

## Lalit Great Eastern Kolkata Hotel Limited

December 28, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities-I	17.80	CARE BB (CWN) (Double B) (Under Credit watch with Negative Implications)	Assigned
Long Term Bank Facilities-II	106.67	CARE BB+ (CE) (CWN)	Continues to be on Credit watch with Negative Implications
Short Term Bank Facilities-III	5.00	CARE A4+ (CE) (CWN)	Continues to be on Credit watch with Negative Implications
<b>Total Bank Facilities</b>	<b>129.47 (Rs. One Hundred Twenty-Nine Crore and Forty-Seven Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1

<b>Un Supported Rating</b>	<b>CARE BB / CARE A4 (Under Credit watch with Negative Implications) (Double B / A Four) (Under Credit watch with Negative Implications) [Placed on Credit watch with Negative Implications]</b>
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### Detailed Rationale & Key Rating Drivers for credit enhanced debt

The ratings assigned to the bank facilities (II & III) of Lalit Great Eastern Kolkata Hotel Ltd (LGEKHL) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee given by Bharat Hotels Ltd (BHL).

The ratings assigned to the bank facilities of Bharat Hotels Limited (BHL) continue to remain constrained by its deteriorated capital structure and stretched liquidity profile. The rating also take into account the vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events, regional trends in tourism and competition risk.

The ratings continue to derive strength from BHL's experienced promoters, long track record of operations in the hospitality business, established relationship with corporate clients and diversified portfolio of properties.

The ratings assigned to the bank facilities of Bharat Hotels Limited (BHL) continue to remain on 'Credit Watch with Negative Implications'. The One-time restructuring (OTR) plan has been implemented w.e.f. June-21. The approved plan assumes monetization of certain assets resulting in de-leveraging of the balance sheet of BHL, which continues to remain a key rating monitorable. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above events on the credit risk profile of the company are clear.

### Key Rating drivers of Kujjal Hotels Pvt Ltd (LGEKHL; Borrower)

The unsupported/ standalone rating assigned to the bank facilities (I) of LGEKHL continues to remain constrained by the disruption caused in the operational and financial performance due to spread of covid pandemic, albeit improvement in 8MFY22 (refers to period from April 01 to Nov 30) and high level of competition in the hotel industry. The rating also take into account the vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events, regional trends in tourism and competition risk. However, ratings derive strength from its strong and resourceful promoter (BHL) with demonstrated support in the form of fund infusion in the past to support the operations and debt repayments.

### Rating sensitivities (BHL; Guarantor)

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

- Sustained improvement in operational performance of properties leading to improvement in margins beyond 35%
- Deleveraging of balance sheet through fund infusion or asset monetization such that overall gearing ratio improves to below 1.00x

#### Negative Factors- Factors that could lead to negative rating action/ downgrade

- Decline in Occupancy level and RevPAR, thereby affecting its liquidity & debt coverage indicators
- Decline in PBILDT margin going below 22% on a sustained basis leading to adverse impact on its debt coverage indicators
- Inability to reduce debt on balance sheet or further increase in debt levels leading to overall gearing to above 2.86x times

### Rating sensitivities (LGEKHL; Borrower)

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

- Sustained improvement in operational performance of properties leading to improvement in margins beyond 35%
- Deleveraging of balance sheet through fund infusion or asset monetization such that overall gearing ratio improves to below 1.00x

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

- Strengthening of financial profile and credit outlook for the parent; BHL.

#### **Negative Factors- Factors that could lead to negative rating action/ downgrade**

- Decline in Occupancy level and RevPAR, thereby affecting its liquidity & debt coverage indicators
- Decline in PBILDT margin going below 25% on a sustained basis leading to adverse impact on its debt coverage indicators
- Inability to reduce debt on balance sheet or further increase in debt levels leading to overall gearing to above 1.50x times
- Weakening of financial profile of the parent; BHL

**Detailed description of the key rating drivers of BHL:** The detailed description of the key rating drivers of BHL is available on our website [www.careedge.in](http://www.careedge.in).

