# InterGlobe Enterprises (UK) Limited

September 20, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 730.00<br>(USD 87.5 million) | CARE BBB+; Stable | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned the long-term rating of 'CARE BBB+; Stable' to bank facilities of InterGlobe Enterprises (UK) Limited (IGUK). The rating derives strength from being a part of well-established InterGlobe group having presence in diversified businesses including aviation, hospitality, real estate, airline management, pilot training, and aircraft maintenance among others and IGUK being strategically important to InterGlobe group. CARE Ratings has also drawn comfort from bank facilities of IGUK being backed by unconditional and irrevocable corporate guarantee from the group's holding company 'InterGlobe Enterprises Pvt Ltd (IGEPL)', which holds a sizeable 35.75% equity holding in group flagship entity, 'InterGlobe Aviation Limited (Indigo)' carrying market value share of close to ₹68,000 crore, which reflects the financial flexibility to extend support to its subsidiaries, including IGUK. IGUK has a satisfactory track record of support from IGEPL in form of funds infusion of more than ₹2,500 crore over past five years getting support for its debt repayments and capex requirements. CARE Ratings also notes that recently IGEPL has sold 2% stake sale in Indigo in June 2024 for ₹3,367 crore, and these funds give additional liquidity buffer with parent entity and these funds shall largely be applied towards expansion plans within the group including IGUK.

The company owns and operates 13 hotel properties across Europe (11), Australia (1), and United Kingdon (1) and is associated with multiple reputed brands overseas, which ensures higher footfall and are better recognised in luxury segment such as Sheraton, Quincy, Mariott and others, though also focussing on developing own brand 'Miiro'. It continues to enjoy a competitive advantage through strategic positioning of its hotels in Europe catering to meetings, incentives, conferences, and exhibitions (MICE) and leisure travellers.

The rating also derives strength from the notable recovery from COVID-19 period in average room rates (ARRs) doubling from ₹7,200 in 2020 to more than ₹14,000 in 2024 while occupancy improving significantly from 19% in 2020 to 76% in 2024 reflecting in compounded revenue growth of 11% over past four years to ₹929.17 crore in FY24 (Prov.) CARE Ratings expects further improvement in company's ARRs, and occupancy levels in near to medium term post the completion of refurbishment activities at five of its 'K+K hotel properties' from Bed and Breakfast set up to full- fledged hotels involving a capital outlay of close to ₹832 crore (Euro 92 million) over 3-4 years through 2027, funded through debt of ₹730 crore (USD 87.5 million), and balance from equity.

However, rating strengths are partially offset by the company's moderate credit profile, though significantly improved post COVID-19 years, leveraged capital structure with high reliance on refinancing of debt with loans having sizeable bullet repayments and exposure towards the project execution risk. These refinancing and rollovers continue to remain a monitorable from credit perspective but its ability in the past of rolling over such loans and taking extensions gives comfort and CARE Ratings expects IGEPL to continue to support shortfall in debt and interest repayments as and when required by IGUK.

## Rating sensitivities: Factors likely to lead to rating actions

### Positive factors

- Significantly growing operational metrics (ARR and occupancy levels) and profitability margin becoming self-sustainable.
- Interest coverage improving beyond 2x on a sustained basis.
- Significantly improving credit profile of parent entity, IGEPL.

### Negative factors

- Moderating credit profile of parent entity, IGEPL, adversely impacting the access to funding support.
- Higher-than-envisaged debt-funded capex leading to significantly moderating financial risk profile of the company.
- Significant time and cost overrun in refurbishment activities impacting the performance of the company.

## Analytical approach: Consolidated.

CARE Ratings has taken a consolidated view of IGUK and its subsidiaries owing to strong operational, management, and financial linkages. The rating draws comfort from parent support from IGEPL in the form of corporate guarantee and capital contributions. However, CARE Ratings has not factored in credit enhancement because the guarantee does not have the structured payment mechanism which is required per Reserve Bank of India's (RBI') circular. List of entities consolidated given in Annexure-6.

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

**Outlook:** Stable

'Stable' outlook assigned to the long-term rating of IGUK reflects CARE Ratings' expectation of continued financial support from the InterGlobe group to meet deficit in debt servicing and capex requirements.

## Detailed description of key rating drivers:

## Key strengths

**Part of reputed InterGlobe group with resourceful promoters having presence in diversified industries**

IGUK is a part of the well-known InterGlobe group having presence across varied sectors, including hospitality, Aviation, Aircraft management & training, and Education among others. The group is managed by the Bhatia family and was established in 1989 by Kapil Bhatia, the Executive Chairman for IEPL. Also, in 1964, he founded Delhi Express Travels, which gradually developed into a group of travel-related organisations. He continued as the Managing Director of Delhi Express Travels for over 25 years. He has served on the Board of Directors of Andhra Bank Ltd and Punjab National Bank and has been Chairman of Tourism and Aviation Committee of ASSOCHAM. IGEPL is the holding company for the InterGlobe Group, promoted by the Bhatia family, including Kapil Bhatia, Rahul Bhatia (his son), and Rohini Bhatia (wife of Rahul Bhatia).

