July 20, 2022

Caddie Hotels Private Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loans	428.15	428.15	[ICRA]BBB+(Stable); Reaffirmed, outlook revised to Stable from Negative
Long-term/ Short-term Non-fund Based Facilities	28.11	28.11	[ICRA]BBB+ (Stable)/[ICRA]A2; Reaffirmed, outlook revised to Stable from Negative
Total	**456.26**	**456.26**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in rating outlook to Stable factors in the healthy improvement in the operating performance of Caddie Hotels Private Limited's (CHPL) hotel assets in FY2022 and expectations of a sustained recovery pace over the near to medium term. Despite facing two waves of the pandemic in FY2022, the company posted over a 100% YoY growth in revenues (to Rs. 144 crore) and a five-fold improvement in operating profits, aided by demand recovery and sustained cost control measures. While the portfolio occupancy had dropped to 21% in May 2021 during the peak of the second wave, it picked up sharply to average at 72% in Q2 and 77% in Q3. The Omicron wave, which hit the country in January 2022, was short lived; operations were impacted for only 4-5 weeks, and occupancy levels bounced back to 78-80% in February–March 2022. In Q1 FY2023, the occupancy has averaged an all-time high for the quarter at 80%. Meanwhile, the portfolio average room rent (ARR) has also seen healthy traction and touched 80% of pre-pandemic levels (i.e., Q3 FY2020 levels) in Q3 FY2022 and exceeded pre-pandemic levels in Q1 FY2023 by ~20%. The recovery has been driven by improving vaccination coverage leading to reduced travel restrictions, pent-up demand, staycations, weddings and reopening of corporate travel. Going forward, increase in in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE (meetings, incentives, conferences, and exhibitions) activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. While the pandemic situation continues to evolve, and demand may be potentially impacted by further waves of the Covid-19 in the near-term, ICRA expects such disturbances to be less severe and short-lived and the industry (and CHPL) to touch pre-pandemic levels of operations in FY2023.

The rating reaffirmation continues to reflect CHPL's strong parentage—the Accor Group, InterGlobe Group and APHV India Investco Pte Ltd. (a JV between GIC RE and Host Hotels and Resorts)—with a track record of extending timely financial support. Further, its strong parentage lends CHPL significant financial flexibility with its lenders for raising funds at competitive terms. While better than anticipated operational recovery and sanction of GECL[1] loans of Rs. 200 crore provide sufficient liquidity for the medium term, ICRA continues to take comfort from CHPL's access to need-based funding support from its promoters. The rating is further supported by the favourable location of the properties (Delhi Aerocity) with a strong catchment area, operations under Accor's well-recognised international brands, Novotel and Pullman, and healthy revenue diversification through F&B outlets, large sized banquet halls, meeting rooms and commercial tower.

The rating, however, remains constrained by the cyclical nature of the hospitality industry, with revenue generation exposed to seasonality, exogeneous shocks (like the Covid-19 pandemic) as well as to the overall macroeconomic performance. CHPL

[1] *Loans sanctioned under the Government's Emergency Credit Line Guarantee Scheme*

has significant (and ballooning) debt servicing obligations and despite the expectation of a healthy recovery in profits, its debt coverage indicators are likely to remain muted over the medium term. Furthermore, the rating also reflects the geographical concentration of its properties in a single micro-market, exposing it to adversities in the concerned local market and competition from other properties in the vicinity.

Key rating drivers and their description

Credit strengths

Strong promoters with extensive experience in the hospitality industry – CHPL is promoted by a tripartite JV of the Accor Group, the InterGlobe Group and APHV India Investco Pte Limited (a JV between GIC RE and Host Hotels and Resorts Inc.). Accor SA is a multinational hospitality company with presence in over 110 countries with more than 5,300 hotels. InterGlobe Group has diversified interests across civil aviation (IndiGo airlines), hospitality and real estate, among several other industries. GIC RE is the real estate arm of the Singapore sovereign wealth fund. The promoters bring extensive experience of the hospitality industry to the JV; also, all the JV partners enjoy comfortable credit profiles and lend healthy financial flexibility to CHPL.

