore and Rs. 2.00 crore respectively.

The debt coverage indicators remained moderate marked by debt equity ratio and TOL/TNW remains moderate at 0.55 times and 0.66 times respectively. Further, owing to operational losses, the interest coverage remained negative. Going forward, the leverage and the debt coverage indicators are expected remain high due to its ongoing large-size debt funded capex with infusion of term debt of Rs.55 crore and overdraft facility of Rs.2 crore (to manage the working capital of the hotel).

Implementation and stabilisation risk associated with the modernisation capex

HRHPL is undertaking a modernisation capex at 'The Gorbandh Palace' at a total cost of Rs.60 crore and is envisaged to be funded by the term loan, equity share capital and unsecured loan of ₹55 crore, ₹1.25 crore and ₹3.75 crore, respectively. As on August 24, 2023, HRHPL has incurred the total cost of ₹15.00 crore towards the capex, which was funded through equity and unsecured loan of ₹1.25 crore and ₹3.75 crore, respectively, and balance by the term debt.

The company has entered into an agreement with IHCL wherein the hotel will be managed by IHCL under the brand name of 'SeleQtions' from October 15, 2023. HRHPL's ability to complete the capex within envisaged time and cost parameters and realise envisaged ARR and OR under the new management contract remain crucial from the credit perspective.

Macro-economic factors, uncertain global economy and seasonal uncertainty

The company is exposed to the changes in the macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors which leads to inherent cyclicity in the hospitality industry. Moreover, CARE Ratings notes that global economic challenges arising from heightened recession fears, increased interest rates, Russia-Ukraine conflict, etc., may also impact the group's OR and thereby its profitability. Furthermore, the industry is highly competitive in nature with presence of large number of organised and unorganised players in the market along with online aggregators.

Liquidity: Stretched

HRHPL's liquidity remains stretched marked operating losses and suspension of operations of revenue generating property due to modernisation capex. The operations of the company are managed by the cashflow from its existing revenue stream of boat receipts and hotel income along with required support from the parent in the form of unsecured loans for working capital operations. As on March 31, 2023, the company had free cash and bank balance of Rs. 4.98 crore as compared to Rs. 0.62 crore in FY22. During FY23, the promoters have infused additional equity capital and unsecured loan of Rs. 1.25 crore and Rs. 3.75 crore respectively to fund operational capex requirements.

Going forward, HRHPL is envisaged to generate cash accruals in the range of Rs. 7.00 to Rs. 9.00 crore as against debt repayment obligations in the range of Rs.0.70-1.56 crore in the near term. As per the management presentation, shortfall, if

any, in debt servicing/ operational requirements will be infused by the promoters. The current ratio and quick ratio remains comfortable at 2.88 times and 2.74 times respectively (PY: 1.59 times and 1.36 times).

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Hotel](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Leisure Services	Hotels & Resorts

HRHPL is a wholly owned subsidiary of The Lake Palace Hotels and Motels Private Limited (LHMPL), 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.

Under HRHPL, the company manages the two heritage properties i.e. The Gorbandh Palace (consists of 83 room keys which includes 80 deluxe room and 3 suite rooms) and Karni Bhavan Palace (consist of 12 room keys out of which 10 rooms are deluxe rooms and 2 suite rooms) situated in Jaisalmer and Bikaner respectively.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	11.92	13.35
PBILDT	-1.81	-1.09
PAT	-0.83	0.54
Overall gearing (times)	0.37	0.55
Interest coverage (times)	-19.46	-21.72

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2035	55.00	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	55.00	CARE BBB-; Stable	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Deepak Purshottambhai Prajapati Senior Director CARE Ratings Limited Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in</p>	<p>Analytical Contacts</p> <p>Kalpesh Ramanbhai Patel Director CARE Ratings Limited Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in</p> <p>Ujjwal Manish Patel Associate Director CARE Ratings Limited Phone: +91-79-4026 5649 E-mail: ujjwal.patel@careedge.in</p> <p>Puja Dilip Joshi Assistant Director CARE Ratings Limited E-mail: puja.joshi@careedge.in</p>
---	---

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,
please visit www.careedge.in**