The group operates 21 hotels in India with 3,790 keys through InterGlobe Hotels Pvt Ltd and 13 overseas hotels with 2,092 keys through IGUK. The group's presence in aviation business is through its flagship entity, InterGlobe Aviation Ltd, with established brand name "Indigo", the largest passenger airline in India with 61.6% market share in Indian aviation business with sizeable fleet of 367 aircrafts. The group through its investment arm, InterGlobe Enterprises Pvt Ltd, holds 35.75% equity stake in Indigo as on June 30, 2024, which provides it financial flexibility.

**Demonstrated track record of funding support from holding company, IGEPL**

IGUK has as established track record of receiving financial support from holding company, IGEPL, in the form of capital contributions amounting more than ₹2,500 crore in past five years, of which ~₹1,600 crore was provided to fund the acquisition of K+K hotel properties in 2019, while balance was provided to support debt repayments and day-to-day operations. Additionally, IGEPL has also extended unconditional and irrevocable corporate guarantee for bank facilities availed by IGUK. These factors indicate strong commitment from the management to operate and grow the overseas hotel business through IGUK.

The rating assigned to IGUK favourably factors in the recent liquidity flush at parent level derived from 2% stake sale in Indigo for ₹3,367 crore, which is likely to be applied to support the operations and expansions in group's expansion plans, including IGUK.

**Strategically located hotel properties under management contracts with reputed global brands**

The group's hotel properties in key European cities are well-established and have shown strong operational performance over time, bolstered by favourable market conditions. IGUK holds 13 hotel properties spread across 10 countries, most of which are in Europe. The hotel properties are strategically to cater to MICE and leisure travellers such as Sheraton Amsterdam Property, which is in proximity to Amsterdam Airport, Hotel George, London, Le Grand Hotel Cayré and Hotel Borneta, Paris and Barcelona, respectively, among others. The pandemic significantly impacted global tourism, leading to sub-optimal performance at IGUK's properties in Europe and Australia. However, as the pandemic's effects waned, there was a notable recovery in operational metrics across these locations.

Also, IGUK operates typically under long-term management contracts with well-established and recognised global hotel operators including Sheraton, Cycas Hospitality and others. These engagements benefit the company's hotels by giving them access to strong operating processes, booking sales experience, larger clientele base, and loyalty programmes.

**Improving scale of operations with increasing ARR and sustained occupancy levels**

Subsequent to the acquisition of Bed and Breakfast kind of hotels, the company usually carries out major refurbishments and rebranding, making it into full-fledged luxury hotels, leading to accretive returns on incremental capital expenditure primarily driven by a material increase in ARR post refurbishment.

There has been a notable recovery since COVID-19 in ARRs doubling from ₹7,200 in 2020 to more than ₹14,000 in 2024 while occupancy improving significantly from 19% in 2020 to 76% in 2024 reflecting in compounded revenue growth of 11% over past four years to ₹929.17 crore in FY24 (Prov.) CARE Ratings expects further improvement in company's ARRs, and occupancy levels in near to medium term post the completion of refurbishment activities at five of its 'K+K hotel properties'.

## Key weaknesses

**Leveraged capital structure with dependence on refinancing of debt**

The company's capital structure is leveraged with total debt outstanding of ₹4,492 crore as on March 31, 2024 (FY23: ₹4,339 crore). CARE Ratings expects debt levels to peak out in FY25 with debt onboard for refurbishment. IGUK receives timely financial support from parent entity, IGEPL, to meet shortfall in debt repayments. However, it generally refinances the long-term debt and top up from the banks. There has been a track record of debt refinancing in past years, also including COVID-19 period.

CARE Ratings believes that going forward, refinancing for sizeable repayment obligations of ₹190 crore (excl. lease) (Euro 21.08 million), ₹1,765 crore (Euro 196 million) in FY26, and ₹831 crore (Euro 92 million) in FY27 will be undertaken by the company and will remain a key monitorable. However, CARE Ratings draws comfort from the ability of the company's management to timely opt for rollovers/extensions, refinancing and its track record in completing similar transactions in past.

**Exposure to project risk with significant capital outlay**

The company presently operates 13 hotel properties with 2092 room keys spread across Europe, Australia, and UK. Of these 13 hotels, nine hotel properties together form K+K portfolio. Amongst K+K portfolio, five hotels are undergoing major refurbishment involving a capital outlay of close to ₹832 crore (Euro 92 million) over 3-4 years through 2027 and funded through debt of ₹730 crore (USD 87.5 million) and remaining from equity, of which ~₹320 crore (Euro 35 million) have already been expended and balance ₹512 crore (Euro 56.94 million) is expected to be expended over next three years.

