Bharat Hotels Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	902.59 (Reduced from 1,100.00)	CARE BBB+; Stable	Revised from CARE BBB-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has revised the long-term rating assigned to the Non-Convertible Debentures (NCD) Issue of Bharat Hotels Limited (BHL) from CARE BBB- to CARE BBB+. The revision in the rating factors in the healthy improvement in operational and financial risk profile of the company characterised by increased average room rate (ARR) and occupancy levels exceeding pre-COVID level, translating into significant revenue growth of around 117% year-on-year, improvement in operating profitability and cash accruals during FY23 (refers to period April 01 to March 31) and 9MFY24 (refers to period April 01 to December 31).

The ratings also take cognizance of the partial prepayment done by the company of close to Rs. 197 crores till February 2024 against high cost NCDs which also led to substantial improvement in overall gearing and debt protection metrics of the company and the favourable judgment of Hon'ble High Court in the New Delhi Municipal Corporation (NDMC) case.

The rating continues to draw comfort from the company's long track record of operations in the hospitality business, established brand name 'The LaLiT', strong relationship with corporate clients and diversified portfolio of mature properties. Further, CARE Ratings continue to draw comfort from the tight waterfall mechanism and maintenance of debt-service reserve account (DSRA) by BHL for the rated debt instrument. Further, CARE expects the financial risk profile of BHL to improve going forward over near to medium term on account of continued prepayment of high-cost debt as indicated by the management and no significant debt funded capex plans of the company.

These rating strengths are, however, continue to remain constrained by the BHL's moderate financial risk profile with leveraged capital structure and high-cost debt which will keep interest coverage indicators at a moderate level over a medium term and exposure towards competitive and cyclical nature of hospitality industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in overall financial risk profile with net debt to PBILDT below 2.75x.
- Improvement in interest coverage indicators beyond 3.5x

Negative factors

- Decline in the RevPARs below INR 4,500 levels on sustained basis
- Deterioration in overall financial risk profile with net debt to PBILDT above 3.5 times.

Analytical approach: Consolidated

CARE has considered consolidated approach owing to the strong operational, managerial and financial linkages with the subsidiaries sharing common brand name 'The LaLiT'. Further, BHL has also extended unconditional and irrevocable corporate guarantee to both the subsidiaries namely Lalit Great Eastern Kolkata Hotels Limited (LGEKHL) and Kujjal Hotels Private Limited (KHPL). The list of entities being consolidated given in Annexure-6.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that the company will continue to derive benefits emanating from group's matured assets, established brand name and with sustained improvement in operational metrics with increasing ARRs and occupancy, focus of the company towards prepayment of high cost NCDs, which will lead to improvement in leverage and coverage metrics of the group.

Detailed description of the key rating drivers:

Key strengths

Improvement in revenue & profitability during FY23 and 9MFY24 surpassing pre covid levels

BHL has demonstrated substantial growth of around 117% in total operating income to Rs. 800.05 crores in FY23 over Rs. 368.57 crores in FY22 and further to Rs. 600 crores in 9MFY24 in line with rapid recovery in ARR and occupancy rates across hotel industry surpassing pre-COVID levels. This resurgence can be attributed to strong demand outlook, hosting of significant global events, India's G20 presidency and favourable demand-supply dynamics.

The occupancy level in BHL on consolidated level increased from 33% in FY22 to 59% in FY23 on the same room inventory i.e. 2,261 rooms and approx. 28% improvement in average room rate to Rs. 8,704 in FY23 (PY: Rs. 6,779). Out of total revenue, approx. 54.14% is derived from room rentals, ~29.74% from F&B and remaining comes from a combination of banquets, liquor,

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

rent etc. Generally, the room rental comprises 70-80% of the hotel revenue, however for Lalit, its restaurants are famous for its food & ambience and thus the quantum of revenue generated is also significantly higher at around Rs. 237.91 crores in FY23 (PY: Rs. 122.32 crores).
Further, PAT & GCA turned positive during the year and reported at Rs. 49.57 crores (i.e. 6.20%) and Rs. 170.16 crores in FY23 (PY: Negative 15.92% & Negative Rs. 38.26 crores) owing to improving demand, better rentals and cost optimization with increased scale of operations.

