

## Fleur Hotels Private Limited (Revised)

January 31, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	0.0	60.0	[ICRA]A- (Stable); Assigned
Fund-based – Term Loans	165.0	165.0	[ICRA]A- (Stable); Re-assigned from [ICRA] A-(SO)
Long-term – Non-fund Based	10.0	10.0	[ICRA]A- (Stable); Re-assigned from [ICRA] A-(SO)
Short-term – Non-fund Based	5.0	5.0	[ICRA]A2+ ; re-assigned from [ICRA] A2+(SO)
<b>Total</b>	<b>180.0</b>	<b>240.0</b>	

### Rating action

ICRA has re-assigned the long-term rating to [ICRA]A- (pronounced ICRA A minus)<sup>1</sup> from [ICRA]A-(SO) (pronounced ICRA A minus Structured Obligation) on the Rs. 175 crore<sup>2</sup> bank facilities and the short-term rating to [ICRA]A2+(pronounced ICRA A two plus) from [ICRA]A2+(SO) (pronounced ICRA A two plus Structured Obligation) for the Rs. 5 crore non-fund based bank facilities of Fleur Hotels Private Limited (FHPL or the company). ICRA has also assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) on the Rs. 60 crore bank facilities of FHPL. The outlook on the long-term rating is Stable.

### Rationale

The re-assignment of outstanding rating from SO factors in FHPL's improving credit profile as its critical properties mature, growing strategic importance to Lemon Tree Hotels Limited (LTHL, rated [ICRA]A-/ stable/[ICRA]A2+) and operational and financial support available from the parent. The ratings also take cognisance of the company's geographically diversified portfolio, which include the best performing as well as seasoned properties with sizeable revenue share and gross operating profits (36% of LTHL's consolidated revenues and gross operating profits in FY2017) apart from housing majority of upcoming properties. FHPL has reported consistent improvement in operational performance of its prime properties (Delhi Aerocity, Hyderabad and Bangalore) in FY2017 and April–November 2017, and is expected to benefit from favourable demand outlook for the industry. Moreover, demonstrated support from the strategic investors, financial flexibility and robust capital structure also support its credit metrics. The assigned ratings continue to favourably factor in the extensive experience of the promoters- LTHL, in the hospitality industry that has also extended corporate guarantees for majority of debt of FHPL.

The ratings are, however, constrained by the moderate return indicators, as investments in newly launched properties (Sector 60 Gurgaon, Goa) are yet to scale up adequately for meaningful contribution to profitability and continued execution risk associated with several under construction projects. Against the backdrop of these debt-funded investments and insignificant contribution to profitability, the company's coverage indicators such as Total Debt/OPBITDA (at 8.8x as on September 30, 2017) remain below average. Notwithstanding the moderate coverage indicators, ICRA draws comfort from the longer tenure of debt, comfortable moratorium period following

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

commencement of commercial operations coupled with a ballooning repayment structure. Most of the Group's under construction projects are housed with FHPL group (i.e. FHPL along with its subsidiaries); however, availability of sanctioned lines against cash flows of operational properties as well as flexibility to raise debt against projects launched in FY2018 and other debt-free operational properties provide adequate financial flexibility to fund the under construction projects, thereby mitigating funding risks to a large extent. Owing to debt-funded capex plans, ICRA expects the leverage to remain high, despite expectations of improved profitability.

Going forward, the ability of the company to quickly ramp-up its newly launched properties, improve the performance of its other operational properties, successfully mobilise funds to execute planned room additions without incurring significant cost and/or time over-runs and prudently plan the pace and manner of its future expansions to limit impact on its business and financial risk profile, will remain the key rating sensitivities.

## Outlook: Stable

ICRA believes FHPL will continue to benefit from the extensive experience of its promoters, geographically diversified portfolio and healthy industry scenario. The outlook may be revised to Positive if substantial growth in revenue and profitability, timely completion and ramp-up of ongoing projects and any equity infusion, strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if any major debt funded capital expenditure, weakens credit profile.

