Press Release

Aria Hotels and Consultancy Services Private Limited

December 01, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	527.37	IVR BBB- / Stable Outlook [IVR Triple B Minus with Stable Outlook]	Revised	Simple
Total	**527.37 (Rupees Five Hundred and Twenty Seven Crore and Thirty Seven Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in rating of the bank loan facilities of Aria Hotels and Consultancy Services Private Limited (AHCSPL) factors improvement in operational as well as financial performance during FY22 (Audited) and 7MFY23 (CA Certified). Further the ratings continue to derive comfort from experienced promoters and management, strong brand name, prime location of the property, adequate financial flexibility given its ability to raise fresh LRD loans on the unencumbered commercial properties, moderate financial performance and improving industry scenario for hospitality sector. However, these are partially offset by stressed capital structure, geographical concentration of revenues and competitive pressures and Macro-economic factors and seasonal uncertainty.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in scale of operation above Rs.350 crore backed by occupancy and ARR performance.
- Sustained improvement in PBILDT margin over 40%

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 management**

  AHCSPL is promoted by Late Mr. Sushil Gupta and is currently managed by Mr. Sandeep Gupta S/o Mr Sushil Gupta as the Executive Chairman of the company. He is an alumnus of Notre Dame University, USA with specialization in finance and marketing. During his MBA, Mr. Sandeep Gupta, worked for the Hyatt International Corporation, Chicago as a Management Trainee. He has an experience of more than 25 years in the hotel industry and is associated with the company since inception. Mr. Samir Agarwal, CFO of the company, is a Chartered Accountant having an experience of more than 17 years in the field of finance, auditing, financial statement, internal audit, budgeting, investment, cash flow, financial policies/procedures, banking, forecasting, variance analysis, regulatory compliance, contract negotiation, and taxation. Mr. Vipin Khattar, General Manager JW Marriott, Aerocity is an alumnus of Hotel Management and Catering Technology from IHTTI School, Neuchatel, Switzerland with specialization in hospitality operations. He brings with him more than two decades of extensive experience as a hospitality professional primarily in the UK, Middle East and Africa. He held various roles with the Hyatt brand in UAE and Egypt, the most recent being the General Manager at Hyatt Regency, Dubai.

- **Strong brand name**

  The company has tied-up with Marriott Hotels India Private Limited (Marriott) for branding, operating and marketing of the hotel under the ‘JW Marriott’ brand. JW Marriott is one of the world’s most recognized hotel brands with a global reputation for service, comfort and value. Marriott International Inc. is a global leading hospitality company with more than 6500 properties in 127 countries and territories worldwide under its management. The agreement dated December 18, 2009, is valid for an initial period of 30 years with an extension option of seven years. AHCSPL would be pay operating, incentive, marketing and royalty fees to Marriott (~5% to 7% of hotel revenue).

- **Prime location of the property**

  The hotel property lies in the hospitality district at Delhi Aerocity and benefits from sound location, as it is adjacent to Indira Gandhi International Airport and well connected with Central Business Districts (CBD) of Delhi and Gurgaon. The hotel has 1 Large Ball Room and 5 Meeting Rooms at ground floor, 1 Small Banquet for 150 persons at lower ground level and a Small Ball Room with 2 Meeting Room on first floor. The hotel has recreational facilities which includes Gym, Swimming Pool, Spa and Salon with a total area of 13,982 sq. ft. The hotel also has 685 car parking slots in the basement. The total area of 20,430 sq. ft. is dedicated for the food and beverages segment.

- **Adequate financial flexibility given its ability to raise fresh LRD loans on the unencumbered commercial properties**

  AHSCPL has a commercial and retail space with a total area of 1,32,940 sq. ft. of which around 1,24,160 sq. ft. i.e., 93% is rented. Remaining (i.e., 8,780 sq. ft.) is used by hotel as restaurant and Banquet space. The LRD (lease rental discounting) facility of Rs.20 crore was availed by the company during FY2014 from Union bank of India against its lease receivables on 11,000 Sq. ft. area. The debt has been paid in full in December 2021 ahead in advance before the due date of repayment. The said asset has fetched an income of Rs.12.63 crore during FY2021. AHCSPL can anytime avail LRD facility of at least minimum amount of Rs.50-60 crore against the existing lease receivables which can provide additional liquidity headroom if required at any future date.

- **Healthy sequential growth in operational and financial performance during FY22 (A) and 7MFY23 (CA Certified)**

  Operating Performance – Despite two waves of the pandemic in FY2022, the company was able to ramp-up occupancy levels from 42% in April 2021 to 70% in March 2022 (even though the rates remained at a 25-30% discount to FY2020 levels for the full year). In 7MFY23 *(period refers from April 01, 2022 to October 31, 2022)*, despite summers being relatively an off-season, portfolio occupancies (at more than 81%) and ARRs (more than Rs.11,000) touched all-time-high levels, benefiting from demand tailwinds. Improving vaccination coverage, easing restrictions, reopening of commercial international travel and overall economic recovery, personal and corporate travel along with MICE demand are expected witness healthy traction over the medium term. This supports revenue ramp-up for AHCSPL.

