May 29, 2023

InterGlobe Enterprises (UK) Limited: Rating withdrawn and fresh rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (€ million)	Current Rated Amount ($ million)	Rating Action
Long-term – Fund-based – Term Loan	30.300	35.175	[ICRA]BBB (CE) (Stable) withdrawn; [ICRA]BBB (Stable) assigned simultaneously
Long-term – Fund-based – Term Loan	0.000	20.100	[ICRA]BBB (Stable); assigned
Total	**30.300**	**55.275**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has assigned a rating of [ICRA]BBB (Stable) to the $20.1-million term loan facility of InterGlobe Enterprises (UK) Limited (IGE UK). Even as the facility is backed by a corporate guarantee from parent entity Interglobe Enterprises Private Limited (IEPL, holding entity for InterGlobe Group, promoted by Mr. Kapil Bhatia and family), ICRA has not factored-in any credit enhancement. This is because the guarantee lacks the necessary attributes of a strong form of support, as described in ICRA's methodology for factoring-in explicit third-party support forms.

At the same time, ICRA has withdrawn its rating of [ICRA]BBB (CE) (Stable) for IGE UK's earlier rated and guarantee-backed term loan facility of $35.175 million, while simultaneously assigning a fresh rating of [ICRA]BBB (Stable) for the facility. Among other considerations, the [ICRA]BBB (CE) (Stable) rating drew comfort from the presence of a corporate guarantee extended by IEPL. While the said corporate guarantee also lacked the necessary attributes of a strong form of support (as defined by the Reserve Bank of India in its Guidance Note to the credit rating agencies on April 22, 2022), the [ICRA]BBB(CE) rating was maintained till recently, as permitted by the regulator.

Nonetheless, to align the analytical approach for both the instruments for the entity, the above rating action has been taken. The analytical approach for rating the earlier term loan facility has been changed, wherein ICRA is no longer considering the benefit of a corporate guarantee in its credit assessment, though such a support represents a stronger expression of commitment by the support provider than support that is only implicit in nature. Despite this, the rating of [ICRA]BBB for the earlier term loan facility is higher than the unsupported rating of [ICRA]BBB- disclosed in the earlier rationale dated April 4, 2022, because of improvement in IGE UK's business and financial performance, as further explained below.

IGE UK is InterGlobe Group's holding entity for its foray into the international hospitality business. The hotel properties held by IGE UK are well-established properties, with strong operational performance over the years, supported by strong market fundamentals. Since February-March 2020, there was a severe impact of the Covid-19 pandemic on the global travel and tourism industry, leading to sub-optimal performance of IGE UK's properties across locations (Europe and Australia). There was a healthy improvement in operational metrics across properties in CY2022, aided by a recovery in recreational travel and in-person engagements, conferences, seminars, and offsite trips by corporates. The strategic location of entities hotel properties across Europe provides a competitive advantage and is likely to aid a continuation of recovery in performance over the near to medium term.

ICRA notes that IGE UK and IEPL have close business linkages and IGE UK is of strategic importance to the Interglobe Group as well as the guarantor, IEPL. Most of the investment requirements of IGE UK, over the years, have been funded through equity infusion by IEPL (directly and through its subsidiary, IGE (Mauritius) Private Limited). Therefore, ICRA expects IEPL to be willing to extend timely financial support to IGE UK, as and when needed. The rating factors in the above strengths, arising from the guarantor with a relatively stronger credit profile, even as the benefit of the guarantee extended has been ignored. IEPL holds a ~37.8% stake in InterGlobe Aviation Limited (IAL; rated [ICRA]A (Stable)/[ICRA]A1), a leading Indian airline and the InterGlobe Group's key investee company. IEPL's credit profile derives strength from its comfortable credit profile (characterised by nil external debt (on standalone level), and sizeable financial flexibility from its shareholding in IAL (market value of ~Rs. 33,370 crore as on May 22, 2023). ICRA expects IEPL to make moderate incremental investments in its investee companies, largely in the hotel portfolio over the next few years, and the same to be met through funding support from its promoters.

IGE UK remains exposed to refinancing risks, with multiple loans having bullet/sizeable repayments due over the next few years. While the ability of the management to timely achieve rollovers/tenor extensions would remain a monitorable, its track record of achieving similar rollovers/extensions, in a timely manner, provides comfort. The presence of cash and liquid investments in the hotel properties (~€27 million as on date for all the properties combined) are expected to help limit the dependence of IGE UK on funding support from IEPL to refurbishment capex/ incremental property stake purchase plans.

The Stable outlook on the rating reflects ICRA's view that a gradual improvement in operational metrics across properties is likely to aid improvement in IGE UK's cash flows, going forward. Additionally, IGE UK would continue to receive timely funding support from IEPL, which would help it maintain its credit profile at current levels.