Demonstrated financial support from the promoters – Despite the deterioration in net worth over the past two years because of net losses of nearly Rs. 200 crore, the company continues to maintain a relatively comfortable capital structure (as reflected in gearing[2] of 2.3x as on March 31, 2022 over 1.4x as on March 31, 2020), aided by considerable equity infusion by the promoters over the years. During the project stage, the entire cost overrun (due to unforeseen regulatory developments) and operating losses during initial years of stabilisation were funded by equity infusion, demonstrating the promoters' commitment towards the business. Given the track record and strategic importance of CHPL, ICRA expects its promoters to provide timely and need-based funding support to CHPL, whenever warranted.

Benefits accruing from association with Accor, favourable location, and operational synergies – CHPL's properties are operated under Accor's "Novotel" and "Pullman" brands and benefit from access to its global distribution system (GDS), strong loyalty programmes and corporate relationships, allowing the hotels to have better rates and occupancies. Further, the properties are in the hospitality district of New Delhi's Aerocity and benefit from its proximity to the Indira Gandhi International Airport and the central business districts (CBDs) of Delhi and Gurgaon. These micro-markets were reporting healthy occupancy levels of over 65-70% in FY2020 (i.e., the pre-Covid period), indicating healthy demand. Furthermore, the properties are constructed adjoining each other to enable the sharing of resources (like swimming pools, meeting rooms, utilities, manpower, parking space, etc) resulting in cost optimisation across a large inventory.

Healthy sequential growth in operating metrices in FY2022 and YTD FY2023; improved revenue visibility over medium term – Despite two waves of the pandemic in FY2022, the company was able to ramp-up occupancy levels from 21% in May 2021 to 81% in March 2022 (even though the rates remained at a 25% discount to FY2020 levels for the full year). In Q1 FY2023, despite summers being relatively off-season, occupancy (at more than 80%) and ARRs (more than Rs. 6,500) touched an all-time high, benefitting from demand tailwinds. Improving vaccination coverage and easing travel restrictions, reopening of commercial international travel and overall economic recovery, personal and corporate travel along with MICE demand are expected to witness healthy traction over the medium term, supporting revenue ramp-up for CHPL.

Credit challenges

Cyclical industry, vulnerable to general economic slowdown and exogenous shocks – Given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions, tourist arrival growth and several exogenous factors, which leads to inherent cyclicality. Due to the Covid-19 pandemic, there has been a significant pressure on the

[2] *Gearing = Total debt + Operating lease liabilities/ Tangible net worth*

industry's revPARs over the past two years. While improving vaccination coverage is a positive, any severe resurgence in Covid-19 cases could derail the recovery in revPARs and will remain a key monitorable in the near-term.

Muted debt coverage indicators – Despite an expectation of improving financial performance, CHPL's debt coverage metrics are expected to remain muted (DSCR ranging between 1-1.3x and TD/OPBDITA over 5x) over the next two years, given—a) the losses posted in FY2021 and FY2022; b) high debt on books (Rs. 534 crore as on June 30, 2022, net of operating lease liabilities), which will remain range-bound as GECL facilities are drawn and; c) ballooning debt repayments. The company had undrawn GECL loans of ~Rs. 185 crore as on March 31, 2022, which provide healthy buffer for meeting any cash flow mismatches over the medium-term. In addition, ICRA continues to draw comfort from the financial flexibility emanating from CHPL's strong parentage and the management's demonstrated track record of refinancing/renegotiating debt at competitive terms; limited debt-funded capex requirements support expectation of steady correction in leverage metrices over the medium term and provide comfort.

Geographical concentration of revenues and competitive pressures – Owing to the geographic concentration of its room inventory in Delhi, the company would remain exposed to any adverse region-specific development and risks. Also, CHPL has a sizable room inventory (670 rooms) in a micro-market, which has several properties across segments and price points. This may exert pressure on CHPL's occupancy levels and/ or restrict the pricing potential of its properties.