Financial Performance – The total operating income of the group improved by 55% and stood at Rs.159.86 crore in FY22 (vis-à-vis Rs.102.88 crore in FY21) on account of gradual pick up of hotel industry due to progression of the vaccination drive coupled with pent up travel demand for past few quarters. Further during 7MFY23 *(period refers from April 01, 2022 to October 31, 2022)*, the company reported total operating income of Rs.181.40 crore with Average room rate reported by the company was ~Rs.9,738 with occupancy level of ~81% on account of improvement in the covid situation. Further EBITDA margin improved to 28.18% in FY22 (vis-à-vis 14.24% in FY21) in line with improvement in the revenue generated. However, the company continued to incur net loss of Rs.77.82 crore in FY22 (as against net loss of Rs.101.33 crore in FY21). Further during 7MFY23, company has achieved EBITDA of Rs.69.88 crore due to better occupancy and ARR with the improvement in the overall hospitality sector and subsidization of covid related issues.

- **Improving industry scenario for hospitality sector**

  After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in Covid cases have helped improve travel sentiment. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE (meetings, incentives, conferences and exhibitions). The sector is on track to achieve or even surpass the pre-Covid level occupancies in FY23. Demand for leisure travel, business travel for client meetings as well as project work are gaining steam. Although the uncertainty around new variants of the Covid virus may continue to linger for some more time, Infomerics expects domestic travel (leisure and business) demand to remain strong during the year as travelers and hoteliers have embraced the new normal. The resumption of international flights in March 2022 should also give impetus to foreign leisure travel. Infomerics believes that with demand outlook improving coupled with the large-scale infrastructure push by the government, the sector is well poised to put the pandemic's destruction behind it. Further, realignment of cost structures by the industry players forms a strong base for the profitability of the hospitality sector in the coming months.

Key Rating Weaknesses

- **Stressed capital Structure**

  Overall capital structure of the company has remained stressed due to higher reliance on external debt amounting to Rs.515.49 crore in the form of term loan as on March 31, 2022 as against the net worth of Rs.107.86 crore The stress in capital structure has deteriorated marked by overall gearing stood at 5.02 times as on March 31, 2022 (vis-à-vis 3.08 times as on March 31, 2021) mainly on account of erosion in the networth base due to carried forward losses incurred by the company.

- **Geographical concentration of revenues and competitive pressures**

  Owing to the geographic concentration of its room inventory in Delhi, the company would remain exposed to any adverse region-specific development and risks. Also, AHCSPL has a sizable room inventory (523 rooms) in a micro-market, which has several properties across segments and price points. This may exert pressure on AHCSPL's occupancy levels and/ or restrict the pricing potential of its properties.

- **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:

[Criteria for assigning rating outlook]

[Rating Methodology for Service Sector Entities]

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Criteria on Parent/Group Support]

Liquidity – Adequate

The liquidity profile of the company is backed by sanctioned and undisbursed debt of Rs.135.00 crore, minimal utilized working capital limits at ~6% during the past 12 months period ended October 31, 2022. Unencumbered Cash and Bank balance of Rs.24.13 crore as on September 30, 2022.

About the Company

Aria Hotels and Consultancy Services Private Limited (AHCSPL) incorporated as of May 2007, is the owner of the "J.W. Marriott Hotel" (Hotel). AHCSPL has developed a 523-room 5-star deluxe hotel at Aero city, in proximity to Indira Gandhi International Airport (IGIA). AHCSPL entered into agreement with Marriott Hotels India Private Limited (Marriott) for operations and branding of the hotel under the brand name of 'JW Marriott' for an initial period of 30 years (till 2036) with an extension option of 7 years. The hotel is spread across 4.55 Acre of land and has 5 food and beverages facilities including K3 all day dining restaurant, JW Lounge, DBC (Bakery), Executive Lounge and one Japanese Restaurant, Adrift. AHCSPL is a subsidiary of Asian Hotels (West) Ltd. AHWL owns hotel Hyatt Regency, Mumbai property located near Sahar Airport, Mumbai.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)	7MFY23 (C.A. Certified)
Total Operating Income	102.88	159.86	181.40
EBITDA	14.65	45.05	69.88
PAT	-101.33	-77.82	8.66
Total Debt	550.43	541.04	–
Tangible Net worth	178.81	107.86	–

For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)	7MFY23 (C.A. Certified)
EBITDA Margin (%)	14.24	28.18	38.52
PAT Margin (%)	-98.50	-48.68	4.77
Overall Gearing Ratio (times)	3.08	5.02	–

**Classification as per Infomerics standards*
7MFY23 (Period refers from April 01, 2022 to October 31, 2022)

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2022-23)			Rating History for the past 3 years		
Sr. No.	Name of Instrument / Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
Press Release					10-May-2022	–	–
1.	Rupee Term Loan	Long Term	465.37	IVR BBB- / Stable	IVR BB+ / Stable	–	–
2.	Funded Interest Term Loan	Long Term	54.50	IVR BBB- / Stable	IVR BB+ / Stable	–	–
3.	Fund Based – Cash Credit	Long Term	7.50	IVR BBB- / Stable	IVR BB+ / Stable	–	–

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating. Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Rupee Term Loan	–	–	Dec – 2035	465.37	IVR BBB- / Stable
Long Term – Funded Interest Term Loan	–	–	Dec – 2035	54.50	IVR BBB- / Stable
Long Term – Fund Based – Cash Credit	–	–	–	7.50	IVR BBB- / Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-AHCSPL-dec22.pdf

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

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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.