Prepayment of high cost NCDs
CARE Ratings draw comfort from the partial prepayments of approx. Rs. 197 crores done by the company of high cost NCDs till February 2024 and further plans of the management to prepay Rs. 20-25 crores during March 2024 against zero scheduled repayment using the sale proceeds of non-core assets (Amritsar and Pune land for Rs. 59.75 crores) and remaining from cash accruals generated from business. Further the interest payment done till February 2024 is around Rs. 144 crores towards NCDs and total interest of BHL & its subsidiaries on consolidated level is close to Rs. 162 crores. Going forward, ability of the company to generate sufficient cash accruals for timely servicing of the debt and cash generation through asset monetization or refinancing of the debt shall remain critical from credit perspective.
As indicated by the management, prepayment of high-cost debt will be the key focus area of the company going forward over the capex, which shall further lead to improvement in capital structure of the company and interest coverage indicator.

Structured NCD debt with waterfall mechanism
Entire proceeds/master collection will be collected in an escrow account out of which 70% will be given to BHL to manage their operational cost and balance 30% will be retained by KIAL. The usage of those 30% of funds will be as follows:

a) Firstly, interest servicing for that quarter
b) Secondly, DSRA creation in case it is to be replenished.
c) Thirdly, capex requirement and they have to prepare FD for capex requirement for that particular year and the same will be secured with debenture trustee.
d) Lastly, balance funds can be used for prepayment and if they don’t want to do prepayment then the remaining cashflows will be kept as FD with KIAL which will be lien marked.

Also, BHL can make prepayments out of the 70% of proceeds as well. There are no restrictions on prepayment out of the cash flows of the company even during the first 36 months. Apart from this, BHL also has to maintain DSRA of 3 Months of interest and principal due for Series-1, Series-2 and Series-3. For principal, DSRA shall be created from the 120 days for the amount equivalent to amount due at the beginning of the quarter in which it is due. As on March 2024, BHL has created the DSRA equivalent to subsequent one quarter of Rs. 29.15 crores.

Long track of operations in the hotel industry with established brand name
BHL has been operating various hotels in the hospitality industry for more than 30 years. Dr Jyotsna Suri has been associated with BHL since 1989 and was appointed as the Chairperson & Managing Director in 2006. She has an extensive experience of more than two decades in the hospitality industry. She is the 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.

Matured hotel assets with well diversified and favourable hotel locations
BHL (on a consolidated basis) is operating twelve 5-star hotels spread across the major business and tourist destinations of India and all of them are mature properties with 2261 rooms. The 12th 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 offeres 70 rooms. Out of BHL’s portfolio of 12 operating hotels, four are owned, five are on lease and three are licensed comprising 2,261 keys in total. The hotel properties have been developed at various locations in order to leverage on both business and leisure guests. Favourable location of hotel properties lends visibility which coupled with connectivity results in higher occupancy and room revenue.

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. Apart from this, the company also operates a commercial tower within the premises of The LaLit Mumbai called ‘The LaLit Residency’. BHL license these office and commercial spaces within these towers mainly to banks, textile manufacturers, oil and gas companies etc. The term of such licenses ranges from three to five years. The company generated income of Rs. 24.65 cr in FY23 (PY: Rs. 21.07 cr) as rent and maintenance from these towers. The company over the years has developed an established relationship with various leading corporations. These tie-ups have been providing BHL consistent customer sourcing and assured revenue. Other than the corporate tie-ups, BHL has also association with various Consortia partners such as CWT Preferred, Amex, BCD Preferred and HRG. Consortia are a conglomerate of travel agency members and have become a major player in the travel industry for booking hotels worldwide.

Key weaknesses
Moderate financial risk profile with leveraged capital structure
The financial risk profile of BHL remains moderate owing to leveraged capital structure represented through overall gearing of 2.13 times as on March 31, 2023 improved from 2.59 times as on March 31, 2022 on account of positive profits of Rs. 49.57 crores (PY: Negative Rs. 58.98 crores) generated during the year FY23 thereby strengthening the net worth position whereas the

