Press Release

Piccadily Hotels Private Limited

March 27, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	317.38	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Upgraded	Simple
Total	**317.38**	**[Rupees Three hundred seventeen crore and thirty-eight lakhs only]**		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Ratings and Valuation Private Limited (IVR) has upgraded the long-term rating at IVR BBB- with stable outlook for the bank loan facilities of Piccadily Hotels Private Limited (PHPL).

The ratings are upgraded on account of improvement in scale of operations and profitability. The rating continues to draw comfort from experienced promoters along with long track record of operations, tie-up with renowned Hyatt Brands, operations with strategically located hotels and improving industry scenario for hospitality sector. However, these rating strengths are partially offset by moderate financial risk profile, highly competitive hotel industry limiting the ability to attract and retain customers along with macro-economic factors and seasonal uncertainty.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. m. IVR believes PHPL's business risk profile will be maintained over the medium term.

IVR has principally relied on the audited financial results of the company up to March 31, 2023, and projected financials for FY2024-FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and improvement in profitability
- Improvement in capital structure and debt protection metrics

Downward Factors

- Weakening of operational and financial performances of the company and/or increase in debt-funded capex leading to deterioration of profitability and debt coverage metrics or liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and long track record of operations

Piccadily Hotels Private Limited (PHPL) has an established track record of about 45 years of successful operations with its six established hotel properties and experienced promoters. The company is currently managed by the Sharma family having experience of more than three decades in hospitality industry. The management of the company is supported by qualified and experienced personals. The company benefits from its association with Hyatt brand, which bring along its existing clientele and reputation.

Tie-up with renowned Hyatt Brands:

PHPL continues to benefit from long-term management contracts with established brands such as “Hyatt” through its 2 hotel properties, each in Gurgaon and Ludhiana, for a period of 25 years. The company has entered into an agreement with Hyatt India Consultancy Private Limited for its Janakpuri property, New Delhi in FY21and the after renovation the hotel got operational from April 13,2022 under the name of **Hyatt Centric.** Furthermore, the company benefits from the long-standing experience of Hyatt International in management of hotels along with management’s expertise and has access to the online reservation systems and marketing strategies of the brand which reduces the management and marketing risk to a great extent.

Operates with strategically located Hotels.

Piccadily hotel are well spread and strategically located across North India. The hotel properties are mostly located in central business districts (CBD) or business center of a city. Each hotel is located at prime location of Gurgaon, New Delhi, Ludhiana, Chandigarh, Raipur and Mumbai, out of which 3 hotels i.e. of Gurgaon, New Delhi and Ludhiana location are operated under International Hospitality brand Hyatt. The hotels attract a diverse set of customers ranging from corporate clients, tourists, and other customers.

Growing scale of operations with healthy profitability.

Total operating income (TOI) has increased significantly by ~111.94% to Rs.227.99 crore in FY2023 (Audited) from Rs.107.57 crore in FY2022 on account of improvement in occupancy ratio as well as ARR. The company has ramp up its occupancy ratio on y-o-y basis i.e. 26.68% in FY21 to 37.74% in FY22 and 54.85% in FY23 and also the ARR from Rs. 3610 in FY21 to Rs. 3797 in FY22 and Rs. 4741 in FY23. During FY23(A) non-operating income stood at Rs. 8.97 crore compared to Rs. 17.67 crore in FY22(A) which includes dividend income interest income, sale of shares and other non-operating incomes. There are non-operating expense amounting to Rs. 20.90 crore in FY23 which pertains to return of amount regarding sale of shares. The company has reported operating profit of Rs.94.34 crore in FY23 (Audited); increased from Rs. 35.46 crore in FY22(Audited). Further, with increase in scale of operations along with decline in raw material consumption cost, EBIDTA margin improved by 841 bps and stood at 41.38% in FY23 from 32.96% in FY22. The company has reported PAT of Rs.34.12 crore in FY2023 (Audited) as against Rs. 1.70 crore in FY22 (Audited). The PAT margin also improved significantly by 1304 bps and stood at 14.40% in FY23 as compared to 1.35% in FY22 on account of improvement in EBITDA margins and decline in interest and finance cost. The Gross Cash accruals have increased to Rs.51.61 crore in FY23 as against Rs. 18.65 crore in FY22 on account of increase in scale of operations and operating profitability.

