

Bharat Hotels Limited

May 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	1215.81	CARE BBB- (Triple B Minus) (Under Credit watch with Negative Implications)	Revised from CARE BBB and rating put under credit watch with negative implications
Short term Bank Facilities	55.00	CARE A3 (A Three) (Under Credit watch with Negative Implications)	Revised from CARE A3+ and rating put under credit watch with negative implications
Total	1270.81 (Rs. One Thousand Two Hundred Seventy Crore and Eighty One Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Bharat Hotels Limited (BHL) factors in weakening of business and financial risk profile due to temporary shutdown of hotel properties following lockdown imposed by the Government and its subsequent extensions. Further, the ratings are placed on 'Credit Watch with Negative Implications' on account of disruption in operations due to CoVID-19 outbreak. Most of the company's properties have been shut down or are operating at minimal level. CARE expects the occupancy rates and RevPAR's to substantially decline in FY21 and recovery is expected to be slow and gradual. Disruption could also lead to increase in working capital requirement which may impact the liquidity position. The credit watch also takes cognizance of the news article regarding hike in licensing fees proposed by NDMC on the basis of current market forces and area covered by the Hotel property in Delhi. 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 on the credit risk profile of the company are clear.

The ratings of BHL takes into account comfortable financial performance of the company as exhibited by improved occupancy levels and Average Room Rate (ARR) during FY19. Further, 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. However, the ratings continue to remain constrained by moderate solvency, vulnerability of revenues to inherent industry cyclical, economic cycles, and exogenous events, regional trends in tourism and competition risk.

Rating Sensitivities

Positive Factors

- Sustained improvement in operational performance of properties leading to improvement in margins and debt coverage indicators
- Improvement in its capital structure with overall gearing of less than 1.00 times

Negative Factors

- 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
- Increase in debt levels leading to overall gearing to above 2.00x times

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters, long track of operations in the hotel industry

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.

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

Established relationship with corporate and consortia clients

The company also operates two business & commercial towers in Delhi, namely World Trade Centre and World Trade Tower with a total office and commercial space of over 286,000 sq ft spread over eight floors in each tower. Apart from this, the company also operates a commercial tower within the premises of The LaLit Mumbai called The LaLit Residency with office and commercial space of 44,000 sq ft across five floors. The company over the years has developed an established relationship with various leading corporate. These tie-ups have been providing BHL consistent customer sourcing and assured revenue.

Financial risk profile

During FY19 (A), BHL witnessed y-o-y growth of 7.46% in total operating income. The total operating income of the company increased on account of improved occupancy of 63% and ARR of Rs. 6,652 in FY19. (PY: 62% and Rs. 6,388). The company's PBILDT margin improved by 111bps and stood at 31.42% during FY19. The company achieved PAT of Rs. 28.43 cr during FY19. Improved profitability and cash accruals has resulted in better coverage indicators with interest coverage and total debt to gross cash accruals of 1.72x and 12.82x respectively as on March 31, 2019 from 1.67x and 16.42x respectively as on March 31, 2018. During FY20 (Provisional), the company has reported revenue from operations of more than Rs. 720 cr.

Key Rating Weaknesses**Moderate Capital Structure**

BHL has overall gearing of 1.59x as on March 31, 2019 owing to debt of Rs. 1430 cr over networth base of Rs. 897 cr as on March 31, 2019.

Vulnerability of revenues to inherent industry cyclicality, 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.

Liquidity: Adequate

BHL's liquidity remains adequate and is marked by unutilized fund based working capital limit of ~Rs.45 crore as of April 2020 which is expected to be sufficient to meet its fixed operational costs for around next 3-4 months by when its management expects the impact of Covid-19 on its currently shut-down operations to gradually subside. Further, BHL has cash & bank balance of ~Rs. 20 cr and undisbursed amount of more than Rs. 50 cr from bank against scheduled term debt repayments of ~Rs.60 cr in FY2021. Simultaneously, the company management plans to take various cost control measures to shore-up its cash flows during this period. Also, to support its liquidity, BHL has sought moratorium on servicing of its term debt & working capital borrowings from March 1, 2020 to May 31, 2020.

Analytical approach: Consolidated financials of BHL

Applicable criteria

- [Criteria on assigning 'outlook' and 'credit watch'](#)
- [CARE's Policy on Default Recognition](#)
- [Criteria for Short-term Instruments](#)
- [Rating Methodology – Hotel Industry](#)
- [CARE's methodology for Service Industry](#)
- [CARE's methodology for financial ratios \(Non-Financial Sector\)](#)

About the Company

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 (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	760.85	817.58
PBILDT	230.62	256.87
PAT	83.88	28.43
Overall gearing (times)	1.61	1.59
Interest coverage (times)	1.67	1.72

A: Audited

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
Term Loan-Long Term	-	-	FY2031	1058.56	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based-Long Term	-	-	-	46.00	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - LT-External Commercial Borrowings	-	-	FY2023	55.91	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - ST-Packing Credit in Foreign Currency	-	-	-	25.00	CARE A3 (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	30.00	CARE A3 (Under Credit watch with Negative Implications)
Fund-based - LT-Working Capital Demand loan	-	-	-	55.34	CARE BBB- (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	1058.56	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE BBB (Under Credit watch with Developing Implications) (09-Jul-19)	1)CARE BBB; Stable (26-Sep-18) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (14-Jul-17)
2.	Fund-based-Long Term	LT	46.00	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE BBB (Under Credit watch with Developing Implications) (09-Jul-19)	1)CARE BBB; Stable (26-Sep-18) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (14-Jul-17)
3.	Fund-based - LT-External Commercial Borrowings	LT	55.91	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE BBB (Under Credit watch with Developing Implications) (09-Jul-19)	1)CARE BBB; Stable (26-Sep-18) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (14-Jul-17)
4.	Fund-based - ST-Packing Credit in Foreign Currency	ST	25.00	CARE A3 (Under Credit watch with Negative Implications)	-	1)CARE A3+ (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE A3+ (Under Credit watch with Developing Implications) (09-Jul-19)	1)CARE A3+; Stable (26-Sep-18) 2)CARE A3 (06-Apr-18)	1)CARE A3 (14-Jul-17)
5.	Non-fund-based - ST-BG/LC	ST	30.00	CARE A3 (Under Credit watch with Negative Implications)	-	1)CARE A3+ (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE A3+ (Under Credit watch with Developing Implications) (09-Jul-19)	1)CARE A3+; Stable (26-Sep-18) 2)CARE A3 (06-Apr-18)	1)CARE A3 (14-Jul-17)
6.	Fund-based - LT-Working Capital Demand loan	LT	55.34	CARE BBB- (Under Credit watch with Negative Implications)	-	1)CARE BBB (Under Credit watch with Developing Implications) (30-Jul-19) 2)CARE BBB (Under Credit watch with Developing Implications) (09-Jul-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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