

The Lake Palace Hotels & Motels Private Limited

April 05, 2019

Ratings

Sr .no	Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
1.	Long-term Bank Facilities	-	-	Withdrawn*
2.	Long-term Bank Facilities	100	CARE A- (SO); Stable (Single A Minus {Structured Obligation}); Outlook: Stable	Assigned[@]
3.	Long-term Bank Facilities	20	CARE BBB-;Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
	Total	120.00 (Rupees One Hundred Twenty crore only)		

@backed by the credit enhancement in the form of structured securitization of lease rental receivables from The Indian Hotels Company Limited (IHCL) (rated CARE AA+; Stable/CARE A1+).

**Rating assigned to the long term bank facilities (term debt) has been withdrawn since the company has repaid the entire amount.*

Details of instruments/facilities in Annexure-1

Detailed Rationale

The rating assigned to the bank facilities [at (2) above] of The Lake Palace Hotels & Motels Private Limited (LHMPL) derives strength from credit enhancement in the form of securitization of lease rental receivables from The Indian Hotels Company Limited (IHCL; rated CARE AA+; Stable/CARE A1+). Under the revised lease model, IHCL has agreed to deposit the minimum guaranteed amount (MGA) of lease rental in the escrow account, which will be exclusively utilised towards the payment of instalments, due interest and other charges pertaining to the securitized debt.

The revision in the rating assigned to the bank facilities [at (3) above] of LHMPL is on account of improvement in cash flows of the company under the renewed lease agreement with IHCL, prepayment of its term debt utilising the proceeds of security deposits received under the revised agreement and improvement in the operational performance of the properties owned and managed by LHMPL during 11MFY19.

The rating continues to derive strength from the resourceful promoters of LHMPL who own multiple prestigious heritage properties in Rajasthan and its established brand and marketing set up, stable scale of operations with healthy operating profitability margins.

The rating, however, continues to remain constrained on account of its low net worth base and leveraged capital structure and significant amount of loans and advances & equity investment by LHMPL in its various subsidiaries and associates. The rating further remains constrained on account of LHMPL's presence in a highly competitive and inherently cyclical hospitality industry.

The ability of LHMPL to increase its scale of operations and improve its profitability by improving the occupancy rates (OR) and average room rent (ARR) along with improvement in capital structure and realizing envisaged returns from its investment in subsidiaries/associates would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths:

Renewal of lease agreement with IHCL: LHMPL has renewed its lease agreement with IHCL for its property 'The Lake Palace' in October 2018 for an extended period of 22 years at more favorable terms as compared to the earlier one. The lease rental under the renewed agreement is envisaged to be substantially higher from FY20 onwards, as compared to the earlier agreement. Apart from above, LHMPL has received Rs.80 crore (Rs.44 crore as refundable deposit at the end of lease term and Rs. 36 crore as an advance rent to apportioned over the lease period) from IHCL The new agreement has improved the financial profile and liquidity of LHMPL.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Credit enhancement in the form of securitization of lease rental receivable from IHCL: LHMPL has availed a fresh term loan of Rs.100 crore which is securitized against the lease rental receivable from IHCL. The repayment of term debt is spread over 20 years and is structured in line with the MGA receivable from IHCL. MGA from IHCL is sufficient to repay the entire debt obligation of the company. Low counterparty credit risk, timely payment track record by IHCL in the past, routing of lease rentals through an escrow account and its sufficiency to repay the principal and interest cost, ensures cash flow adequacy and sustainability in the long term and aids liquidity of the company.

Prepayment of entire outstanding term debt and comfortable liquidity: LHMPL has prepaid a part of unsecured loans and the entire term debt outstanding as on March 31, 2018 from the proceeds received as deposit from IHCL and disbursement of new securitized term loan. The new securitized term loan is the only term debt of the company, apart from fund-based working capital facility. The utilization of working capital facility remained low at around 15% post repayment of overdraft facility from deposit received from IHCL. Furthermore, the cash flow from other properties owned by LHMPL remains unencumbered and is available to meet maintenance capex requirements of the properties.

Experienced and resourceful promoters who own many prestigious heritage hotel properties in Rajasthan: LHMPL is led by Mr. Arvind Singhji Mewar, the Chairman and Managing Director, who has an extensive experience in the hospitality business. The Lake Palace Hotel, Udaipur, the flagship hotel property owned by LHMPL, is more than two and half centuries old. It was originally built by Maharana Jagat Singh II in 1754. The property was converted into a hotel in 1963 and has been given on lease to IHCL starting from FY2001.

