April 17, 2024

Isha Steel Treatment Private Limited: Rating upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term- Fund based – Term Loans	120.00	115.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**120.00**	**115.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of InterGlobe Hotels Private Limited (IGH), along with its three subsidiaries (together referred to as IGH or the company) while assigning the ratings, given their common management team and significant operational and financial linkages between the entities.

The rating action factors in the continued strong operational performance of the company, resulting in continued growth in scale and cash accruals. A buoyant industry outlook over the medium term is expected to continue to support earning growth for the company, going forward, and aid improvement in credit metrics. The rating action also factors in the favourable refinancing of the company's debt obligations, which coupled with the steady cash accruals from business, will support an improvement in debt coverage indicators in the near term and limit any equity support requirement from the parent. ICRA continues to factor in IGH's strong parentage and their demonstrated track record of extending timely financial support for project execution, operational funding, and debt repayments. The company's strong parentage also lends it strong financial flexibility to negotiate favourable terms with lenders. The ratings also continue to favourably factor in IGH's agreement with the French multinational hospitality group, Accor, to develop hotels under its 'Ibis' brand in India, Bangladesh, Nepal and Sri Lanka. ICRA also notes IGH's large and geographically diversified presence (21 hotels across 13 cities), comfortable capital structure and extensive experience of its promoters in the hospitality industry.

The 21-hotel portfolio (further two properties under construction) under IGH witnessed a healthy improvement in the operating performance in FY2024, with both occupancy and the portfolio of average room rent (ARR) seeing a healthy traction, driven by healthy demand and a simultaneous lag in supply, especially in tier-I cities due to scarcity of land. Aided by this steady recovery and a cost-efficient operating structure, in 9M FY2024, the company posted revenues of ~Rs. 425 crore (vis-à-vis ~Rs. 343 crore in 9M FY2023) and improved gross operating profits (GOP) at ~Rs. 134 crore (vis-à-vis GOP of ~Rs. 103 crore in 9M FY2023). Going forward, increase in in-person engagements, conferences, seminars, and offsite trips by corporates is expected to benefit the company's overall performance. IGH's nascent stage properties (including Ibis Hebbal in Bengaluru, Ibis Thane, which became operational in FY2023, and Ibis Styles Vagator, which became operational in FY2024) should further support earning growth as they mature. Furthermore, with the accelerated pace of international commercial travel, the industry is expected to receive a further boost to ARRs across properties.

IGH's rating remains constrained by its exposure to project execution and approval risks, given the sizeable under construction inventory (~355 rooms) and cyclical nature of revenue generation, which remains vulnerable to seasonality and overall macroeconomic performance. The Indian budget hotel segment remains largely unorganised, characterised by relatively low entry barriers. Hence, IGH faces significant competition from standalone players in local markets, in addition to large hotel chains such as Lemon Tree, Holiday Inn Express, and Ginger, among others. Also, while the dependence on corporate contracted business has moderated after the pandemic, the same remains a key contributor to the revenues and may keep IGH's portfolio vulnerable to vagaries in corporate policies on travel and MICE activities.

While ICRA takes cognisance of the timely equity infusion by the promoters over the years (~Rs. 160 crore between April 2020 and March 2023), IGH's external debt levels continue to remain elevated given the growth-oriented business and ongoing projects that are still in their construction phase (expected to operationalise by end of FY2025). However, the management has been able to favourably refinance its near-term repayments in FY2024 (~Rs. 300 crore term loan utilised towards refinancing debt obligations in the near term). Coupled with stronger accruals from the improvement in operating performance, this is expected to improve the leverage indicators for the company in the near term. While equity commitment towards the under-construction projects is already complete, a track record of timely funding support from its promoters in case of any cost overruns, provides comfort.

The Stable outlook on the rating reflects ICRA's expectation that IGH will continue to be of strategic importance for its promoters and would keep deriving financial support to pursue its investment plans. In addition, the company is expected to continue to benefit from favourable medium term demand expectation, which coupled with its well-recognised brand and experienced operator, would aid the entity to record healthy operational metrics.

Key rating drivers and their description

Credit strengths

Strong and experienced promoters with track record of timely capital infusion over the years – IGH is a joint venture (JV) of the InterGlobe Enterprises Private Limited (IGE,60%) and the French hospitality major, Accor SA. IGE is present across diverse industries and enjoys significant financial flexibility owing to the market value of its ~38% stake in InterGlobe Aviation Limited (rated [ICRA]A+(Stable)/[ICRA]A1+). Cumulatively, the promoters have infused over ~Rs. 1,700 crore as equity in IGH since its inception to fund new projects and meet cash flow shortfalls in nascent properties, which demonstrates the promoters' commitment to the company. While limited equity support has been required in the past two fiscals, given the strong operating performance, ICRA expects the funding support to continue to support IGH's credit profile, as and when required.