Improving industry scenario for hospitality sector

Sustenance of domestic leisure travel, demand from meetings, incentives, conferences, and exhibitions (MICE) including weddings, and business travel (despite a temporary lull during election period) are likely to drive demand in FY2025. Spiritual tourism and tier-II cities are expected to contribute meaningfully in FY2025. Sustenance of a large part of the cost-rationalisation measures undertaken during Covid period, along with operating leverage benefits, has resulted in sharp expansion in margins compared to pre-Covid levels.

Key Rating Weaknesses

Moderate financial risk profile

The financial risk profile of the company stood average marked by average net worth, debt protection metrics and debt coverage indicators. The net worth of the company stood at Rs. 124.58 Cr as on March 31, 2023(Audited) as against Rs. 87.88 Cr as on March 31, 2022. The capital structure of the company stood moderate marked by overall gearing at 2.89x as on March 31, 2022, improved from 4.43x as on March 31, 2022, mainly on account of accretion of profits to general reserve along with schedule repayment of term loan. Further, total indebtedness of the company as reflected by TOL/TNW also improved and stood at 3.33x as on March 31, 2023, as compared to 5.01x as on March 31, 2022, on account of increase in TNW. Interest coverage has improved to 3.14 times in FY23 improved from 1.04 times in FY22 due to decrease in finance expenses and increase in operating profitability. DSCR of the company has stood at similar level at 1.49x in FY23 as against 1.50x in FY22.Total debt to GCA improved significantly although stood moderate at 6.97x as on March 31, 2023, as against 20.88x as on 31 March 2022 on account of increase in profitability.

Highly competitive hotel industry limiting the ability to attract and retain customers.

The hotel industry is very competitive with a large number of established organized players and their growing network of hotels catering to middle/high income group which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Further, improvement of the occupancy levels is highly dependent on the hotel's ability to retain and add reputed customers which will be a challenge in light of heightened competition in the hotel sector.

Macro-economic factors and seasonal uncertainty

Hotel industry being cyclical and dependent on the general economic scenario. The company is exposed to the changes in the macro-economic factors and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors which leads to inherent cyclicality in the hospitality industry. These risks can impact the occupancy rate of the company and thereby the company's profitability along with a drop in ARRs.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for assigning rating outlook.

Instrument/Facility wise Default Recognition & Post-Default Curing Period

Liquidity – Adequate

The company’s liquidity is expected to remain adequate as it expects sufficient cushion in its cash accruals vis-à-vis debt repayment obligations. Current ratio of PHPL has improved to 1.15x as on 31 March 2023 as compared to 1.11x as on 31 March 2022. The unencumbered cash and bank balance stood at Rs.7.93 crore and Rs. 21.41 crore as on March 31, 2023, and December 31, 2023, respectively. The operating cycle of the entity is negative 4 days in FY23; reduced from negative of 57 days in FY22. Quick ratio of the company stood at 0.90x as on March 31,2023 as compared to 1.09x as on March 31,2022.

About the Company

Piccadily Hotels Pvt Ltd was incorporated in 1973, by Mr. Venod Kumar Sharma. The company is involved into development, construction and operation of hotels on pan India basis. PHPL owns six hotels in Delhi, Gurgaon, Raipur, Chandigarh, Ludhiana and Mumbai. Hotels at Gurgaon, Ludhiana and Delhi are operated by International Hospitality brand Hyatt (Hyatt India Consultancy Private Limited). Other three properties are being managed under its own brand Piccadily.

Financials (Standalone):

(Rs. Crore)

For the year ended* / as on	**31-03-2022**	**31-03-2023**
	Audited	**Audited**
Total Operating Income	107.57	227.99
EBITDA	35.46	94.34
PAT	1.70	34.12
Total Debt	389.37	359.49
Tangible Net Worth	87.88	124.58
Ratios		
EBITDA Margin (%)	32.96	41.38
PAT Margin (%)	1.35	14.40
Overall Gearing Ratio (x) (including quasi-equity)	4.43	2.89

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (March 01, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Dec 08, 2022)	Date(s) & Rating(s) assigned in 2021-22 (Oct 08, 2021)
1.	Long Term Fund Based Facilities	Long Term	317.38	IVR BBB-/ Stable	IVR BB+/ Positive	IVR BB- (INC)	IVR BB/ Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Sep 2029	229.45	IVR BBB-/Stable
Term Loan	-	-	Sep 2026	30.65	IVR BBB-/Stable
Term Loan	-	-	Sep 2027	57.28	IVR BBB-/Stable

Annexure 2: List of companies considered for consolidated analysis: None.

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-Piccadily-Hotels-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.