April 29, 2022

Pride Hotels Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	134.53	118.36	[ICRA]BB- (Stable); Upgraded from [ICRA]D
Long-term Fund-based Limits	16.00	16.00	[ICRA]BB- (Stable); Upgraded from [ICRA]D
Short-term Non-fund based Limits	1.00	1.00	[ICRA]A4; Upgraded from [ICRA]D
Long-term - Unallocated	-	16.17	[ICRA]BB- (Stable); Upgraded from [ICRA]D
Total	**151.53**	**151.53**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings revision for the bank lines of Pride Hotels Limited (PHL/the company) considers the curing of past delays in servicing loans and timely servicing of debt obligations for the past twelve months. The company had delays in debt servicing in FY2021 owing to its weakened liquidity position following the pandemic outbreak. With sizeable debt servicing requirements, the sharp contraction in revenues, due to the covid-19 pandemic had a detrimental impact on the company's ability to service its debt. The company had opted for moratorium until August 31, 2020, under the RBI's Covid-19 Regulatory Package. Subsequently, the company applied for one-time restructuring plan (RP) of all its loans prior to the next repayment date. Post the moratorium expiry, the company had missed its re-payments in view of its stressed cash flows and in anticipation of a favourable restructuring of loans. However, the application for restructuring was not formalised and PHL applied for the Emergency Credit Line Guarantee Scheme (ECLGS) 2.0 instead. The company reported overdues of Rs. 2.0 crore pertaining to debt repayment obligations as on January 08, 2021. However, the same has been regularised, as confirmed by the management and the bankers.

ICRA also positively factors in the healthy improvement in the company's accruals in 9M FY2022. The OPM for 9M FY2022 stood at 35.6%, higher than pre-covid levels, with sustenance of some of the cost-saving initiatives undertaken in FY2021. This, along with healthy improvement in revenues has resulted in net cash accruals of Rs. 24.2 crore (standalone) in 9M FY2022. The company expects to achieve pre-Covid revenues and OPBDITA in FY2023. The ratings also consider PHL's diversified presence across geographic locations and price points/segments with presence in 20 cities across 13 Indian states. However, the company has moderate scale of operations with a total inventory of 1,948 rooms as of February 2022. While the company's capital structure remains comfortable with an adjusted gearing[1] of 0.5x (standalone) as on Dec 31, 2021, the coverage metrics continue to be moderate.

[1] Adjusted gearing refers to debt excluding promoter loans of Rs. 17.3 crore.

PHL continues to have a stretched liquidity position with negligible cash balances and minimal undrawn working capital lines of Rs. 3.0 crore as on March 31, 2022. While the company has undrawn ECLGS lines of Rs. 35.0 crore as on March 31, 2022, this is available for the company only till June 30, 2022 currently. As against these sources, the company has principal repayment obligations of Rs. 20.9 crore and Rs. 20.7 crore respectively in FY2023 and FY2024[2]. PHL has unsecured loans of Rs. 17.3 crore from the promoters as of March 31, 2022, and this is likely to continue going forward as well.

Key rating drivers and their description

Credit strengths

Diversified presence across geographic locations and price points/segments – PHL own seven properties (in Pune, Nagpur, Ahmedabad, Kolkata, Bengaluru, Chennai and New Delhi), while thirteen hotels/resorts are on a management contract basis (in Jaipur, Goa (North), Vadodara, Dharamshala, Puri, Indore, Manali, Rajkot, Gantok, Agra, Bharatpur, Jabalpur and Anand). Further, the company also signed new under construction properties in Surendarnagr, Rajkot, Bharuch, Daman, Haldwani, Nanital and Jim Corbett under the management contract route. The geographical diversification reduces the vulnerability of the company's revenues to any localised downturn/unforeseen events or region-specific risks and helps in capitalising on demand growth across regions. Further, the hotel portfolio is diversified across segments, with presence in upper upscale, upscale and midscale/economy segments. This helps the company capture a wide range of customers, including those travelling for leisure as well as business.

Comfortable capital structure – PHL's capital structure is comfortable with adjusted gearing[3] of at 0.5x (standalone) as on Dec 31, 2021. With minimal capex/debt expected going forward with the company focussing on expansion only through management contracts, ICRA expects PHL's capital structure to remain comfortable over the medium term.

Healthy recovery in revenues in the last few months; company expects to reach pre-Covid levels in FY2023 – About 50% of PHL's demand stems from corporate travel, while the remaining comes from weddings/MICE and FIT/leisure travel. While Q1 FY2022 was impacted by the Covid-19 wave 2.0 lockdowns, there has been sequential pickup since Q2 FY2022, barring the impact of the Omicron wave in Jan/early Feb 2022. PHL has achieved healthy improvement in topline, with 9M FY2022 revenues at Rs 94.7 crore, supported by the demand pick up. The company is expected to have clocked a topline of Rs. 130.0 crore for full year FY2022, despite the Omicron impact in Jan/early Feb 2022. The OPM for 9M FY2022 stood at 35.6%, higher than pre-Covid levels, with sustenance of some of the cost-saving initiatives undertaken in FY2021. Going forward, PHL expects to achieve pre-Covid revenues and OPBDITA in FY2023.