Well recognised brand and geographically diversified footprint – IGH has firmed up plans to operate 23 hotels with the total room inventory of ~4,145 across 13 cities in India. The company, at present, has 21 operational hotels across 13 cities (metro and tier-I cities) of India, with concentration of the room inventory skewed towards western and southern Indian cities. It has an association with Accor (also a 40% stakeholder in the company), an established hospitality services provider, for expanding the 'Ibis' brand in the subcontinent. This offers benefits like access to Accor's global distribution system (GDS), strong loyalty programmes, and established corporate relationships. Additionally, a diversified portfolio insulates IGH from any adverse regional developments and aids in targeting corporate clientele allowing the portfolio to have better rates and healthy occupancies.

Healthy sequential growth in operating metrices; improved revenue visibility over medium term – The IGH portfolio saw a steady growth in revenue in FY2024. Occupancy levels for all months up to February 2024 remained robust, despite the increased ARRs. Monthly ARRs in FY2023 were higher than those in FY2020 by ~13-14% on an average and the trend continued in FY2024. Consequently, YoY revenue per available room (RevPAR) increment was witnessed across properties in key metro markets aided by higher occupancies and ARR. Given the strong demand in the industry and supply constraints in metro cities, revenue growth is expected to continue in the near to medium term.

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 conditions will remain a key monitorable for IGH, as part of this industry.

Low segment diversification and high dependence on corporate clientele – IGH operates its entire portfolio within one segment, i.e., economy, exposing it to stiff competition from branded as well as unbranded players and online room aggregators in the budget category. This may create constraints while increasing ARRs beyond a certain level, depending on the micro-market demand dynamics. Also, the company garners a sizable portion of its business (~40% pre-pandemic, ~25% in CY2023) from the corporate sector. This demand was severely impacted during the pandemic, when corporates shifted to online platforms for meetings and conferences. While contribution from this segment has reduced post-Covid, partly due to a lag in recovery within the corporate sector compared to the independent leisure travel segment, IGH's portfolio remains vulnerable to vagaries in corporate policies on travel and MICE activities.

Debt coverage indicators remain modest; planned capex over medium term to constrain improvement in credit metrics – Despite the improvement in operating performance, high debt levels (long term debt of ~Rs. 1,075 crore as on December 31, 2023, excluding operating leases and hybrid instruments), due to drawdown of project debt, have led to modest debt coverage metrics. While ICRA expects the profitability metrics to remain at healthy levels over the medium term, aided by a steady demand, the debt levels will likely remain elevated over the medium term due to capex commitments towards the company's two under-construction hotels (as on date). Any funding support required during the stabilisation phase of these properties will have to be supported by fund infusion from promoters or timely refinancings, which significantly reduce the company's debt repayment obligations for the near term. Nonetheless, ICRA continues to draw comfort from the company's financial flexibility emanating from its healthy asset base, periodic equity infusion by the promoters, and the management's demonstrated track record of raising or refinancing debt on competitive terms.

Liquidity position: Adequate

IGH's liquidity is expected to remain adequate, supported by improving cash flows and need-based equity infusion by its promoters. In addition, free cash balances of ~Rs. 45 crore (as on December 31, 2023) and undrawn project debt (~Rs. 205 crore as of December 2023) provides a liquidity cushion. ICRA expects IGH's strong accruals from operations and financial flexibility with its lenders to support refinancing options and liquidity profile.

Rating sensitivities

Positive factors – A sustained improvement in operational metrices and profitability indicators 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.

Negative factors – Negative pressure on the ratings could arise from any demand slowdown and weakening of operating metrics, leading to sustained pressure on its earnings and credit metrics. Further, any prolonged delays in project execution or weakening of the promoters' credit profile, could also exert negative pressure on the rating. Specific metrics for a downgrade include DSCR reducing to less than 1.2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	ISTPL is a ~100% subsidiary of IGH, which in turn is a 60:40 JV of the InterGlobe Group and the Accor Group. The rating assigned to IGH factors in the very high likelihood of its JV partners extending financial support to it because of its strategic importance and close business linkages among them. We also expect the promoters to be willing to extend financial support to IGH out of their need to protect their reputation from the consequences of a Group entity's distress. There also exists a consistent track record of the promoters extending timely financial support to the company, whenever a need has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IGH. As on December 31, 2023, the company had three subsidiaries who are all enlisted in Annexure-II.

About the company

Isha Steel Treatment Private Limited (ISTPL), incorporated in 2016, is a ~100% subsidiary of IGH and owns a 249-key hotel under the Ibis brand at LBS Road, Mumbai. The property became operational in December 2021.

IGH, a 60:40 JV between InterGlobe Enterprises Private Limited (IGE, along with its affiliates) and Accor SA, was established in 2004 to develop the Ibis network of hotels in India, Nepal, Sri Lanka and Bangladesh. The company plans to develop 23 hotels (22 budget hotels under the Ibis brand and one upscale hotel under the Novotel brand) in India. Of these, 21 hotels (~3,790 keys) were operational as of December 31, 2023. IGH expects to grow a cumulative inventory of ~4,145 rooms in the next two years across India.

