Lalit Great Eastern Kolkata Hotel Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	9.76 (Reduced from 17.80)	CARE BB+; Stable	Revised from CARE BB and removed from (Rating Watch with Negative Implications; Stable outlook assigned
Long-term bank facilities	85.62 (Reduced from 106.67)	CARE BB+; Stable	Revised from CARE BB+ (CE) and removed from (Rating Watch with Negative Implications; Stable outlook assigned
Short-term bank facilities	5.00	CARE A4+	Revised from CARE A4+ (CE) and removed from (Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Unsupported Rating^	**Withdrawn [Revised from CARE BB / CARE A4 and removed from (Rating Watch with Negative Implications]**

^The approach for assessing the ratings for the bank facilities of Lalit Great Eastern Kolkata Hotel Limited (LGEKHL) has been revised from credit enhanced based on the unconditional and irrevocable corporate guarantee given by Bharat Hotels Limited (BHL) to the bank facilities of LGEKHL to standalone approach. Accordingly, the unsupported rating for the bank facilities of LGEKHL is withdrawn.

Rationale and key rating drivers

The ratings assigned to bank facilities of LGEKHL has been removed from credit watch with negative implications on account of the expected completion of the One-time restructuring (OTR) of BHL which was approved by the lender and with BHL receiving the definitive term sheet from an Investment Fund to repay the bank term loans. BHL is in the process to pay the complete bank debt in the flagship entity with the same and the process is expected to get completed by early February 2023 as guided by the management.

The revision in the rating assigned to the bank facilities of LGEKHL takes into account the improvement in the operational performance of LGEKHL for 8MFY23 (refers to period from April 01 to Nov 30). The ratings also continue to derive strength from its strong and resourceful promoter (BHL) with significant operational linkages along with demonstrated support in the form of fund infusion in the past to support the operations and debt repayments of the company and also strategic importance of LGEKHL to BHL. Further the rating takes into account the improved liquidity position with adequate cash and bank balance and unavailed working capital limits along with emergency credit line guarantee scheme (ECLGS) limits available with the company.

The ratings however continue to remain constrained by the weak capital structure, vulnerability of revenues to inherent industry cyclicality and economic cycles and exogenous events along with regional trends in tourism and competition risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained improvement in operational performance of properties lending to improvement in margins beyond 35%
- Deleveraging of balance sheet through fund infusion or asset monetization such that overall gearing ratio improves to below 0.80x
- Strengthening of credit profile of parent BHL

Negative factors

- Decline in occupancy level and RevPAR, thereby affecting its liquidity and debt coverage indicators
- Inability to reduce debt on balance sheet or further increase in debt levels leading to the overall gearing to above 1.5x times
- Weakening of credit profile of the parent BHL

Analytical approach: Standalone. The ratings however factors in strong operational, management and financial linkages of being a part of Bharat Group.

Note: Earlier Approach – Credit Enhanced Ratings: Since the bank facilities of LGEKHL are backed by credit enhancement in the form of unconditional & irrevocable corporate guarantee from BHL for servicing the debt & interest obligation of LGEKHL.

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

The approach for assessing the ratings for the bank facilities of LGEKHL has been revised from credit enhanced based to standalone approach. Accordingly, the unsupported rating for the bank facilities of LGEKHL is withdrawn.

Key weaknesses

Weak capital structure

The overall gearing ratio moderated and stood at 1.1x as on March 31, 2022 as against 0.94x as on March 31, 2021 owing to increase in debt coupled with reduction in net worth owing to net losses. The interest coverage and total Debt /PBILDT have marginally improved in FY22 due to improved profitability to 0.51x (PY: 0.19x) and 17.42x (PY: 45.70) respectively. However, the coverage indicators continue to remain weak.

Vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events

The 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 risk to revenues is partially mitigated by the group's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.

Regional trends in tourism and competition risk

Although the risk is mitigated to some extent owing to the geographical diversification and favourable locations of the group's projects, going forward the pace of the recovery in the economic cycle and stabilization of the hotel properties in competitive markets will be critical for the company's financial risk profile. In segmental terms the company's major exposure is towards up-scale (luxury) hotels.

Key strengths

Improved operating performance albeit deterioration in COVID-19-hit years

Though there was significant decline in the operational performance of LGEKHL in FY21 & FY22 on account of Covid-19 led lockdowns. The economy has bounced back in FY23 as seen in the 8MFY23 performance with occupancy and average room rate (ARR) reaching pre-COVID-19 levels at 42% and ₹5,645 in 8MFY23 (25% & ₹4,738 in FY22). This increase in RevPar has led to improved total operating income (TOI) & profitability. The hotel reported revenues of ₹26.4 cr and PBILDT of ₹9 cr in 8MFY23 as against revenue of ₹23.44 crore and PBILDT of ₹6.56 crore in the completed year of FY22.