Key rating drivers and their description

Credit strengths

Access to funding support from parent entity, IEPL, the holding entity of the InterGlobe Group – The InterGlobe Group, which has an established presence in the domestic aviation and hospitality businesses, forayed into the international hospitality business through IGE UK, following acquisitions in the European market over the past few years. Most of the investment requirements of IGE UK were funded through equity infusion by IEPL (directly and through its subsidiary, IGE (Mauritius) Private Limited). Additionally, IEPL has extended corporate guarantee for loans availed by IGE UK to fund the acquisitions, indicating its strong financial commitment towards the overseas hospitality expansions. The rating assigned favourably factors in the likelihood that IEPL will continue to extend financial support to IGE UK, led by close business linkages between them as well the need to protect its reputation from the consequences of a Group entity's distress.

Strategic location of key hotel properties in select European cities provides competitive advantage – The properties acquired by the Group are well established properties, with strong operational performance over the years, supported by strong market fundamentals. The same was reflected in the healthy operating metrics for the properties, wherein the occupancy rate and Average Room Rate (ARR) remained at stable levels. Even the hotel property in Hamburg, Germany (Reichshof Hamburg), which reopened following its refurbishment in 2015, had ramped up to healthy operating metrics in a short time, with 2017 representing its first year of full operations.

Since February–March 2020, there was a severe impact of the Covid-19 pandemic on the global travel and tourism industry. IGE UK's properties across locations were shut down in line with government guidelines; and even after reopening properties, occupancies across the portfolio have remained low (at 15-30% in CY2021), resulting in significant pressure on the Revenue per Available room (RevPAR) of the company's hotel properties. Aided by relaxation in lockdowns across geographies on the back of a healthy vaccination drive and abatement in infections to an extent, the properties have reported an improvement in operational metrics over the past one year, which is expected to continue, going forward.

Credit challenges

Weakened credit profile due to adverse impact of Covid-19 pandemic over past few years – Over the past few years, the impact of the pandemic on the global hospitality industry has been severe. Given the discretionary nature of consumer spending (especially for leisure travel), the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases, and meltdowns. Due to the sharp decline in demand, the company incurred cash losses in CY2020 and CY2021. This eroded its net worth and leverage (TD/TNW of 5x for FY2021), while coverage ratios deteriorated. ICRA expects the hospitality industry to continue to witness a gradual recovery over the medium term. While the credit metrices of IGE UK are expected to improve in FY2023 from recovery in demand, these will likely remain below pre-pandemic levels.

Sizeable capex incurred/planned for refurbishment of properties; expectation of improved cash flows to mitigate impact on credit profile – Unlike Reichshof Hamburg, there was no major refurbishment at either the Sheraton Amsterdam or the K+K bouquet of hotels over the past 7-8 years, and the management had plans to refurbish these properties. In view of the pandemic and an expectation of a prolonged slowdown in the hospitality sector, the capex plans for the two portfolios had been deferred till more clarity emerged regarding the pandemic. With infection rates abating and lockdowns relaxing, the management proceeded to refurbish Sheraton Amsterdam (outlay of ~€17 million; funded through equity support from promoter entity) for protecting the operating metrics of the property from an increase in competitive intensity.

The management now plans to upscale the K+K brand of hotels (total refurbishment cost of ~€58 million for five properties) as a more aspirational brand, which is expected to improve its operating metrics. The refurbishment expenditure would be spread over a period of two years and would be funded through a mix of debt, internal accruals, and promoter support. An expectation of gradual improvement in cash flows for the various hotel properties is likely to mitigate the impact of the refurbishment outlay (and any associated debt) on the company's credit profile.

Exposed to refinancing risk; track record of timely refinancing mitigates the risk to an extent – IGE UK remains exposed to refinancing risks, with multiple loans having bullet/sizeable repayments due over the next two years. While the ability of the company management to timely achieve rollovers/extensions would remain a monitorable, its track record in completing similar transactions provides comfort. In the adverse scenario of the company being unable to achieve a rollover/ refinancing of a loan, the promoters are expected to pitch in with funds to help meet the debt servicing obligations in a timely manner.

Exposure to project execution and approval risks for under-construction hotel – To expand its presence in the international hospitality business, IGE UK invested CHF 6.2 million (~Rs. 51 crore) in October–November 2020 for acquiring 76% equity stake in a Swiss hotel, Hotel Christiania AG. The management is tearing down the existing structure and is in the process of building a 30-room boutique hotel in its place, Gstaad, Switzerland. IGE UK has already invested a bulk of its equity component for the project; and the management expects the project to proceed in a timely manner with an expected construction completion date by end of FY2024. Even as the construction has been progressing at a steady pace and the project size of the entity is small, IGE UK remains exposed to project execution, cost overrun and approval risks, in line with the nature of the industry's operations. A significant delay, resulting in project cost overruns or delay in stabilisation of operations could adversely the credit profile of IGE UK and will remain a sensitivity factor. The risk is partly mitigated by IGE UK's strong financial flexibility and the management's commitment to extend timely financial support, if needed.

Liquidity position: Adequate

The liquidity position of IGE UK remains at adequate levels. At the standalone level, its liquidity profile is expected to remain supported by timely funding support from the parent entity, IEPL. At the consolidated level, the cash and cash equivalents to the tune of ~Rs. 235-240 crore (or ~€27 million) are likely to be sufficient to meet any loss funding requirements (necessitated by any further lockdowns as well as debt repayment obligations) in a timely manner. The refurbishment capex requirements at its hotel properties are also likely to be supported by timely funding support from promoter or funding tie ups.