## Key rating drivers

### Credit strengths

**Consistent improvement in operating metrics across major properties** - The consolidated (weighted average) average room revenues (ARRs) and occupancies of FHPL Group properties improved from Rs. 3,262 and 77%, respectively, in FY2016 to over Rs. 3,665 and 73%, respectively, in FY2017. The growth in matrices was supported by healthy growth across major properties in Delhi, Bangalore and Hyderabad, and shift in business mix (from corporate request for proposal (RFP) business towards higher ARR online travel agent (OTA) business) over the past years. Healthy operating performance and cash accruals led to improvement in its profit margins and debt servicing ability (interest cover – 2x; DSCR – 1.5x, NCA/Total Debt – 8% as on March 31, 2017). In 8M FY2018, the consolidated ARR and occupancy levels registered a marginal decline to Rs. 3,482 and 72% as against Rs. 3,546 and 74% in the corresponding period of FY2017, on account of slow ramp-up of the newly launched Sector 60 Lemon Tree and Red Fox properties in Gurgaon (Haryana). However, overall performance is expected to revive in H2 FY2018 and exceed that of the previous year.

**High financial flexibility with robust capital structure** - Healthy equity infusions from private equity players over the past years have helped the company maintain a comfortable capital structure despite undertaking significant capex towards expansion in the past few years. Additionally, its policy of relying on debt against cash flows of operational properties for funding ongoing projects, deferment of project debt towards later stages and its ability to raise low cost debt augers well for its financial flexibility.

**Strategic importance to parent company** – The FHPL Group accounts for 39% (1,258 rooms across nine properties) of the total operational room inventory of the Lemon Tree Group and contributes nearly as much percentage to its overall revenues and profits by housing the Group's prime properties at Delhi Aerocity, Bangalore and Hyderabad. In addition, 69% (nearly 1,000 rooms) of room inventory under implementation is under FHPL and post completion, the FHPL Group would account for nearly half of the total room inventory of the Lemon Tree Group, increasing its strategic importance to the parent company over the medium to long-term.

**Well-diversified product portfolio** - FHPL's product offerings across consumer segments (premium, mid-scale, budget) reduces the vulnerability of the Group's revenues to cyclical downturns to some extent; favourable location of properties (existing and under development) in the prominent business and tourist districts supports revenue growth and reduces concentration risk.

**Well-recognised brands and established track record of the promoters in delivering consistent improvement in performance** – FHPL is promoted by LTHL (and APG, a Dutch pension fund), which has a track record of successfully developing a portfolio of over 4,200 rooms across 40 properties (including under management contracts) since commencing operations in 2004. Lemon Tree is one of India's largest hotel chains, with well-recognised brands. FHPL operates its nine operational properties under Lemon Tree, Lemon Tree Premier and Red Fox brands, and benefits from LTHL's distribution system, loyalty programmes and corporate relationships.

### Credit challenges

**Sub-optimal profitability metrics despite improvement as reflected by weak RoCE** - Given the large inventory in under construction or in early stabilisation phases, RoCE has remained low at a sub 3% level. Owing to sizeable debt-funded expansion plans over the medium term (till FY2021), leverage (TD/ OPBDITA) is likely to remain high (to ~7.6x as on March 31, 2017) despite higher operating profits. The same is expected to improve gradually as more properties become operational.

**Aggressive expansion plans over the medium term; albeit management's successful track record in execution provides comfort** - On a consolidated level, nearly 1,009 rooms (45% targeted room inventory of 2,266) remained under development as on December 31, 2017. Though risks in terms of time and cost over-runs persist and can potentially impact the debt raising ability of the company, the management's successful track record in execution provides comfort. Furthermore, given that the equity infused in the Group has been fully deployed, the company's ability to timely mobilise debt funding, at favourable terms, will be a critical determinant of its credit profile. Long tenure debts sanctioned to the company in the past year, at highly competitive terms, has been a positive development.