Going forward, increase in the in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass meetings, incentives, conferences & exhibitions (MICE) activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. The sustainability of the improved operating performance is expected to continue which shall result in further improvement in the credit profile of LGEKHL and also the strengthen the consolidated credit profile of BHL.

Strategic importance of LGEKHL for the Bharat group and continued support in the form of corporate guarantee from BHL & demonstrated track record of fund infusion in the past

The bank debt availed in LGEKHL is guaranteed by unconditional, irrevocable and continuing corporate guarantee of BHL. The corporate guarantee is extended for the entire tenor of the term loan and is proposed to cover all payments including the interest and other charges. The company has received timely financial support from the parent in the form of unsecured loans with unsecured loans to the tune of around ₹48 cr as on March 31, 2022 (PY: ₹42 cr as on March 31, 2021).

LGEKHL contributes 10% of the total BHL consolidated keys and its contribution to the TOI of BHL was 5% in 8MFY23. Furthermore, the operational performance of BHL group as a whole has also witnessed improvement with occupancy of 54% and ARR of ₹7,948 in 8MFY23 (provisional) resulting in TOI & PBILDT of ₹493.91 crore and ₹225.88 crore respectively as against TOI & PBILDT of ₹309.63 crore and ₹114.09 crore. BHL is also in process of paying the current bank loans with receipt of definitive term sheet from an investment Fund and the process is likely to be completed by early February 2023 as per the guidance from the management.

Experienced promoters with long track of operations in the hotel industry

LGEKHL is promoted by BHL. BHL has been operating various hotels in the hospitality industry for more than 30 years now. Dr. Jyotsna Suri has been associated with BHL since 1989 and was appointed as the Chairperson & Managing Director in 2006. She has a long experience of more than two decades in the hospitality industry. She is a 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.

Indian hospitality industry outlook:

After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in COVID-19 cases have helped improve travel sentiment. Though the Omicron wave caused a temporary blip, FY22 has witnessed a sharp rebound in the revenues. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE. The sector also saw some green shoots from international travel, after a lull of nearly two years. The sector is on track to achieve or even surpass the pre-COVID-19 level occupancies in FY23. As per the estimated data available for the hospitality industry, the fiscal year 2022 closed at ARR in the range of ₹4,400 - ₹4,590 and occupancy of 44%-46%. The performance of the industry improved significantly despite the temporary roadblock caused due to emergence of the third COVID-19 wave (Omicron). For FY23, CARE Ratings Limited (CARE Ratings) estimates the majority of its portfolio of hotel companies to report improved performance, largely restored to pre-COVID-19 levels. The strong recovery in demand is driving steady increases in ARR, with hotels, particularly in the leisure sector, surpassing their pre-pandemic ARRs along with corporate travel and MICE gaining momentum. Domestic demand reported a strong recovery while international travel is still lagging. For FY23, CARE Ratings expects pan-India average hotel occupancy to be at 67-69% which shall surpass the pre-COVID-19 levels and ARR at ₹ 5,800-6,000, thus leading to margin expansion for the players.

Liquidity: Adequate

The standalone liquidity position of LGEKHL is adequate after factoring in the parent support. In the previous years as well, there have been cash losses in the entity. Comfort is derived from ECGLS loan sanction of ₹18 cr out of which ₹11.43 cr was availed till AprIL 2022. Out of scheduled debt repayment of ₹11.31 cr in LGEK, repayment of ₹5.88 cr has already been made in H1FY23. The total cash and cash equivalent as on December 01, 2022 stood at ₹2.52 cr. The company also has unutilised bank overdraft limit of ₹7 crore.

Furthermore, the liquidity position derives strength from support received in the form of loans and advances from BHL. With the improved operational performance of the BHL group as a whole, the company has prepaid debt to the tune of ₹120 crore as on December 31, 2022. Furthermore, the group has liquidity of around ₹75 crore as on December 31, 2022 in the form of cash & bank. The liquidity is further strengthened with the repayment moratorium of three years as per the new term sheet received by the company.

During the 8MFY23, LGEKHL has also received unsecured loan from BHL to the extent of ₹8.5 cr.