Liquidity position: Adequate

CHPL's liquidity is expected to remain adequate, with improving cash flows from operation and supported by undrawn GECL loans (~Rs. 185 crore as on June 30, 2022). Against the liquidity available, the company has debt servicing commitments of Rs. 70-75 crore (including interest) over the next 12 months. The capex is expected to be marginal (Rs. 2-3 crore per annum), for maintenance purposes only. In addition, ICRA expects the company to continue benefitting from the significant financial flexibility emanating from its strong parentage, which supports its refinancing options.

Rating sensitivities

Positive factors – Sustained recovery in demand and consequent improvement in operating performance leading to improvement in leverage and debt coverage metrics could be a trigger for a favourable rating movement. Any improvement in the credit profile of its promoters (JV partners) could also favourably impact the ratings.

Negative factors – Negative pressure on CHPL's rating could arise due to weaker than expected improvement in earnings and profitability. Specific credit metrics that could lead to rating action would include expected net debt exceeding Rs. 700 crore (where debt includes operating lease liabilities of around ~Rs. 150 crore). Any weakening in the credit profile of its promoters (JV partners) also remains a key monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating approach – Implicit parent or group support
Parent/Group Support	**Parentage**: CHPL is promoted by a tripartite JV of Accor Group (32% stake), InterGlobe Group (32%) and APHV India Investco Pte Limited (36%; a JV between GIC RE and Host Hotels and Resorts Inc.) The rating assigned to CHPL factors in the very high likelihood of its parent entities extending financial support to it because of its strategic importance (NCR market presence) and close business linkages between them. We also expect the promoters to be willing to extend financial support to CHPL out of their need to protect their reputation from the consequences

	of a Group entity's distress. There is also a consistent track record of the promoters extending timely financial support to CHPL, whenever a need has arisen.
Consolidation/Standalone	The rating is based on standalone financial statements of the company.

About the company

Caddie Hotels Private Limited (CHPL), incorporated in 2008, is the owning entity for two, dual-branded five-star hotels, Novotel (400 rooms) and Pullman (270 rooms) at Aerocity, New Delhi. While both hotels started commercial operations from November 2015, the full room inventory became operational only in December 2016. Besides the hotels, the company has a commercial tower with a leasable area of ~94,800 square foot. CHPL is promoted by a tripartite JV between Interglobe Group (32%), AAPC Singapore Pte Limited (32%; subsidiary of French multinational hospitality company, Accor S.A.) and APHV India Investco Pte Ltd. (36%; a 75:25 JV between GIC RE and Host Hotels and Resorts). While the land housing the properties has been acquired on a license basis from Delhi International Airport Limited (DIAL), the operations and management of the two hotel properties are handled by Accor Hotels.

Key financial indicators (audited)

	FY2021	FY2022*
Operating Income (Rs. crore)	71.5	143.7
PAT (Rs. crore)	-117.6	-74.1
OPBDIT/OI (%)	10.0%	32.4%
PAT/OI (%)	-164.6%	-51.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	2.5
Total Debt/OPBDIT (times)	95.5	14.7
Interest Coverage (times)	0.1	0.7

Source: Company results; ICRA Research; Provisional Results

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 (Rs. crore)	Amount Outstanding as on Jun 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					July 20, 2022	Jan 5, 2022	May 6, 2021	Feb 12, 2021 Apr 13, 2020	May 17, 2019
1	Term Loans	Long Term	428.15	233.13	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	Non-fund Based Facilities	Short-term and Long-term	28.11	23.81	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Term Loans	Simple

Non-fund Based Facilities	Very Simple

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 Loan-1	Sep 14, 2016	-	Mar 20, 2032	52.97	[ICRA]BBB+ (Stable)
NA	Term Loan-2	Jul 19, 2019	-	Jun 30, 2032	175.18	[ICRA]BBB+ (Stable)
NA	Term Loan-3	Sep 28, 2021	-	FY2029*	135.0	[ICRA]BBB+ (Stable)
NA	Term Loan-4	Jul, 2021	-	FY2028	65.0	[ICRA]BBB+ (Stable)
NA	Non-Fund based Facilities	Sep 14, 2016	-	--	28.11	[ICRA]BBB+ (Stable)/ [ICRA]A2

*Source: Company; * Maturity after 6 years from date of disbursement; the loans were undisbursed as on June 30, 2022*

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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