**Geographical concentration of revenues in few key properties** - With the top three locations (Delhi, Bangalore and Hyderabad) accounting for ~70% of revenues during FY2017, FHPL's revenues are vulnerable to adverse regional developments and competitive pressures in these key markets.

**Vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events** - Operating performance of the properties remained vulnerable to seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, the risk to revenues is partially mitigated by FHPL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Hotel Industry](#)

[Rating Outlook and Rating Watch](#)

[Approach for Financial Ratio Analysis](#)

## About the company

Incorporated in July 2003, Fleur Hotels Private Limited (FHPL) is a subsidiary of LTHL. While LTHL holds 57.98% stake in FHPL, the balance 42.02% is owned by APG Strategic Real Estate Pool N.V. The company, directly and through its subsidiaries, operates nine Lemon Tree/Red Fox properties in Hyderabad (HITECH City – Lemon Tree Premier), Goa (Candolim – Lemon Tree), Bangalore (Electronic City – Lemon Tree and Whitefield – Lemon Tree), Delhi (Lemon Tree in Delhi Aerocity), Gurgaon (Sector 60 - Lemon Tree, Red Fox and Leisure Valley -II) and Bandhavgarh, Madhya Pradesh (Lemon Tree). Besides these, five of the company's projects are under development in Pune (Maharashtra), Udaipur (Rajasthan), Kolkata, Dehradun, and the Mumbai International Airport Limited (MIAL) Aerocity. In total, the company has an operational inventory of ~1,258 rooms and project-stage inventory of ~1,009 rooms.

## Key financial indicators (Audited)

<b>FHPL Consolidated</b>	<b>FY 2016</b>	<b>FY 2017</b>
Operating Income (Rs. crore)	126.5	143.8
PAT (Rs. crore)	5.6	2.1
OPBDIT/ OI (%)	29.3%	26.5%
RoCE (%)	3.1%	2.8%
Total Debt/ TNW (times)	0.1	0.3
Total Debt/ OPBDIT (times)	3.7	7.6
Interest Coverage (times)	3.1	2.0
NWC/ OI (%)	-18.2%	-19.9%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Jan 2018@	Nov 2016^	Dec 2015	-
1	Term Loan	225.0	224.5	[ICRA]A-(Stable)	[ICRA]BBB+(SO) (Stable)	[ICRA]BBB+(SO) (Stable)	-
2	Non-fund based limits	10.0	-	[ICRA]A-(Stable)	[ICRA]BBB+(SO) (Stable)	-	-
3	Non-fund based limits	5.0	-	[ICRA]A2+(Stable)	NA		

@ During FY2018, ratings of [ICRA]A-(SO)/A2+(SO) assigned for enhanced bank lines of Rs. 180 crore in October 2017. Long-term rating of were upgraded from [ICRA]BBB+(SO) to [ICRA] A-(SO) for bank lines of Rs. 130 crore in April 2017.

^ During FY2017, rating of [ICRA]BBB+(SO) reaffirmed for long term bank facilities of Rs. 50 crore in June 2016.

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Jun-2015	NA	FY2030	40.0	[ICRA]A- (Stable)
NA	Term Loan 2	Jun-2015	NA	FY2031	80.0	[ICRA]A- (Stable)
NA	Term Loan 3	Dec-2015	NA	FY2031	45.0	[ICRA]A- (Stable)
NA	Term Loan-4	April-2017	NA	FY2033	60.0	[ICRA]A- (Stable)
NA	Long term non-fund based	Dec-2015	NA	NA	10.0	[ICRA]A- (Stable)
NA	Short-term non-fund based	June 2017	NA	NA	5.0	[ICRA]A2+

Source: FHPL

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## Corrigendum

Document dated January 31, 2018 has been corrected with revisions as detailed below:

- a) Revisions on page number 1 under the section headings – Rating action and Rationale.
- b) Revision (including minor additions) in the wordings of the first paragraph of the sections.

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