

January 31, 2023

Laila Hotels and Resorts Pvt. Ltd.: Rating reaffirmed; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	38.47	38.47	[ICRA]BB reaffirmed; Outlook revised to Stable from Negative
Long-term – Unallocated	21.53	21.53	[ICRA]BB reaffirmed; Outlook revised to Stable from Negative
Total	60.00	60.00	

*Instrument details are provided in Annexure-I

Rationale

The rating considers the healthy improvement in the operational and financial performance of Laila Hotels and Resorts Pvt. Ltd. (LHRPL) on the back of healthy occupancy and average room rate (ARR) for its hospitality business. In addition, the rentals from INOX Leisure Ltd. (Inox) have begun from December 2022, which will support the profitability, going forward. LHRPL has a management contract with Carnation Hotels Private Limited for operating the hotel under the ‘Lemon Tree Premier’ brand. However, the rating remains constrained by a delay in rentals from the mall in Vijayawada, Andhra Pradesh, for which the agreement with Future Market Networks Limited (FMNL) has been waived off as the client failed to occupy the space. ICRA notes that timely occupancy and receipt of rentals from the mall space remain crucial for improving the company’s credit profile. The rating also considers the susceptibility of the travel and tourism industry to exogenous shocks such as wars, terror attacks, diseases and meltdowns, given the discretionary nature of spending (especially leisure travel). The rating is constrained by the limited experience of the promoters in the hospitality business. However, the same is mitigated by the management contract with Carnation Hotels Private Limited for operating under the reputed brand, Lemon Tree Premier. ICRA notes the high market risk due to stiff competition from a large number of hotels in the Vijayawada market.

The Stable outlook on the [ICRA]BB rating reflects ICRA’s belief that the company will witness healthy performance of its hospitality business despite the delay in rentals from its retail space owing to healthy demand in the leisure and tourism industry.

Key rating drivers and their description

Credit strengths

Management contract with reputed brand, Lemon Tree Premier – LHRPL entered into a management contract with Carnation Hotels Private Limited for operating the hotel under the Lemon Tree Premier brand.

Improvement in performance of hotel and occupancy of multiplex – LHRPL set up a 122-room, four-star hotel in Vijayawada, Andhra Pradesh, under the Lemon Tree Premier brand. The company has also constructed a shopping mall and multiplex within the same premises. The operations of the hotel commenced from January 2021. The hotel has seen significant improvement in occupancy levels to 47% in FY2022 and 69% in 9M FY2023 from 31% in 3M FY2021 with gradual monthly increase in ARR and revenue per available room (RevPAR). ARR has been above Rs.4,000 since September 2021 and is expected to improve further over the medium term. However, the movement of ARR depends upon the demand for the property. The movie theatre has been operational from December 2022 and the company has started receiving rentals for the same.

Credit challenges

Delay in the occupancy of mall to impact rental income in FY2023 and FY2024 – The mall has not yet been occupied by FMNL and the contract has been waived off because of this failure to occupy the space, impacting the rental income of LHRPL in FY2023 and FY2024. ICRA notes that commencement of rental receipts remains crucial to scale up operations and improve the credit profile and liquidity position. The company, however, is in discussions with other retailers for leasing out the space.

Cyclical industry, vulnerable to general economic slowdown and external threats – The hospitality market is exposed to economic cycles, with significant demand from business travellers impacting revenue and profitability. Like its counterparts, LHRPL’s revenue remains susceptible to exogenous shocks such as natural calamities and economic or political instability.

Limited experience in hospitality business – The promoters have limited experience in the hospitality business. However, the same has been mitigated by the company’s management contract with Carnation Hotels Private Limited for operating the hotel under the Lemon Tree Premier brand.

Intense competition in Vijayawada market – The Vijayawada market is characterised by intense competition with the presence of many reputed hotels in the region.

Liquidity position: Adequate

The liquidity position is **adequate** as reflected by cash and liquid investments of 5.1 crore as on March 31, 2022, against repayment obligations of about Rs. 6-7 crore per annum from FY2024. The company is expected to generate retained cash flows of about Rs. 5-8 crore per annum, which will support the repayment obligations and healthy cash balances, going forward, owing to healthy profitability. Further, the company does not have any capex plans in the near future.

Rating sensitivities

Positive factors – ICRA may upgrade the rating for LHRPL if there is sustained improvement in operating metrics leading to improvement in revenues, earnings and overall debt metrics of the company.

Negative factors – The rating may witness pressure if weak occupancies result in subdued cash flows. The rating can also be impacted if there is a significant delay in the occupancy of the shopping centre space, impacting earnings or cash flows.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology – Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of LHRPL.

About the company

Incorporated in 2001, LHRPL has set up a 122-room four-star hotel in Vijayawada, Andhra Pradesh, under the Lemon Tree Premier brand. In the same premises, the company has constructed a shopping mall and multiplex. LHRPL has completely leased out the shopping mall to Future Market Networks Limited (FMNL) and the multiplex is leased to INOX Leisure Ltd. LHRPL is promoted by Mr. G. Ganga Raju and family, and is a part of the Laila Group of Companies, which is involved in diverse businesses such as sugar, paper, nutraceuticals and education. As of December 31, 2022, the hotel and Inox have been occupied, while the shopping mall is expected to be occupied by new vendors in FY2024.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	1.6	19.2
PAT	-4.5	-2.6
OPBDIT/OI	-147.7%	22.2%
PAT/OI	-276.8%	-13.7%
Total outside liabilities/Tangible net worth (times)	10.7	14.3
Total debt/OPBDIT (times)	-48.1	29.0
Interest coverage (times)	-4.2	2.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: Amount in Rs. crore; All calculations are as per ICRA Research; Source: Company data, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount o/s as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		FY2022	FY2021	FY2020
				Jan 31, 2023	Oct 07, 2021	Sep 17, 2020	Jan 07, 2020	
1 Term loans	Long term	38.47	36.77	[ICRA]BB(Stable)	[ICRA]BB(Negative)	[ICRA]BB(Negative)	[ICRA]BB(Stable)	
2 Unallocated	Long term	21.53	--	[ICRA]BB(Stable)	[ICRA]BB(Negative)	[ICRA]BB(Negative)	[ICRA]BB(Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – fund-based – Term loans	Simple
Long-term – Unallocated	Not applicable

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	FY2020	NA	FY2028	19.57	[ICRA]BB(Stable)
NA	Term loan – 2	FY2020	NA	FY2027	5.00	[ICRA]BB(Stable)
NA	Term loan – 3	FY2020	NA	FY2027	5.00	[ICRA]BB(Stable)
NA	ECLGS loan	FY2022	NA	FY2029	8.00	[ICRA]BB(Stable)
NA	ECLGS loan	FY2021	NA	FY2025	0.90	[ICRA]BB(Stable)
NA	Unallocated	NA	NA	NA	21.53	[ICRA]BB(Stable)

Source: LHRPL

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

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