#### **Detailed description of key rating drivers (Borrower)**

##### **Key Rating Weaknesses**

##### **Sharp moderation in the operational performance and financial risk profile in FY21 albeit improvement in 8MFY22**

During FY21 (refers to period from April 01 to March 31), there has been significant deterioration in the financial and operational performance across properties of LGEKHL on account of covid-19. LGEKHL witnessed dip of around 84% in its total income which stood at Rs.9.5 cr for FY21. The company reported PBILDT loss of 26.80% during FY21 as compared to operational margin of 29.34% in FY20. Even though the company had taken cost containment measures to tide over the covid-19 situation, there has been deterioration in operational profile of the company.

The overall gearing ratio stood comfortable at 0.94x as on March 31, 2021 as against 0.88x as on March 31, 2020 owing to increase in debt coupled with reduction in net worth owing to net losses. The interest coverage and total Debt /PBILDT have also deteriorated during FY21 to -0.38x (PY: 1.56x) and -61.44x (PY: 8.88x) respectively.

During 8MFY22 provisional (refers to period between April 01 to Nov 30), there has been improvement in its financial and operational metrics with revenue of Rs.12.30 cr coupled with EBIDTA margin of ~25%. This was accompanied by improvement in occupancy levels to 33% in Nov-21. This has been despite the impact of second covid wave in Q1FY22. With gradual rebound in the travel demand, the metrics are expected to improve going forward.

##### **Vulnerability of revenues to inherent industry cyclicity, 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 risk to revenues is partially mitigated by BHL'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. The company's 'The Lalit' brand faces intense competition from brands like Grand Hyatt, Taj, The Leela, Sahara Star, Hilton etc.

##### **Indian hospitality industry outlook**

The operational parameters of hotels improved on a quarterly basis in FY21, however, for the full year it has not yet reached pre-COVID levels. Furthermore, restrictions on dine-in services at restaurants such as reduced operating hours, limited seating capacity amongst other restrictions led to a challenging business environment for the industry players. The recovery in demand is dependent on the global and domestic containment of virus, the progress of the vaccination drive and subsequently easing of international travel restrictions. H1FY22 faced muted consumer demand on account of lean business season, however, it is expected to be higher than FY21 levels. The demand is has picked from Q3FY22 onwards on account of the festive and wedding season. The restrictions on outbound tourism that led to people exploring destinations within the country in FY21 is expected to continue in FY22 as well. It is to be noted that any possibility & severity of any other wave might strain the industry dynamics again.

##### **Liquidity: Stretched**

The standalone liquidity position of LGEKHL is stretched on account of debt repayments to the tune of Rs.9 cr annually as against cash losses of Rs.18 cr in FY21. In the previous years as well, there have been cash losses in the entity. Comfort is derived from ECGLS loan sanction of Rs.18 cr out of which Rs.7 cr has been availed till Oct-21. Out of scheduled debt repayment of 22 cr in LGEK and KHPL, repayment of Rs.12 cr has already been made in H1FY22. Further, the liquidity position derives strength from the parent; BHL. BHL in the past has been providing support in the form of fund infusion by way of loans and advances.

##### **Key Rating Strengths**

##### **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 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.

#### Demonstrated support in form of corporate guarantee from parent

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 parent with unsecured loans to the tune of ~Rs.42 cr as on March 31, 2021 (PY: Rs.36 cr as on March 31, 2020).

#### Analytical approach:

**Credit enhanced ratings:** The ratings are based on the credit enhancement in the form of unconditional & irrevocable guarantee provided by BHL (rated CARE BB+/ A4+ (Under credit watch with negative implications)).

BHL Consolidated financial have been considered for the said assessment. List of entities being consolidated:

Entity	Relation	Shareholding as on Mar 31, 2021
Jyoti Ltd	Subsidiary	99.99%
Lalit Great Eastern Kokata Hotel Ltd	Subsidiary	90.00%
Prime Cellular Ltd	Subsidiary	99.60%
Prima Buildwell Pvt Ltd	Subsidiary	100.00%
Kujjal Hotels Pvt Ltd	Subsidiary	50.00%
The Lalit Suri Educational & Charitable Trust	Management control	100.00%

**Unsupported Ratings:** Standalone. The ratings factor in the strong operational, financial & management linkages with parent entity; BHL.