total debt continued to be remained on a higher side and stood around Rs. 1,457.74 crores (PY: Rs. 1,649.34 crores). Other coverage indicators including Total Debt to Gross Cash Accruals and interest coverage though continued to remain moderate albeit improved from negative 43.11 times & 0.73 times as on March 31, 2022 to 8.57 times and 1.91 times respectively as on March 31, 2023 owing to better operational performance post covid and turnaround in cash accruals from negative Rs. 38.26 crores in FY22 to positive Rs. 170.16 crores in FY23. Previously, the company repaid its bank debt obligations in January 2023 through issuing NCD's amounting to Rs. 1,100 crores to Kotak Investment Advisors Limited (KIAL) at high interest rate i.e. 11% and 12.60% p.a. under OTR after paying off the one- time cost of Rs. 16.52 crores (paid in March 2023) and the future repayments are structured through tight waterfall mechanism.
Interest coverage remained moderate despite significant improvement in profitability due to high interest cost of the NCDs and reported at 1.91 times as on March 31, 2023 compared to 0.73 times as on March 31, 2022.

Vulnerability to inherent industry cyclicality, 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 impact of aforesaid risks on revenue, occupancy level and EBIDTAR is partially mitigated by BHL's association with reputed brand 'The LaLit' and widely distributed geographical presence through the inventory of 2,261 rooms in 12 hotels as on March 31, 2023, which allows it to withstand any major demand vulnerability related to a particular micro-market.

High competition from the large players and unorganized sector
Hospitality industry is fragmented and competitive in nature owing to large number of hotels into affordable/economy, mid-scale etc. However, significant capex requirements and association with reputed brand 'The Lalit' are the key factors acting as the entry barriers for smaller players barring the budget hotel segment, which is highly unorganized with low entry barriers. BHL faces significant competition from the budding & developing brands such as Ginger, IBIS, Holiday Inn Express, etc. in addition to the standalone players in the individual markets. The emergence of room aggregators also puts pressure on the branded economy segment hotel operators as it widens the available room inventory to guests by bringing in several independents on the platform.

Liquidity: Adequate
Liquidity is marked by expected adequate cash accruals of Rs. 191 crores in FY24 and Rs. 209 crores in FY25 against scheduled repayment obligations including lease liability of close to Rs. 40-42 crores each in FY24 & FY25 on consolidated level, however company has been doing partial prepayment of NCDs and has already repaid Rs. 197 crores till February 2024 whereas scheduled repayment shall start from FY26. Liquidity is further aided through cash and cash to the tune of Rs. 81.48 crores as on January 31, 2024 held in form of cash in hand Rs. 6.41 cr, cash at bank Rs. 66.95 cr and free FDR Rs. 8.11 cr. Further, BHL on consolidated basis has sanctioned working capital limit of Rs. 7 crores, with nil utilization as on January 31, 2024 providing cushion for any future exigencies.
BHL also has to maintain DSRA of 3 Months of interest and principal due for all the 3 series of NCDs. For principal, DSRA shall be created for 120 days equivalent to amount due at the beginning of the quarter in which it is due. BHL on consolidated level has DSRA of Rs. 29.15 crore and lien marked FD of Rs. 2.47 crore as on January 31, 2024.
However as per the term sheet with KIAL, with the tight financial and other covenants and the option to recall the funds in case of delay, the liquidity position and asset monetization will remain the key monitorable.

Assumptions/Covenants:

Name of the Instrument	Detailed Explanation
A. Financial covenants	1.If EBITDA (quarterly) of the issuer falls by more than 30% in 2 consecutive quarters, non-core asset monetization plan (if any which do not materially affect the revenues of the borrower) like sale of Pune land, Amritsar land and any other land parcels, projects at construction stage, Goa unutilised land and Villas to be accelerated such that ₹50 crore is prepaid per quarter till repayment of ₹200 crore with cure period of 1 quarter. Other financial covenants: 1. External debt to adjusted PBILDT shall not exceed 5.50:1 2. Adjusted PBILDT to debt serviced shall always exceed 1.1:1 3. LTV shall not exceed 50%
B. Non financial covenants	NA

Applicable criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Hotels & Resorts
Service Sector Companies