Rating sensitivities

Positive factors – A sustained improvement in operational metrices and profitability indicators of various properties and/or higher-than-expected equity infusion by the promoters, leading to significant improvement in liquidity and leverage metrics, could be a trigger for improvement in rating. An improvement in IEPL's credit profile could also lead to an improvement in its rating.

Negative factors – Negative pressure on the rating could arise if there is any deterioration in the credit profile of the IEPL or any deterioration in the business linkages with IEPL or extent and form of financial support extended from IEPL. A deterioration in the coverage indicators, led by slower-than-anticipated improvement in operational metrics could lead to a rating downgrade. Additionally, the inability to raise asset financing loans, ahead of the scheduled maturity of the bridge loan facility undertaken at IGE UK could put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Hotels Rating Methodology - Holding Companies
Parent/Group support	Parent company: IEPL The unsupported rating factors in the very high likelihood of its parent, IEPL, extending financial support because of close business linkages between the entities. ICRA expects IEPL to be willing to extend financial support to IGE UK out of its need to protect its reputation from the consequences of a group entity's distress. IEPL has a consistent track record of extending timely financial support to IGE UK, whenever needed.
Consolidation/Standalone	ICRA has taken a consolidated view of IGE UK and its subsidiaries (enlisted in Annexure 2).

About the company

Incorporated in 2017, IGE UK is the holding company for the InterGlobe Group's investments in the international hospitality sector. The company is a 100% subsidiary (including indirect investments) of IEPL, the Group's holding company. At present, IGE UK holds five investments in the international hospitality space, most of which are in Europe. Since its incorporation, IGE UK has undertaken four acquisitions. In the first two acquisitions in July 2018 and October 2018, the Group acquired one property each—Sheraton Amsterdam Airport Hotel and Conference Center, as well as Reichshof Hamburg (Germany). In the third acquisition in June 2019, the Group acquired a bouquet of 10 properties across eight cities in Europe (K+K bouquet of hotels). The Group acquired a controlling stake in a small chalet style hotel property (in Switzerland) in its fourth acquisition in November 2020. The company also owns a recently commissioned hotel in Melbourne, Australia.

About the guarantor

IEPL is the holding company for the InterGlobe Group, promoted by the Bhatia family, including Mr. Kapil Bhatia, Mr. Rahul Bhatia (his son) and Mrs. Rohini Bhatia (wife of Mr. Rahul Bhatia). Established in 1989 and headquartered in Gurgaon, Haryana, the Group's ventures include civil aviation under the Indigo brand, airline management, travel commerce solutions, hospitality, advanced pilot training, aircraft maintenance engineering and real estate.

Key financial indicators (audited)

IGE UK Consolidated	Dec 20-Mar 21	FY2022
Operating income	24.4	33.2
PAT	-178.3	6.8
OPBDIT/OI	-53.8%	-30.6%
PAT/OI	-731.1%	20.5%
Total outside liabilities/Tangible net worth (times)	6.0	4.5
Total debt/OPBDIT (times)	-46.8	-49.0
Interest coverage (times)	-0.9	-0.6

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 (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (USD Million)	Amount outstanding as of March 31, 2023 (USD Million)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					May 29, 2023	Apr 4, 2022	Oct 27, 2021	Jul 10, 2020	Apr 13, 2020
1	**Term loan**	Long term	35.175	35.175	[ICRA]BBB (Stable)	[ICRA]BBB (CE) (Stable)	-	-	-
2	**Term loan**	Long term	20.100	20.100	[ICRA]BBB (Stable)	-	-	-	-
3	**Fund based bank facilities**	Short-term	-	-			[ICRA]A2(CE); withdrawn	[ICRA]A2(CE)	[ICRA]A2(CE); Rating Watch with Negative Implications
4	**Term loan**	Long term	-	-			[ICRA]BBB (CE) (Negative); withdrawn	[ICRA]BBB (CE) (Negative)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based - Term Loan	Simple
Long Term – Fund Based - Term Loan	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (USD Million)	Current Rating and Outlook
NA	**Term Loan-I**	October 2021	NA	October 2026	35.175	[ICRA]BBB (Stable)
NA	**Term Loan-II**	March 2023	NA	September 2026	20.100	[ICRA]BBB (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	IGE UK Ownership	Consolidation Approach
Emipre 3 Investment S.a.r.l.	100.00%	Full Consolidation
Luchthaven Hotel Beleggingsmaatschappij B.V.	100.00%	Full Consolidation
NKS Hospitality II S.a.r.l.	89.90%	Full Consolidation
Interglobe Operations Holding II B.V.	100.00%	Full Consolidation
Hamburg Furniture S.a.r.l.	100.00%	Full Consolidation
RH Operations VerwaltungsGmbh	100.00%	Full Consolidation
Interglobe Enterprises (Switzerland) AG	100.00%	Full Consolidation
Hotel Christiania AG	76.00%	Full Consolidation

Source: IGE UK Annual Report

Note: ICRA has factored in the consolidated financials of IGE UK while assigning the ratings.

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