Of aforesaid five hotels, two properties, Le Grand Hotel Cayré and Hotel Borneta, are already refurbished and reopened in July 2024 and August 2024, respectively. Hotel George will be operational from Q4FY25, while Hotel Maria Theresia and Hotel Palais will be shut in October 2024 and January 2025 for another 15 months and nine months, respectively. In line with the nature of the industry's operations, IGUK remains exposed to project execution risks to an extent. Any significant delay, resulting in project cost or time overrun or post stabilisation risk may have an adverse impact on its credit profile and will remain a key monitorable. The risk is partly mitigated to an extent by the management's commitment to extend timely financial support as and when needed.

**Liquidity**: Adequate

IGUK's liquidity is marked adequate with buffer of close to ₹365 crore available as on June 02, 2024 in from and cash and bank balance and fixed deposit balance amounting ₹39.83 crore against scheduled debt repayment (incl. lease) of ₹200 crore in FY25. Debt repayments falling due in FY26 and FY27 are ₹1,695 and ₹783 crore, respectively. However, IGUK opts for refinancing involving elongated repayment terms.

The team draws liquidity comfort from 35.75% equity stake of parent entity, IGEPL, in Indigo carrying substantial valuation of close to ₹68,000 crore post 2% stake sale for ₹3,367 crore, which brings in adequate liquidity comfort, as the same is expected to be applied towards capex funding and repayment support within the group including IGUK. In past 4-5 years, IGUK reported a capital infusion of more than ₹2,500 crore. Its bank facilities are also backed by corporate guarantee of IGEPL.

## Applicable criteria

Policy on Default Recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hotels & Resorts
Financial Ratios – Non financial Sector

## About the company and industry

### Industry classification

| Macroeconomic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer discretionary | Consumer services | Leisure services | Hotels & resorts |

Incorporated in 2017, IGUK is a part of InterGlobe group and looks after the overseas hospitality business. The group has presence in diversified businesses, including aviation, hospitality, real estate, travel commerce, airline management, pilot training and aircraft maintenance among others. The group is owned by Rahul Bhatia and family. IGUK's portfolio includes prime assets in major global business and leisure destinations. With 13 hotels in 10 countries, offering 2,092 rooms, the portfolio features properties, including Sheraton Amsterdam Airport Hotel, Le Grand Hôtel Cayré in Paris, Quincy Hotel in Melbourne, and Reichshof Hamburg. These hotels emphasise on modern amenities, strategic locations, and a commitment to quality service, catering to both business and leisure travellers.

| Brief Financials-Consolidated (₹ crore) | March 31, 2023 (A) | March 31, 2024 (Prov.) |
|---|---|---|
| Total operating income | 821.76 | 929.17 |
| PBILDT | 95.67 | 201.57 |
| PAT | -88.70 | -206.30 |
| Overall gearing (times) | 3.75 | 3.57 |
| Interest coverage (times) | 0.61 | 0.82 |

A: Audited, Prov.: Provisional; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term loan | - | - | - | September 2027 | 730.00 (USD 87.5 million) | CARE BBB+; Stable |

## Annexure-2: Rating history for 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 | Fund-based - LT-Term loan | LT | 730.00 (USD 87.5 million) | CARE BBB+; Stable | - | - | - | - |

LT: Long term

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

## Annexure-4: Complexity level of instruments rated

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

## Annexure-5: Lender details

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|---|
| To view lender-wise details of bank facilities please click here |

## Annexure-6: List of entities consolidated

| Sr No | Name of the entity | Extent of consolidation | Rationale for consolidation |
|---|---|---|---|
| 1 | Hamburg Furniture S.à r.l | Full | Subsidiary |
| 2 | NKS Hospitality II (S.à r.l) | Full | Subsidiary |
| 3 | InterGlobe Operations Holding II B.V. | Full | Subsidiary |
| 4 | RH Operations Verwaltung GmbH | Full | Subsidiary |
| 5 | LHB B.V. | Full | Subsidiary |
| 6 | Empire 3 Investment S.à r.l | Full | Subsidiary |
| 7 | InterGlobe Enterprises (Switzerland) AG | Full | Subsidiary |
| 8 | InterGlobe Enterprises (Gstaad) AG | Full | Subsidiary |

**Note on complexity levels of 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 clarifications.

## Contact us

| Media Contact | Analytical Contacts |
|---|---|
| Mradul Mishra<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754-3596<br>E-mail: mradul.mishra@careedge.in<br><br>**Relationship Contact**<br><br>Saikat Roy<br>Senior Director<br>**CARE Ratings Limited**<br>Phone: +91-22-6754-3404<br>E-mail: saikat.roy@careedge.in | Ravleen Sethi<br>Director<br>**CARE Ratings Limited**<br>Phone: +91-120-4452016<br>E-mail: ravleen.sethi@careedge.in<br><br>Akhil Kumar<br>Associate Director<br>**CARE Ratings Limited**<br>Phone: +91-120-4451986<br>E-mail: akhil.kumar@careedge.in<br><br>Bhawna Rustagi<br>Assistant Director<br>**CARE Ratings Limited**<br>E-mail: bhawna.rustagi@careedge.in |

**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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