Credit challenges

Moderate coverage metrics – The company has relatively high borrowings for its scale of operations (adjusted debt of Rs. 139.1 crore as on March 31, 2022, excluding promoter loans of Rs. 17.3 crore as on March 31, 2022) due to debt-funded capex incurred in the past and net losses in FY2021. PHL's Adj debt/OPBDITA was at 3.1 times and its interest coverage was at 3.6 times for 9M FY2022 9 (standalone). While it is expected to improve going forward, with anticipated improvement in accruals, the coverage metrics are expected to remain moderate over the medium term.

Moderate scale of operations; vulnerable to external threats, similar to other hotel players – PHL has relatively moderate scale of operations, with an aggregate inventory of 1948 rooms as on February 2022. Despite the proposed increased in room inventory, the scale is expected to remain moderate going forward as well. Akin to its counterparts, PHL's revenue also remains

[2] The company has prepaid Rs. 11.9 crore of term loans in Q4 FY2022. However, these have not been adjusted in scheduled repayment obligations of FY2023, in the absence of clarity on the revised repayment schedule.

[3] Gearing calculated based on adjusted debt, excluding promoter loans of Rs. 17.3 crore

susceptible to exogenous shocks such as natural calamities, disease outbreaks, terrorist attacks and economic or geopolitical instability.

Liquidity position: Stretched

PHL continues to have a stretched liquidity position with negligible cash balances and minimal undrawn working capital lines of Rs. 3.0 crore as on March 31, 2022. While the company has undrawn ECLGS lines of Rs. 35.0 crore as on March 31, 2022, this is available for the company only till June 30, 2022 currently. As against these sources, the company has principal repayment obligations of Rs. 20.9 crore and Rs. 20.7 crore respectively in FY2023 and FY2024[4]. The company has minimal capex plans over the medium term. PHL has unsecured loans of Rs. 17.3 crore from the promoters as of March 31, 2022, and this is likely to continue going forward as well.

Rating sensitivities

Positive factors - Continued improvement in PHL's operating metrics leading to improvement in financial performance and debt metrics could accelerate the transition to a higher rating.

Negative factors - Negative pressure on PHL's ratings could arise if the company witnesses weakening of liquidity position and pressure on earnings or weakening of debt metrics.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on PHL's consolidated financial statements. The company's subsidiaries and associates are enlisted in Annexure-2.

About the company

Pride Hotels Limited (PHL) has seven owned/leased hotels and thirteen properties under management contract, spread across 20 cities pan-India and multiple segments. The company has presence in the upper upscale, upscale and midscale/economy segments through it's brands The Pride Plaza hotels, The Pride Hotels and Resorts/Biznotels. About 50% of PHL's demand stems from corporate travel, while the remaining comes from weddings/MICE and FIT/leisure travel. The company's day-to-day operations are run by Mr. S. P. Jain (promoter), who also has interest in other businesses including an NBFC.

[4] The company has prepaid Rs. 11.9 crore of term loans in Q4 FY2022. However, these have not been adjusted in scheduled repayment obligations of FY2023, in the absence of clarity on the revised repayment schedule.

Key financial indicators (Audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	199.6	66.2
PAT (Rs. crore)	13.4	-22.4
OPBDIT/OI (%)	29.4%	5.5%
PAT/OI (%)	6.7%	-33.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.1
Total Debt/OPBDIT (times)	2.8	47.9
Interest Coverage (times)	3.0	0.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated	Amount Outstanding as of Mar 31, 2022	Date & Rating in	FY2021		FY2019	FY2018
					29-Apr-2022	08-Jan-2021	17-Apr-2020	29-Mar-2019	12-Dec-2017
1	Term loans	Long-term	118.36	118.36	[ICRA]BB- (Stable)	[ICRA]D	[ICRA]BBB (Negative)	[[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Fund-based	Long-term	16.00	-	[ICRA]BB- (Stable)	[ICRA]D	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Non-fund based	Short-term	1.00	-	[ICRA]A4	[ICRA]D	[ICRA]A3+	[ICRA]A3+	[ICRA]A3
4	Unallocated	Long-term	16.17	-	[ICRA]BB- (Stable)	-	-	-	-

Note: Amounts in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Long term - Fund based – Overdraft	Simple
Short term – Non-fund based	Very simple
Long term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loans	FY2018	8.10%-9.25%	FY2029	118.36	[ICRA]BB- (Stable)
NA	Overdraft	NA	10.50%	NA	16.00	[ICRA]BB- (Stable)
NA	Bank Guarantee	NA	NA	NA	1.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	16.17	[ICRA]BB- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation approach
Indralok Hotels Private Limited	100.0%	Full Consolidation
Somti Hotels Private Limited	100.0%	Full Consolidation
Rohan Hotels Private Limited	100.0%	Full Consolidation
Pride Beach Resorts Private Limited	100.0%	Full Consolidation
Jagsons Hotels Private Limited	22.3%	Equity Method

Source: *Company*

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