

The Lake Palace Hotels & Motels Private Limited

April 6, 2020

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
1	Long-term Bank Facilities	# 98.88 (reduced from Rs.100 crore)	CARE A- (SO); Stable (Single A Minus {Structured Obligation}; Outlook: Stable)	Reaffirmed
2	Long-term Bank Facilities	20.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
	Total Facilities	118.88 (Rupees One Hundred Eighteen Crore and Eighty Eight Lakh only)		

backed by the credit enhancement which is available in the form of a ring-fenced cash flow structure from securitization of lease rental receivables from The Indian Hotels Company Limited (IHCL, rated CARE AA+; Stable/CARE A1+)

Details of facilities in Annexure 1

Detailed Rationale & Key Rating Drivers

The rating for the bank facility [at Sr. No.1] of The Lake Palace Hotels & Motels Private Limited (LHMPL) continues to derive 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 lease model which has been in operation since very long, 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 rating for bank facility [at Sr. No.2] continues to derive strength from the resourceful promoters of LHMPL who own multiple prestigious heritage properties in Rajasthan, its established brand and marketing set up, stable scale of operations with healthy operating profitability margins. The rating also takes cognizance of recent lease out of it's another hotel property viz. 'Fateh Prakash Palace' to IHCL whereupon receipt of refundable deposit has led to its improved liquidity position.

The rating, however, continues to remain constrained on account of its low net worth base and leveraged capital structure, significant amount of loans and advances & equity investment by LHMPL in its various subsidiaries and associates and its presence in a highly competitive & inherently cyclical hospitality industry which is expected to be adversely impacted due to the outbreak of Covid-19 pandemic.

Rating Sensitivities

Positive Factors

- Satisfactory running of lease arrangement with IHCL for its two leased hotel properties with significant incentive income beyond the minimum guaranteed amount of lease rental and healthy income from the revenue sharing model resulting in improvement in its debt coverage indicators
- Growth in scale of operations with TOI above Rs.100 crore on a sustained basis
- Improvement in PBILDT margin to more than 42% on a sustained basis
- Improvement in overall gearing below 2x on a sustained basis with repayment of term loan obligations and reduced reliance on borrowings for working capital requirement

Negative Factors

- Cancellation of lease arrangement with IHCL for any of the leased hotel properties
- Invocation of Force Majeure in the lease agreement with IHCL leading to shortfall in receipt of MGA of lease rental from IHCL
- Significant decline in scale of operations or decline in PBILDT margin below 34% on a sustained basis
- Any major debt funded capex leading to deterioration of overall gearing beyond 5x on a sustained basis
- Significant decline in occupancy level and average room rate of the hotels, due to adverse effect of Corona virus over a prolonged period of time
- Extension of further investment/loans to subsidiaries and/or group companies

Detailed description of the key rating drivers

Key Rating Strengths

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

Experienced and resourceful promoters who own many prestigious heritage hotel properties in Rajasthan

LHMPL has been led by Mr. Arvind Singhji Mewar, Chairman and Managing Director, who has an extensive experience in the hospitality business. LHMPL has 6 heritage hotel properties, namely, The Lake Palace Hotel, Fateh Prakash Palace, Jagmandir Island Palace, Garden Hotel, Aodhi Hotel and Fateh Bagh. The Lake Palace Hotel, flagship hotel property of LHMPL, is more than two and half centuries old. It was originally built by Maharana Jagat Singh II in 1754 and later converted into a hotel in 1963. It has been leased out to IHCL from FY01 and later on the lease was renewed in October 2018 for the period of further 22 years. Recently, LHMPL has also leased out Fateh Prakash Palace to IHCL in January 2020 for the period of 25 years and 3 months.

Growth in scale of operations and healthy operating profitability

During FY19, LHMPL's total operating income has increased by 5% y-o-y to Rs.70.30 crore on account of increase in Occupancy Rate (OR) and Average Room Rate (ARR) leading to higher income from room sales as well as food & beverages. OR increased from 26.21% in FY18 to 31.21% in FY19 whereas ARR increased from Rs.6,560 in FY18 to Rs.7,356 in FY19. Revenue receipts from venue charges also increased to Rs.5.09 crore (PY: Rs.2.51 crore). Moreover, LHMPL's PBILDT margin remained healthy at 36.51% in FY19 albeit y-o-y decline of 447 bps largely on account of decrease in income from lease rentals and boat operations. LHMPL's PAT margin increased from 3.22% in FY18 to 6.87% in FY19, despite decline in operating profitability, on account of decrease in interest cost with pre-payment of term loans and reduced utilization of working capital limit.

Satisfactory operations of the lease arrangement with IHCL w.r.to 'The Lake Palace Hotel' property; the securitization of lease rental receivables from IHCL provides credit enhancement to the securitized term loan

LHMPL had availed term loan of Rs.100 crore (Rs.98.88 crore outstanding as on December 31, 2019) which is securitized against the lease rent receivables from IHCL. The repayment of term loan is spread over 20 years and is structured in line with the Minimum Guaranteed Amount (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 rent 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.

