March 20, 2023

Caddie Hotels Private Limited: Ratings upgraded to [ICRA]A- (Stable)/[ICRA]A2+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund-based – Term Loan	428.15	214.31	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+(Stable)
Long-term/ Short-term– Non-fund Based Facilities	28.11	22.10	[ICRA]A- (Stable)/[ICRA]A2+; Upgraded from [ICRA]BBB+(Stable)/ [ICRA]A2
Total	**456.26**	**236.41**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in the continued improvement in the operating performance of Caddie Hotels Private Limited's (CHPL) hotel assets in FY2023 and expectation of sustenance of this recovery pace over the near to medium term. Occupancy levels and portfolio of average room rent (ARR) for both the properties operated by CHPL have seen healthy traction and exceeded pre-pandemic levels in YTD FY2023. Supported by improvement in operating metrices and cost efficiency measures undertaken over the past few years, the entity has recorded a healthy improvement in the earnings of the current fiscal. The recovery has been driven by pent-up demand, staycations, weddings and reopening of corporate travel. Going forward, increase 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 accelerated pace of international commercial travel, the industry is expected to receive a further boost to ARRs across both properties.

The rating 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 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 food and beverage (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 as well as to the overall macro-economic performance. CHPL has significant 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.

The Stable rating outlook factors in the steady operating performance of CHPL's hotels and ICRA's expectations of sustenance of growth over the medium term. It also reflects ICRA's expectation that CHPL will continue to be of strategic importance for its promoters and would continue to derive need-based financial support.

Key rating drivers and their description

Credit strengths

Benefits accruing from strong promoters with extensive experience in the hospitality industry – Incorporated in March 2008, CHPL is 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 during the pandemic (~Rs. 200 crore), the company's capital structure continues to remain supported by considerable equity infusion by the promoters over the years (as reflected in gearing of 2.0 x as of September 2022 versus 2.3x as on March 31, 2022, and 1.4x as on March 31, 2020). 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. Limited debt-funded capex requirements and scheduled repayment of debt support expectation of steady correction in leverage metrices over the medium term and provide comfort.

Operational synergies through association with Accor in a favourable location – CHPL's properties are operated under Accor's deluxe "Novotel" (400 rooms) and "Pullman" (270 rooms) 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, having an experienced operator helped CHPL quickly implement various cost rationalisation measures and adopt best practices for customer and employee safety, when required. 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 report healthy occupancy levels (which touched ~89% in November 2022), and are likely to aid CHPL is reporting healthy operating metrices, going forward.

Healthy sequential growth in operating metrices – Both properties under Caddie saw a strong and continued recovery in demand in FY2023, with occupancy levels across months remaining above pre-Covid levels. Improved ARR and occupancy levels have resulted in higher revPAR, well above pre-pandemic levels. While the corporate segment demand recovery after the pandemic lagged behind other segments, easing of work-from-home policies and commencement of corporate MICE events along with pent-up demand from the past two years have improved the pace of demand recovery in FY2023.

Credit challenges

Cyclical industry; revenues susceptible to general economic slowdown and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. As such, global and domestic economic condition will remain a key monitorable for CHPL, as part of this industry.

Leverage indicators remain weak, even as debt coverage have improved – Despite an expectation of improving financial performance, CHPL's leverage metrics are expected to remain muted due to high debt on books (~Rs. 520 crore as on December 31, 2022, net of operating lease liabilities and bank guarantee). 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, aided by improving cash flows from operations (~Rs. 50 crore as of H1 FY2023). Against the liquidity available, the company has debt servicing commitments of ~Rs. 32 crore in FY2024. The capex is expected to be limited to 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 a DSCR lower than 1.3 times on a sustained basis. 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 Support from Parent or Group
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

Incorporated in 2008, Caddie Hotels Private Limited, owns and operates two five-star hotels with a room inventory of 670 at Aerocity, New Delhi. The hotels are operated under Accor Hotel brands, viz,. Novotel (400 rooms; ~40% of revenues in FY2022) and Pullman (270 rooms; ~45%).

The company is promoted by a tripartite joint venture between InterGlobe Group (32% share), AAPC Singapore Pte Limited (subsidiary of Accor SA with 32% shareholding) and APHV India Investco Pte Ltd. (APHV; with 36% shareholding is a 75:25 JV between GIC RE (investment arm of Government of Singapore) and Host Hotels and Resorts).

While the land housing the properties has been acquired on long-term lease 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)

IGH Consolidated	FY2021	FY2022	H12023
Operating income	71.5	143.7	137.3
PAT	-117.6	-74.1	-
OPBDIT/OI	10.5%	32.5%	-
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; All rations are as per ICRA calculations. PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. PAT includes interest capitalised

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 of December 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					20-Mar-23	20-Jul-22	5-Jan-22	6-May-21	12-Feb-21 13-Apr-20	17-May-19
1	**Term Loans**	Long-term	214.31	214.31	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)
2	**Non-fund Based Facilities**	Long-term/Short-term	22.10	22.10	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Negative)/[ICRA]A2	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term/Short-term – 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	**Term Loan-1**	Sep 2016	--	Mar 20, 2032	49.68	[ICRA]A- (Stable)
NA	**Term Loan-2**	Jul 2019	--	Jun 30, 2032	164.63	[ICRA]A- (Stable)
NA	**Non-fund Based Facilities**	Sep 2016	--	--	22.10	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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

Annexure II: 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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