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

LGEKHL

LGEKHL is a 90% subsidiary of the BHL and owns the Kolkata property. It has developed a 215-rooms 5-star hotel in Kolkata under the brand name of 'The Lalit'. The company has commenced commercial operations in 2014.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	November 30, 2022 (UA)
Total operating income	9.07	23.44	26.40
PBILDT	-3.02	6.56	9
PAT	-16.36	-16.10	NA
Overall gearing (times)	0.94	1.10	NA

Interest coverage (times)	-0.45	0.41	0.9

A: Audited, UA: Un-audited, NA: Not available.

BHL

BHL incorporated in 1981 was founded by Late Lalit Suri and his family members. Presently the operations of the company are managed by Jyotsna Suri. As on March 31, 2019, BHL on a consolidated basis operates 12 luxury hotels, palaces and resorts under The LaLiT brand and two mid-market segment hotels under The LaLiT Traveller brand across India with total inventory of 2,261 rooms.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	November 30, 2022 (UA)
Total operating income	150.71	309.63	493.91
PBILDT	9.35	114.09	225.88
PAT	-88.96	-73.19	NA
Overall gearing (times)	2.22	2.57	NA
Interest coverage (times)	0.06	0.62	1.86

A: Audited, UA: Un-audited, NA: Not available.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of the 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
Fund-based - LT-Cash credit		-	-	-	7.00	CARE BB+; Stable
Fund-based - LT-External commercial borrowings		-	-	-	2.80	CARE BB+; Stable
Fund-based - LT-Term loan		-	-	28-02-2030	75.82	CARE BB+; Stable
Fund-based - LT-Term loan		-	-	28-02-2030	9.76	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A4+

Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	Withdrawn

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 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	Fund-based - LT-Term loan	LT	75.82	CARE BB+; Stable	1)CARE BB+ (CE) (RWN) (27-Dec-22)	1)CARE BB+ (CE) (CW with Negative Implications) (28-Dec-21) 2)CARE BB+ (CE) (CW with Negative Implications) (07-Apr-21)	1)CARE BBB- (CE) (CW with Negative Implications) (26-May-20)	1)CARE BBB (CE) (CW with Developing Implications) (30-Jul-19) 2)CARE BBB (CE) (CW with Developing Implications) (09-Jul-19)
2	Fund-based - LT-Cash credit	LT	7.00	CARE BB+; Stable	1)CARE BB+ (CE) (RWN) (27-Dec-22)	1)CARE BB+ (CE) (CW with Negative Implications) (28-Dec-21) 2)CARE BB+ (CE) (CW with Negative Implications) (07-Apr-21)	1)CARE BBB- (CE) (CW with Negative Implications) (26-May-20)	1)CARE BBB (CE) (CW with Developing Implications) (30-Jul-19) 2)CARE BBB (CE) (CW with Developing Implications) (09-Jul-19)
3	Fund-based - LT-External commercial borrowings	LT	2.80	CARE BB+; Stable	1)CARE BB+ (CE) (RWN) (27-Dec-22)	1)CARE BB+ (CE) (CW with Negative Implications) (28-Dec-21) 2)CARE BB+ (CE) (CW with Negative Implications) (07-Apr-21)	1)CARE BBB- (CE) (CW with Negative Implications) (26-May-20)	1)CARE BBB (CE) (CW with Developing Implications) (30-Jul-19) 2)CARE BBB (CE) (CW with Developing Implications) (09-Jul-19)
4	Non-fund-based - ST-BG/LC	ST	5.00	CARE A4+	1)CARE A4+ (CE) (RWN)	1)CARE A4+ (CE) (CW with	1)CARE A3 (CE) (CW with	1)CARE A3+ (CE) (CW with

					(27-Dec-22)	Negative Implications) (28-Dec-21) 2)CARE A4+ (CE) (CW with Negative Implications) (07-Apr-21)	Negative Implications) (26-May-20)	Developing Implications) (30-Jul-19) 2)CARE A3+ (CE) (CW with Developing Implications) (09-Jul-19)
5	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	1)CARE BB / CARE A4 (RWN) (27-Dec-22)	1)CARE BB / CARE A4 (CW with Negative Implications) (28-Dec-21) 2)CARE BB / CARE A4 (07-Apr-21)	1)CARE BB / CARE A4 (26-May-20)	-
6	Fund-based - LT-Term loan	LT	9.76	CARE BB+; Stable	1)CARE BB (RWN) (27-Dec-22)	1)CARE BB (CW with Negative Implications) (28-Dec-21)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-External commercial borrowings	Simple
3	Fund-based - LT-Term loan	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Un Supported Rating-Un Supported Rating (LT/ST)	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.

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About us:

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