August 26, 2024

Elixir Enterprises and Hotels Private Limited: Long-term rating reaffirmed; Rated amount enhanced; Short-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	20.45	29.54	[ICRA]BB- (Stable) reaffirmed and assigned for enhanced limits
Long-term - Working capital limit	18.50	18.50	[ICRA]BB- (Stable) reaffirmed
Long-term/Short-term – Unallocated	2.05	-	[ICRA]A4; withdrawn
Total	**41.00**	**48.04**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the bank lines of Elixir Enterprises and Hotels Private Limited ('EEHPL' / 'the company') factors in the company's modest scale of operations, geographic concentration risk with a single property in Bengaluru and relatively stretched debt metrics, and the expectation that the financial profile and debt metrics would remain stretched in the near to medium term, because of the ongoing debt-funded capex in the company. The rating action, however, positively factors in the well-established position and strong brand equity of the property, 'The Chancery Pavilion' in the Bangalore market, the favourable demand outlook for the hospitality industry, and commitment from the promoters to extend timely and adequate financial support to the company, as and when required.

The company reported revenues of Rs. 70.9 crore in FY2024 (unaudited), a YoY growth of 3.0%. While the occupancy was higher on YoY basis, aided by business travel across industries and Meetings, Incentives, Conferences, and Exhibitions (MICE) events - both weddings and corporate MICE, the average room rates (ARRs) were lower YoY, resulting in lower growth in revenues compared to the industry. The operating margin in FY2024, albeit healthy and significantly higher than pre-Covid levels, dropped to 29.5% vis-à-vis 36.5% in FY2023, impacted by inadequate pass-through of costs increase, amid YoY decline in ARRs and higher employee and other expenses. EEHPL's capital structure, coverage metrics and liquidity remain stretched with adjusted gearing[1] of 8.8 times and Total Outstanding Liabilities/Tangible Net Worth of 15.57 times as on March 31, 2024. EEHPL had negligible cash balances and undrawn working capital lines of Rs. 1.4 crore as on June 30, 2024, and its repayment obligations on existing and sanctioned loans are relatively high as a proportion of anticipated accruals. Notwithstanding further Covid waves and exogenous shocks if any, ICRA expects the healthy demand outlook to augur well for the company in the near to medium term, although the ongoing renovation/upgradation, primarily pertaining to one banquet hall (of 6 available banquet areas) and kitchen could cap the revenue growth and margins in FY2025. Impact of competition on the company's ARRs and revenue growth, also remain monitorable over the medium term. The incremental debt for the renovation is likely to result in increase in debt levels in FY2025 and consequently, the debt metrics are likely to remain stretched over the medium term. The promoters have been periodically infusing funds into the company by way of interest-free unsecured loans, without pre-defined repayment obligations (Rs. 18.9 crore outstanding as on March 31, 2024). ICRA expects the timely and adequate financial support to continue going forward, as and when required, to meet EEHPL's commitments.

[1] Adjusted Gearing = Adjusted debt (i.e. Total Debt – Promoter loans)/ Tangible Net Worth

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by the favourable demand outlook for the hospitality industry and commitment from the promoters to extend timely and adequate financial support to the company, as and when required, despite debt-funded capex.

Key rating drivers and their description

Credit strengths

Well-established property in a prominent location – The company owns and operates a 5-star hotel under the name 'The Chancery Pavilion', at Residency Road, Bangalore. The property has been operational for several years, and its well-established nature along with its central location has aided in attracting corporate travellers and facilitating MICE. This is expected to continue going forward. Although not part of this entity, the promoters also own another 125-key hotel at Lavelle Road, Bangalore, known as, 'The Chancery Hotel', which is also a well-established hotel in Bengaluru's central business district (CBD).

Favourable demand outlook – ICRA expects the Indian hospitality industry to grow at 7-9% in FY2025, over the 19% growth in FY2024. Sustenance of demand from MICE including weddings, and business travel (despite a temporary lull during the election period) are likely to drive demand in cities like Bengaluru in FY2025. The revenue per available room (RevPAR) was at an 8-12% discount to the FY2008 peak in FY2024, and is expected to inch towards the FY2008 level in FY2025. The demand outlook over the medium term also remains healthy, supported by a confluence of factors, including improvement in infrastructure and air connectivity, and favourable demographics, among others. The healthy demand amid relatively lower supply would lead to higher ARRs and healthy margins. This would augur well for the company in the near to medium term, although the ongoing renovation/upgradation, primarily pertaining to one banquet hall (of 6 available banquet areas) and kitchen could cap the revenue growth and margins in FY2025. Impact of competition on the company's ARRs and revenue growth, also remain monitorable over the medium term.

History of fund infusions from promoters – The promoters have been periodically infusing funds into the company by way of interest-free unsecured loans, without pre-defined repayment obligations (Rs. 18.9 crore outstanding as on March 31, 2024). As on March 31, 2024, EEHPL's total debt stood at Rs. 52.3 crore, of which Rs. 18.9 crore was unsecured loans from the promoters. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, to meet EEHPL's commitments.