Stable scale of operations and profitability: During FY18, the total operating income (TOI) of LHMPL remained stable at Rs.66.89 crore (PY:Rs 75.89 crore). The moderation in TOI is on account of decrease in revenue receipts from venue charges and boat income by 61% and 58% to Rs. 2.51 crore and Rs. 3.61 crore respectively. The income of LHMPL from its own managed properties decreased marginally from Rs.57.65 crore during FY17 to Rs.48.45 crore during FY18 owing to significant decline in wedding-related bookings and venue charges post demonetization. However, the incentives receipts from IHCL increased to Rs. 4.94 crore in FY18 (PY: 4.72 crore).

The profitability marked by PBILDT margin remained healthy albeit, marginally declined by 258 bps to 40.98% in FY18 on account of increase in employee cost, lower revenue receipts from the venue charges and marginal decrease in ARR and OR by 6% and 9% respectively. Consequently, PAT margin also reduced by 172 bps to 3.22%.

As per provisional results for 10MFY19, LHMPL reported total operating income of Rs.65.27 crore.

Key Rating Weaknesses:

Leverage capital structure: Despite improvement, capital structure of LHMPL continued to remain highly leveraged marked by overall gearing to 8.61x as on March 31, 2018 (9.77x as on March 31, 2017). Low net worth base, primarily on account of negligible carrying value of its hotel properties of heritage category and reliance on term debt resulted in a leveraged financial profile. Debt coverage indicators remained moderate during FY18 marked by moderate interest coverage of 1.79x.

Loans and advances extended to subsidiaries/associates: LHMPL has extended support to its subsidiary/associates in terms of equity investment/unsecured loan to support their operations. As on March 31, 2018, the overall investment increased to Rs.101.50 crore (Rs.78.78 crore as equity and Rs.11.39 crore as unsecured loan/deposit). Future policy regarding extending support to group entities would be a key credit monitorable.

Presence in cyclical and competitive industry: Udaipur is one of the most visited tourist destinations in India and attracts a large number of foreign tourists; Though HRH hotel manages the highest number of heritage hotel properties in Udaipur, it faces stiff competition from many established and organized players in the hospitality industry in Udaipur and nearby regions. Furthermore, the luxury hospitality industry depends heavily on foreign tourist flows and any adverse deviation in Foreign Tourist Arrivals (FTAs) may put pressure on occupancy and consequently ARRs of heritage properties. However, LHMPL also earns part of its revenue from organizing various events which is largely from the domestic customers, thereby mitigating this risk to a certain extent.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology - Service Sector Companies](#)

[Rating Methodology Hotel Industry](#)

[Financial ratios - Non Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

LHMPL is the flagship company of “HRH Group of Hotels”, Udaipur, promoted by the royal family of Mewar, Rajasthan. The group manages heritage properties and luxury hotels mainly in the state of Rajasthan. “Lake Palace Hotel, Udaipur” was established in 1963 (under LHMPL) by Late Maharana Bhagwat Singhji Mewar as the Mewar family’s first interest in the hospitality business.

Presently, The HRH group consists of LHMPL, its three subsidiaries, namely, Historic Resorts Hotels Pvt Ltd (HRHPL), Rajput Hotel & Resorts Pvt Ltd (RHRPL) and Shikarbadi Hotel Pvt Ltd (SHPL) and the associate company, The Lake Shore Palace Hotel Pvt Ltd (LSPHL). The HRH group manages 12 hotel properties spread across Rajasthan state, most of them being Heritage properties. LHMPL manages five hotel properties having a combined room inventory of 145 as on December 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	75.87	66.89
PBILDT	33.05	27.41
PAT	3.75	2.15
Overall gearing (times)	9.77	8.61
PBILDT Interest coverage (times)	1.81	1.79

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Term Loan	NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Term Loan	NA	NA	NA	0.00	Withdrawn
Fund-based - LT-Bank Overdraft	NA	NA	NA	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	NA	NA	December 2038	100.00	CARE A- (SO); Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)	1)CARE BB+ (23-Dec-15)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)	1)CARE BB+ (23-Dec-15)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)	1)CARE BB+ (23-Dec-15)
4.	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB-; Stable	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)	1)CARE BB+ (23-Dec-15)
5.	Fund-based - LT-Term Loan	LT	100.00	CARE A- (SO); Stable	-	-	-	-

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