Kujjal Hotels Private Limited

January 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long term bank facilities	16.63 (Reduced from 19.00)	CARE BB+; Stable	Revised from CARE BB and removed from Rating Watch with Negative Implications; Stable outlook assigned
Long term bank facilities	101.26 (Reduced from 106.00)	CARE BB+; Stable	Revised from CARE BB+ (CE) and removed from Rating Watch with Negative Implications; Stable outlook assigned
Short-term bank facilities	10.50	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Unsupported Rating^	**Withdrawn [Revised from CARE BB / CARE A4 and removed from (Rating Watch with Negative Implications]**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 Kujjal Hotels Limited (KHL) 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 KHL to standalone approach. Accordingly, the unsupported rating for the bank facilities of KHL is withdrawn.

Rationale and key rating drivers

The ratings assigned to bank facilities of KHL 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 KHL takes into account the improvement in the operational performance of KHL 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 KHL 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 the 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 overall gearing to above 1.5x times
- Weakening of credit profile of the parent BHL

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

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

Note: Earlier Approach – Credit Enhanced Ratings: Since the bank facilities of KHL are backed by credit enhancement in the form of unconditional & irrevocable corporate guarantee from BHL for servicing the debt & interest obligation of KHL.
The approach for assessing the ratings for the bank facilities of KHL has been revised from credit enhanced based to standalone approach. Accordingly, the unsupported rating for the bank facilities of KHL is withdrawn.

Key weaknesses

Weak capital structure

The overall gearing ratio moderated and stood at 1.46x as on March 31, 2022 as against 1.12x as on March 31, 2021 owing to increase in debt (ECLGS drawings) 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 rating strengths

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

Though there was significant decline in the operational performance of KHL 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 50% and ₹6,751 in 8MFY23 (34% & ₹6,213 in FY22). This increase in RevPar has led to improved total operating income (TOI) & profitability. The hotel reported revenues of ₹27.6 cr and PBILDT of ₹10.61 cr in 8MFY23 as against revenue of ₹25.84 crore and PBILDT of ₹10.67 crore in 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 KHL and also strengthen the consolidated credit profile of BHL.

Strategic importance of KHL 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 KHL 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 with unsecured loans to the tune of around ₹54.53 cr as on December 31, 2022 (PY: ₹49.40 cr as on March 31, 2021).
KHL contributes 8% of the total BHL consolidated keys and its contribution to the TOI of BHL was 6% in 8MFY23. Furthermore, the operational performance of the 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 the 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

KHL 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 KHL has support from the parent- BHL. In the previous years as well, there have been cash losses in the entity. Furthermore, the entity has availed the entire ECLGS sanction available of ₹19 crore in FY22. Out of scheduled debt repayment of ₹10.87 cr in KHL for FY23, repayment of ₹6.63 cr has already been made as on November 30, 2022. The total cash and cash equivalent as on December 01, 2022 stood at around ₹6 crore (₹4.5 crore as FD & balance as bank balance). The company has OD limit of ₹6 crore which is nil utilized as on December 31, 2022 providing additional liquidity buffer. Also, as discussed with the company management, they have additional ECLGS limits of ₹27 crore which they can avail till June 2023. However, the same are not sanctioned as yet.
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.

Applicable criteria

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

KHL
KHL is a step-down subsidiary of BHL. KHL was incorporated as a private limited company under the Companies Act, 1956 on August 22, 2005 as a 50:50 joint venture between PCL Hotels Ltd (100% subsidiary of BHL) and Eila Holding Ltd (a subsidiary of Deeksha Holding Ltd, a related party with BHL). KHL has developed a 5-star hotel with 179 rooms in Chandigarh under the brand name of 'The LaLiT' and has commenced commercial operations in 2013.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (UA)
Total operating income	14.58	25.84	27.61
PBILDT	3.63	10.67	10.61
PAT	-27.42	-20.66	NA
Overall gearing (times)	1.12	1.46	NA
Interest coverage (times)	0.19	0.51	0.79

A: Audited; UA: Unaudited; 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: NA

Any other information: NA

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		-	-	-	6.00	CARE BB+; Stable
Fund-based - LT-Term loan		-	-	31-03-2034	95.26	CARE BB+; Stable
Fund-based - LT-Term loan		-	-	31-03-2034	16.63	CARE BB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	10.50	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	95.26	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	6.00	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	Non-fund-based - ST-BG/LC	ST	10.50	CARE A4+	1)CARE A4+ (CE) (RWN)	1)CARE A4+ (CE) (CW with Negative	1)CARE A3 (CE) (CW with Negative	1)CARE A3+ (CE) (CW with

					(27-Dec-22)	Implications) (28-Dec-21) 2)CARE A4+ (CE) (CW with Negative Implications) (07-Apr-21)	Implications) (26-May-20)	Developing Implications) (30-Jul-19) 2)CARE A3+ (CE) (CW with Developing Implications) (09-Jul-19)
4	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)	-
5	Fund-based - LT-Term loan	LT	16.63	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: NA

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-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	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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