Credit challenges

Stretched capital structure and coverage metrics –The company has relatively high debt levels for its scale of operations. It also had minimal net worth of Rs. 3.8 crore as on March 31, 2024, impacted by sharp losses due to the Covid-19 in FY2021 and FY2022. This has resulted in a stretched capital structure with adjusted gearing of 8.8 times and TOL/TNW of 15.57 times as on March 31, 2024. The coverage metrics also remained stretched due to high debt levels for the scale of operations, despite improvement in FY2023 and FY2024. Further, the incremental debt for the renovation is likely to result in increase in debt levels in FY2025 and consequently, the debt metrics are likely to remain stretched over the medium term.

Modest scale of operations; geographic concentration in Bengaluru – The company has modest scale of operations with an operating income of Rs. 70.9 crore in FY2024, limiting the benefits arising from economies of scale. This is despite the healthy revenue growth compared to the pre-Covid levels. Also, the company owns only a single property with an inventory of 223 keys in Bengaluru. Owing to its single asset and high geographic concentration in Bengaluru, the company would be exposed to property-specific and region-specific risks.

Revenues vulnerable to exogenous shocks – Akin to other players in the industry, the company is exposed to industry cyclicality/seasonality, macroeconomic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, wherein EEHPL's performance was significantly impacted by the pandemic. Moreover, the hotel witnesses intense competition from other hotels in the vicinity. However, it benefits from its established position and strong brand equity, which could mitigate the competitive risks to an extent.

Liquidity position: Stretched

EEHPL's liquidity is stretched with negligible cash balances and undrawn working capital lines of Rs. 1.4 crore as on June 30, 2024. However, the promoters are committed to extending timely and adequate financial support to the company for meeting its commitments, as and when required. The company has principal repayment obligations of Rs. 7.1 crore in FY2025, Rs. 9.8 crore each in FY2026 and Rs. 4.3 crore in FY2027 on existing and sanctioned loans. Also, the company has cumulative capex plans of Rs. 20 crore in FY2025 for renovation/upgradation, primarily pertaining to one banquet hall (of 6 available banquet areas) and kitchen, and Rs. 2 crore each in FY2026 and FY2027; the FY2025 capex would be debt-funded, from already tied up loans.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to improve its debt coverage metrics and liquidity position on a sustained basis. Specific metrics that could lead to an improvement in rating include DSCR above 1.3 times on sustained basis.

Negative factors – ICRA could downgrade the ratings if there is sustained decline in earnings or sharp rise in debt levels, leading to deterioration in coverage metrics and liquidity position. Absence of timely and adequate fund infusion by the promoters when required, could also be a negative trigger. Specific metric for a rating downgrade includes DSCR below 1.0 time on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels Policy on Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financials.

About the company

Elixir Enterprises and Hotels Private Limited (EEHPL) owns and operates a 5-star hotel under the brand name of 'The Chancery Pavilion' at Residency Road, Bangalore. The hotel has 223 keys, 6 banquet halls and 3 restaurants. The company is entirely owned by the promoter, Mr. KV Kuppa Raju, his family and friends. Besides this company, the promoters also have interest in another company named, Hyagreeva Hotel and Resorts Private Limited (HHRPL), which owns a 125-key hotel at Lavelle Road, Bangalore, known as, 'The Chancery Hotel'. Also, Mr. KV Kuppa Raju and his family have interests in other companies engaged in food and food processing; these are, however, relatively minimal in scale compared to EEHPL.

Key financial indicators

EEHPL	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	68.9	70.9
PAT	9.5	7.3
OPBDIT/OI	36.5%	29.5%
PAT/OI	13.8%	10.3%
Total outside liabilities/Tangible net worth (times)	-19.9	15.7
Total debt/OPBDIT (times)	2.4	2.5
Interest coverage (times)	4.9	3.9

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA:

CRA	Status	Date of release
Brickwork Ratings	BWR B -; Stable; ISSUER NOT COOPERATING	August 25, 2023

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 26, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	29.54	[ICRA]BB- (Stable)	22-Dec-23	[ICRA]BB- (Stable)	-	-	-	-
Working capital Limit	Long term	18.50	[ICRA]BB- (Stable)	22-Dec-23	[ICRA]BB- (Stable)	-	-	-	-
Unallocated limits	Long term and short term	-	[ICRA]A4; withdrawn	22-Dec-23	[ICRA]BB- (Stable)/[ICRA]A4	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Working capital Limit	Simple
Long term and short term - Unallocated Limits	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 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 loans**	FY2021/FY2024	10-12%	2030	29.54	[ICRA]BB- (Stable)
NA	**Working capital limit**	NA	NA	NA	18.50	[ICRA]BB- (Stable)
NA	**Unallocated limits**	NA	NA	NA	-	[ICRA]A4; withdrawn

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.

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