Additional lease of 'Fateh Prakash Palace' with IHCL

During January 2020, LHMPL has entered in to a lease arrangement with IHCL for its another hotel property viz. Fateh Prakash Palace for a period of 25 years and 3 months. However, unlike 'The Lake Palace' hotel leased to IHCL wherein there is MGA of lease rental, lease of Fateh Prakash Palace is based on revenue sharing model without any MGA lease rental. With the execution of this lease, LHMPL has received refundable deposit of Rs.35 crore and is scheduled to receive non-refundable deposit of Rs.29.25 crore in April 2020.

Liquidity: Adequate

LHMPL's liquidity remained adequate marked by low utilization of fund based working capital limit at ~42% in the trailing 12 months ended February 2020. Further, LHMPL's operating cycle shortened from 56 days in FY18 to 45 days in FY19 along with healthy cash flow from operations of Rs.23.52 crore. LHMPL has long term debt in the form of securitized term loan backed by lease rent receivables of 'The Lake Palace Hotel' which are sufficient to repay its principal as well as interest obligations. Further, with the realization of Rs.35 crore of refundable deposit from IHCL for lease of 'Fateh Prakash Palace', LHMPL has repaid unsecured loans from promoters of ~Rs.5 crore, repaid outstanding OD of ~Rs.10 crore and balance ~Rs.20 crore is invested in fixed deposits which has shored up its liquidity.

Key Rating Weaknesses***Leveraged capital structure***

Despite improvement, capital structure of LHMPL continued to remain highly leveraged marked by overall gearing of 4.02x as on March 31, 2019 (8.61x as on March 31, 2018). Low net worth base, primarily on account of negligible carrying value of its hotel properties of heritage category and reliance on term debt has resulted in a leveraged financial profile. Debt coverage indicators remained moderate during FY19 marked by moderate interest coverage of 1.92x.

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, 2019, the overall investment stood at Rs.101.76 crore (Rs.93.31 crore as equity and Rs.8.45 crore as unsecured loan/deposit) which is significantly higher than its net worth. Future policy regarding extending support to group entities would be a key credit monitorable.

Presence in a cyclical and competitive hotel industry along with the likely adverse impact of outbreak of Covid-19 pandemic

The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, cyclical nature of the hotel industry and increasing competition from already established hotels has impacted operating performance of the industry players. Udaipur is one of the most visited tourist destinations in India and attracts a large number of foreign tourists. Though HRH group 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. Also, with the outbreak of Covid-19 pandemic, Indian hospitality industry is witnessing a sharp and sudden dip in occupancies and revenue with both business and leisure trips being cancelled/postponed by domestic and international travellers and future bookings are also getting stalled. Further, the Indian Government has cancelled all its non-official visas offered and has also advised to curb all non-essential travels across the country by declaring a nationwide lock down in the view of preventing the spread of this virus. Therefore, the possible impact of the Covid-19 pandemic on the financial performance of the LHMPL in the short to medium term shall also be a key rating monitorable.

Risk of invocation of force majeure by IHCL under lease agreement

Lease agreement of LHMPL with IHCL for 'The Lake Palace Hotel' carries force majeure clause allowing for non-payment of lease rental by IHCL under certain circumstances. Due to the outbreak of Covid-19 pandemic, in case the lockdown prolongs and if any of the terms of the force majeure clause is triggered, in such a case the lease payments from IHCL could be delayed, thereby affecting the cash flows for servicing of the LRD loan. However, LHMPL carries adequate liquidity to take care of any temporary disruption in receipt of lease payment.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy of Default Recognition

Rating Methodology – Hotel Industry

Financial Ratios – Non-Financial Sector

Rating Methodology for Debt backed by Lease Rentals

Rating Methodology – Consolidation & 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 five subsidiaries, one fellow subsidiary and one associate company, namely, Historic Resort Hotels Pvt. Ltd. (HRHPL), Shikarbadi Hotels Pvt. Ltd. (SHPL), The Lake Palace Hotels & Motels UK Ltd. (LPHML), Gorbhand Hotel Pvt. Ltd. (GHPL), Ramgarh Resorts & Polo Complex Pvt. Ltd. (RRPCPL), Rajput Hotel & Resorts Pvt. Ltd. (RHRPL) and The Lake Shore Palace Hotel Pvt. Ltd. (LSHPL) respectively. The HRH group manages 9 hotel properties spread across Rajasthan state, most of them being Heritage properties.

LHMPL has leased out two of its hotel properties to IHCL under a long-term lease whereas balance 4 hotel properties with a total inventory of 80 rooms is being managed by LHMPL.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	66.89	70.30
PBILDT	27.41	25.67
PAT	2.15	4.83
Overall gearing (times)	8.61	4.02
Interest coverage (times)	1.79	1.92

A- Audited

Further, LHMPL reported total operating income of Rs.44.78 crore during 9MFY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure 2

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-Bank Overdraft	-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	December 2038	98.88	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)
2.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)
3.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)
4.	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB-; Stable	1)CARE BBB-; Stable (05-Apr-19)	-	1)CARE BB+; Stable (12-Mar-18)	1)CARE BB+; Stable (30-Jan-17)
5.	Fund-based - LT-Term Loan	LT	98.88	CARE A- (SO); Stable	1)CARE A- (SO); Stable (05-Apr-19)	-	-	-

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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