The company's 40% stakeholder, Accor, is a leading player in the global hospitality industry. IGE is one of the promoters of InterGlobe Aviation Limited (IAL), which owns the majority stake in InterGlobe Aviation Limited, India's largest airline with ~60% market share (as of December 2023). IGE, also an established player in aviation management, travel distribution services and ground handling services, is wholly owned by Mr. Rahul Bhatia and family.

Key financial indicators (audited)

IGH Consolidated	FY2022	FY2023	9M FY2024*
Operating income	219.7	486.5	425.2
PAT	(134.1)	(9.8)	(11.3)
OPBDIT/OI	9.2%	34.3%	31.5%
PAT/OI	-61.0%	-2.0%	-2.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.3	1.4
Total debt/OPBDIT (times)	60.2	7.6	7.2
Interest coverage (times)	0.2	1.6	1.5

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 (FY2025)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. Crore)	Amount Outstanding as of December 31, 2023 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	
					Apr 17, 2024	-	Mar 20, 2023	Jun 29, 2022	Nov 25, 2021	Jul 13,2021
1	Term Loans	Long-term	115.0	115.0	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loans	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 (Rs. crore)	Current Rating and Outlook
NA	**Term Loan-1**	FY2016	--	FY2033	115.0	[ICRA]A (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	IGH Ownership	Consolidation Approach
InterGlobe Hotels Private Limited	Parent entity	Full Consolidation
Isha Steel Treatment Private Limited (rated entity)	100%	Full Consolidation
Milagro Infrastructure Private Limited	100%	Full Consolidation
Ashford Properties Private Limited	66%	Full Consolidation

Note: ICRA has taken a consolidated view of IGH and its subsidiaries, while assigning the ratings.

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About ICRA Limited:

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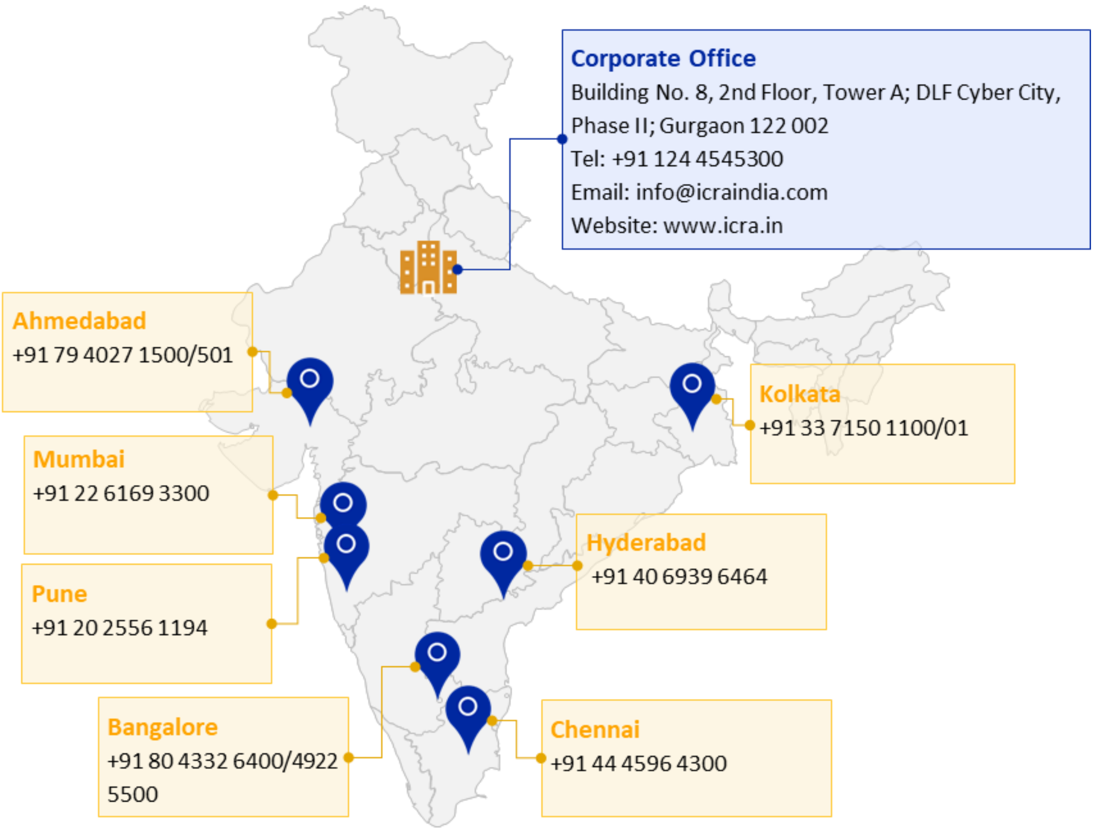

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