#### Applicable Criteria

[Criteria on assigning outlook and credit watch to ratings](#)

[CARE's policy on default recognition](#)

[Financial ratios- Non-Financial sector](#)

[Liquidity Analysis of Non-Finance sector companies](#)

[Criteria for short-term instruments](#)

[Factoring Linkages in ratings](#)

[Rating methodology: Hotel Industry](#)

#### About the company (Borrower)

Lalit Great Eastern Kolkata Hotel Ltd (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 – KHPL; Standalone (Rs. crore)	FY20 (A)	FY21 (A)	8MFY22 (Prov.)
Total operating income	57.96	9.53	12.30
PBILDT	16.06	-2.82	3.00
PAT	-14.47	-25.71	NA
Overall gearing (times)	0.88	0.94	NA
Interest coverage (times)	1.56	-0.38	NA

A: Audited; Prov.: Provisional; NA: Not available

#### About the Company (Guarantor)

Bharat Hotels Ltd (BHL) incorporated in 1981 was founded by Late Mr. Lalit Suri and his family members. Presently the operations of the company are managed by Mrs. 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 2261 rooms

Brief Financials – BHL; Consolidated (Rs. crore)	FY20 (A)	FY21 (A)	8MFY22 (Prov.)
Total operating income	587.87	198.92	200.00
PBILDT	178.24	56.50	72.00
PAT	-73.80	-90.52	NA
Overall gearing (times)	1.78	2.22	NA
Interest coverage (times)	1.07	0.36	NA

A: Audited; Prov.: Provisional; NA: Not 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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Feb-30	96.87	CARE BB+ (CE) (CWN)
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BB+ (CE) (CWN)
Fund-based - LT-External Commercial Borrowings		-	-	-	2.80	CARE BB+ (CE) (CWN)
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A4+ (CE) (CWN)
Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	CARE BB / CARE A4 (CWN)
Fund-based - LT-Term Loan		-	-	-	17.80	CARE BB (CWN)

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	96.87	CARE BB+ (CE) (CWN)	1)CARE BB+ (CE) (CWN) (07-Apr-21)	1)CARE BBB- (CE) (CWN) (26-May-20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)
2	Term Loan-Long Term	-	-	-	-	-	-	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)
3	Fund-based - LT-Cash Credit	LT	7.00	CARE BB+ (CE) (CWN)	1)CARE BB+ (CE) (CWN) (07-Apr-21)	1)CARE BBB- (CE) (CWN) (26-May-20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)
4	Fund-based - LT-External Commercial Borrowings	LT	2.80	CARE BB+ (CE) (CWN)	1)CARE BB+ (CE) (CWN) (07-Apr-21)	1)CARE BBB- (CE) (CWN) (26-May-20)	1)CARE BBB (CE) (CWD) (30-Jul-19) 2)CARE BBB (CE) (CWD) (09-Jul-19)	1)CARE BBB (SO); Stable (26-Sep-18) 2)CARE BBB- (SO); Stable (06-Apr-18)
5	Non-fund-based -	ST	5.00	CARE	1)CARE A4+	1)CARE A3	1)CARE A3+	1)CARE A3+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
	ST-BG/LC			A4+ (CE) (CWN)	(CE) (CWN) (07-Apr-21)	(CE) (CWN) (26-May-20)	(CE) (CWD) (30-Jul-19) 2)CARE A3+ (CE) (CWD) (09-Jul-19)	(SO); Stable (26-Sep-18) 2)CARE A3 (SO) (06-Apr-18)
6	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	0.00	CARE BB / CARE A4 (CWN)	1)CARE BB / CARE A4 (07-Apr-21)	1)CARE BB / CARE A4 (26-May-20)	-	-
7	Fund-based - LT-Term Loan	LT	17.80	CARE BB (CWN)				

\* Long Term / Short Term

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

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

Sr. No	Name of 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: Bank Lender Details for this Company: NA**

**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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**About CARE Ratings Limited:**

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