

Empee Hotels Limited

June 23, 2022

Ratings

	Amount (₹ crore)	Rating ¹	Rating Action
Non Convertible Debentures	185.00	CARE D (Single D)	Assigned
Total Long Term Instruments	185.00 (₹ One Hundred Eighty-Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has assigned the rating of CARE D to the proposed Non-Convertible Debentures (NCD) of Empee Hotels Limited (EHL). Facilities with this rating are in default or are expected to be in default soon. The rating factors in the ongoing delays in servicing of debt obligations of Edelweiss Asset Reconstruction Company (EARC) by EHL.

Rating Sensitivities

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

- Timely servicing of debt obligations for more than 3 months
- Deleveraging of balance sheet through fund infusion or asset monetization and improvement in liquidity position of the company.

Detailed description of the key rating drivers

Key Rating Weakness

Ongoing delays in debt obligations to EARC

On account of consistent liquidity issues, the company has delayed in meeting the debt obligations for the period of FY20, FY21 and FY22. The company entered into one-time settlement (OTS) agreement with the lender (EARC) during March 2022, as per which the company was liable to pay Rs 205 crore, by May 31, 2022. The company could pay only Rs 17 crore out of the total outstanding amount as on date (June 17, 2022). The proceeds from the proposed NCD would be utilized towards settling the amount of OTS and the balance amount is proposed to be paid by promoters.

Weak Financial Profile

The company has weak financial risk profile characterized by high leverage and poor debt coverage indicators. Going forward, EHL's cash flow from hotel operations, would not be sufficient to meet the debt obligations related to proposed NCDs. Hence, there would be significant reliance on promoters for timely fund infusion to repay the quarterly interest obligations and bullet principal repayment at the end of two years. The promoters are expected to monetise some of their assets or develop another land in JV for a commercial real estate project to meet the debt obligations related to proposed NCDs.

Key Rating Strength

Experienced promoters

EHL is promoted by Mr. MP Purshothaman who is also serving as Chairman of EHL. Mr. MP Purshothaman has extensive experience of over five decades in hospitality business and has also held the position of President of Tamil Nadu Hotels and Restaurants Association for close to 22 years. Mrs. Nisha Purshothaman, who is serving as a Managing Director of EHL also has a rich experience of over 3 decades in hoteling and hospitality business.

Favourable location of hotels and strong Brand image of 'Hilton'

The hotel is located in Ekkaduthangal, which is close proximity to the Chennai airport and IT clusters of Chennai. Chennai has the sixth busiest airport in the country (based on passenger traffic in 2021-22), and also enjoys the status of being the second largest exporter of Information technology and business process outsourcing (BPO) services, after Bengaluru, in India. Thus, owing to the hotel's favorable location, EHL benefits from influx of business and leisure travelers.

Further, EHL has a long-term association with Hilton group, UK which is one of the largest hospitality brands across the world and has a stellar reputation among the international business and leisure travelers. The hotel is operated by the name 'Hotel Hilton' and is fully managed by the Hilton group. In consideration, Hilton charges from EHL 2% of revenue as management fees

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

and further 8% of gross operating profit as incentive fees, which is calculated as per defined terms, for managing the hotel. Further EHL also shares, 2% of revenue as group service benefit (GSB) with Hilton.

Liquidity: Poor

The liquidity position of the company stands Poor. The cash balance as on March 31, 2022 stood low at Rs 0.51 crore. The expected cash flows of the company would not be sufficient to meet the debt obligations for proposed NCDs. The company, over the years apart from operating cash flows is dependent on promoter funds to honour its debt obligations. Going forward, the company plans to honour its debt obligations in future for proposed NCDs mainly through equity infusion by the promoters.

Analytical approach: Standalone

Applicable Criteria

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

[Rating Methodology - Hotel Industry](#)

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

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

About the Company

Empee Hotels Ltd (EHL) was incorporated in 2004 primarily to develop a 5-star deluxe hotel project in Chennai. The company commenced its hotel operations in 2011. EHL is promoted by Mr. M.P. Purushothaman, Chairman of Empee group of companies. EHL currently owns a 204 rooms 5-star deluxe category hotel in the name of 'Hotel Hilton' at Ekkaduthangal, in Chennai.

Brief Financials (Rs. Crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (UA)
Total operating income	91.05	30.10	42.05
PBILDT	28.88	5.53	3.34
PAT	-10.97	-24.00	-11.56
Overall gearing (times)	-3.91	-3.08	-2.97
Interest coverage (times)	1.06	0.25	0.52

A: Audited UA: Unaudited

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 for this company: Annexure 4

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
Debentures-Non-Convertible Debentures (Proposed)	-	Proposed	First 12 months of issuance Initial 6 months-21.5% Subsequent 6 months-20%. Second 12 months of issuance 18.5% till maturity.	2 years from the issuance	185.00	CARE D

Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non-Convertible Debentures (Proposed)	LT	185.00	CARE D	-	-	-	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Maintenance of Trust and Retention Account	Open and maintain the Trust and Retention Account with a scheduled commercial bank. Any change in the designated bank has to be approved by the Debenture Trustee
II EBITDA conditions	The EBITDA from the hotel for the financial year ending on March 31, 2023 shall be equal to or more than INR 20 crores and for financial year ending on March 31, 2024 shall be equal to or more than INR 25 crores
III Promoter Contribution	Promoter Contribution of Rs 20 crore within 6 months from the date of allotment of NCDs.
B. Non financial covenants	
II Agreement with Hilton	To continue with Hilton Operating agreement upto December 31, 2032
III No Objection from EARC	To obtain EARC's no objection for payment of OTS amount and creation of security

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

Sr No	Name of instrument	Complexity level
1	Long Term Instruments-Debentures-Non-Convertible Debentures (Proposed)	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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