About the company and industry

Industry classification

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

Bharat Hotels Ltd (BHL) incorporated in year 1981 and operates twelve 5-star hotels under Lalit Brand name with total inventory of 2,261 rooms as on December 31, 2023 (PY: 2,261). Majority of the hotels are located in prime business locations (Delhi-NCR, Mumbai, Kolkata, Bangalore) or leisure destinations (Srinagar, Goa, Jaipur, Udaipur). Lalit Great Eastern Kolkata Hotel Ltd (LGEKHL; rated CARE BB+; Stable/CARE A4+) is a 90% subsidiary of BHL and was incorporated in January 2004. It has developed a 215-rooms 5-star hotel in Kolkata (owned property) under the brand name of 'The Lalit' and commenced commercial operations in year 2014. BHL has a step-down subsidiary named Kujjal Hotels Private Limited (KHPL) (rated CARE BB+; Stable/CARE A4+) and was incorporated in August 2005 and operates a 5-star hotel property with 179 rooms in Chandigarh under the brand name 'The Lalit'.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	368.57	800.05	600.38
PBILDT	135.47	361.64	262.32
PAT	(58.98)	49.57	Not available
Overall gearing (times)	2.59	2.13	
Interest coverage (times)	0.73	1.91	2.10

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: Not applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	Series I INE466A07046 Series II INE466A07053 Series III INE466A07061	02-Jan-2023	Series I- 11.00 Series II & III 12.60	Series I 30-06-2027 Series II & III 31-12-2027	902.59	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 2024-2025	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
1	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (27-Feb-23)	1)CARE BB+ (CW with

							2)CARE BB+ (RWN) (27-Dec-22) 3)CARE BB+ (CW with Negative Implications) (29-Sep-22) 4)CARE BB+ (CW with Negative Implications) (01-Apr-22)	Negative Implications) (28-Dec-21) 2)CARE BB+ (CW with Negative Implications) (07-Apr-21)
2	Fund-based-Long Term	LT	-	-	-	-	1)Withdrawn (27-Feb-23) 2)CARE BB+ (RWN) (27-Dec-22) 3)CARE BB+ (CW with Negative Implications) (29-Sep-22) 4)CARE BB+ (CW with Negative Implications) (01-Apr-22)	1)CARE BB+ (CW with Negative Implications) (28-Dec-21) 2)CARE BB+ (CW with Negative Implications) (07-Apr-21)
3	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	-	-	1)Withdrawn (28-Dec-21) 2)CARE BB+ (CW with Negative Implications) (07-Apr-21)
4	Fund-based - ST-Packing Credit in Foreign Currency	ST	-	-	-	-	1)Withdrawn (27-Feb-23) 2)CARE A4+ (RWN) (27-Dec-22) 3)CARE A4+ (CW with Negative Implications) (29-Sep-22) 4)CARE A4+ (CW with	1)CARE A4+ (CW with Negative Implications) (28-Dec-21) 2)CARE A4+ (CW with Negative Implications) (07-Apr-21)

							Negative Implications) (01-Apr-22)	
5	Non-fund-based - ST-BG/LC	ST*	-	-	-	-	1)CARE A4+ (27-Feb-23) 2)Withdrawn (27-Feb-23) 3)CARE A4+ (RWN) (27-Dec-22) 4)CARE A4+ (CW with Negative Implications) (29-Sep-22) 5)CARE A4+ (CW with Negative Implications) (01-Apr-22)	1)CARE A4+ (CW with Negative Implications) (28-Dec-21) 2)CARE A4+ (CW with Negative Implications) (07-Apr-21)
6	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	-	1)Withdrawn (27-Feb-23) 2)CARE BB+ (RWN) (27-Dec-22) 3)CARE BB+ (CW with Negative Implications) (29-Sep-22) 4)CARE BB+ (CW with Negative Implications) (01-Apr-22)	1)CARE BB+ (CW with Negative Implications) (28-Dec-21) 2)CARE BB+ (CW with Negative Implications) (07-Apr-21)
7	Debentures-Non Convertible Debentures	LT*	902.59	CARE BBB+; Stable	-	1)CARE BBB-; Stable (29-May-23)	-	-

LT: Long term; ST: 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	Debentures-Non Convertible Debentures	Complex

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Rationale for consolidation (% holding by BHL)	Extent of consolidation
1	Lalit Great Eastern Kolkata Hotel limited	90.00%	Full
2	Prima Hospitality Private Limited	100.00%	Full
3	Jyoti Limited	99.99%	Full
4	PCL Hotels Limited	99.80%	Full
5	Kujjal Hotels Private Limited (Step down subsidiary)	50.00%	Full
6	The Lalit Suri Educational and Charitable Trust	Nil (Under control of BHL)	Proportionate

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.

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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.

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