

March 28, 2024

Prestige Hospitality Ventures Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	350.0	350.0	[ICRA]A+(CE) (Stable); reaffirmed
Total	350.0	350.0	

Rating Without Explicit Credit Enhancement

[ICRA]BBB+

*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The long-term rating of [ICRA]A+ (CE) for the Rs. 350.0-crore term loan of Prestige Hospitality Ventures Limited (PHVL) is based on the strength of the corporate guarantee provided by the parent, Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A+(Stable)/[ICRA]A1). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

Adequacy of credit enhancement

The corporate guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, though it does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by PEPL results in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor or the Unsupported Rating of PHVL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

The rating considers the improvement in PHVL's operating performance in FY2024 on the back of an increase in occupancy, driven by pick up in business travel and meeting, incentives, conferences and exhibitions (MICE), which is expected to sustain in FY2025. In 9M FY2024, the average occupancy at the consolidated level increased to 58% (52% in FY2023) and RevPAR to Rs. 8,325 (Rs. 7,224 in FY2023). ICRA expects the revenue from hotel segment to grow by 11% and 7% in FY2024 and FY2025, respectively, with operating margins around 40%-42%. The company's debt service coverage indicators (DSCR) is estimated to be healthy at around 1.6 times in FY2024 and FY2025. Notwithstanding the improvement in occupancy, it remains moderate and the ramp-up in the same, along with a healthy ARR will remain critical from the credit perspective. The rating considers the vulnerability of business operations to general economic slowdown and exogenous shocks since the travel and tourism industry is dependent on discretionary spending. However, the rating derives comfort from the Prestige Group's strong record in the hospitality sectors and favourable location of the hotels, which is likely to support the demand. The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

Salient covenants of the rated facility

Financial covenants include DSCR equal to or greater than 1.20 times till FY2022 and greater than or equal to 1.25 times thereafter in PHVL and the asset coverage ratio to be greater than or equal to 1.67 times for the project.

Key rating drivers and their description

Credit strengths

Corporate guarantee provided by PEPL towards rated bank facilities of PHVL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by PEPL. However, the corporate guarantee does not have a well-defined invocation and payment mechanism.

Improved operating performance in FY2024, healthy debt coverage metrics – PHVL's operating performance in 9M FY2024 has improved on the back of increase in occupancy, driven by pick up in business travel and MICE. The performance is expected to sustain in FY2025. In 9M FY2024, the average occupancy at the consolidated level increased to 58% (52% in FY2023) and RevPAR to Rs. 8,325 (Rs. 7,224 in FY2023). ICRA expects revenue from hotel segment to grow by 11% and 7% in FY2024 and FY2025, with estimated occupancy levels of around 60%. The company's consolidated operating profit margins (OPM) are projected to remain in the range of 40-42%, while the DSCR is estimated to be healthy at around 1.6 times in FY2024 and FY2025.

Established track record of Prestige Group in real estate and hospitality sectors – The Prestige Group has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has developed a diversified portfolio of real estate projects, which include residential, commercial, hospitality and retail segments. Under the hospitality segment, the Group has nine operational properties with 1,368 keys in total, four under-construction hotel properties in Delhi and Bengaluru with 1,009 keys and four upcoming projects with 558 keys across Bengaluru and Mumbai. ICRA expects the parent to provide timely financial support to PHVL, for funding shortfall, if any, given its strategic importance to PEPL and the latter's reputation sensitivity to default.

Credit challenges

Moderate occupancy levels and high leverage – Despite an improvement, the occupancy levels for the consolidated portfolio of hotels remain moderate at 58% for 9M FY2024 and a ramp-up in the same, along with a healthy ARR will remain critical from credit perspective. The company's consolidated debt levels continue to be on a higher side resulting in high leverage. Nonetheless, ICRA notes that a significant portion of the total debt is from promoters in the form of OCDs/ICDs, which are subordinated to the bank debt.

Cyclical industry dependent on discretionary spend; vulnerable to general economic slowdown and exogenous shocks – The hotel industry is significantly exposed to macro-economic conditions, inflation level, tourist arrival growth, etc, which lead to an inherent cyclicity. The industry is exposed to several exogenous shocks such as geopolitical crisis, terrorist attacks, disease outbreaks, etc. Given that the travel and tourism industry is dependent on discretionary spending, the industry is highly susceptible to any severe crisis.

Vulnerability of debt coverage indicators to changes in occupancy and interest rates – The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

Liquidity position: Adequate

For the rated entity: Adequate

At a standalone level, PHVL's liquidity is adequate. The company has around Rs. 35.6 crore cash and liquid investments (including encumbered cash balance), as on December 31, 2023. The cash flow from operations is expected to remain comfortable to service the debt obligations of Rs. 28.2 crore and Rs. 35.0 crore in FY2025 and FY2026 respectively.

For the guarantor (Prestige Estates Projects Limited): Adequate

PEPL's liquidity profile is adequate, supported by cash balances of around ~Rs. 1,980 crore as on September 30, 2023 (with encumbered cash balance of Rs. 129.4 crore). The company is likely to maintain cash balances of Rs. 1,000-1,500 crore, going forward. It has a consolidated debt repayment of Rs. 4,393 crore in FY2025, of which around Rs. 2,400-2,500 crore is likely to be refinanced, while the remaining is expected to be serviced comfortably from the cash flow from operations.

Rating sensitivities

Positive factors – A significant and a sustained improvement in RevPAR, along with a material reduction in debt levels resulting in significant improvement in leverage and coverage metrics and improvement in the credit profile of the guarantor, could trigger a rating upgrade.

Negative factors – A sustained reduction in earnings and/or significant increase in indebtedness impacting the company's liquidity and debt protection metrics could result in a rating downgrade. Deterioration in the credit profile of the guarantor (PEPL) or weakening of business linkages or strategic importance of the company for the parent could put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology - Hotels
Parent/Group Support	Parent Company: Prestige Estates Projects Limited. ICRA expects the parent, PEPL, to provide timely financial support to the company, for funding any shortfall, given their close financial linkages, the company's strategic importance for the parent and the parent's reputation sensitivity to default. Moreover, PEPL has provided an irrevocable, unconditional corporate guarantee to the rated bank facility of PHVL. Click here for the rating of the parent.
Consolidation/Standalone	Consolidation: For arriving at the rating, ICRA has considered the consolidated financials of PHVL and its subsidiaries and JV, given the close business, financial and managerial linkages among them.

About the company

Incorporated in December 2017, PHVL is the holding company for the Prestige Group's hospitality business. On a standalone basis, it owns two assets - Conrad hotel in Ulsoor and Oakwood Premier Prestige service apartments in UB City. PHVL has two subsidiaries - one owning an operational hotel at Sheraton, Whitefield, and the other developing an under-construction Marriott hotel in Devanahalli. Further, the company is a joint venture (JV) partner in Bamboo Hotel and Global Centre (Delhi) Private Limited, for developing a mixed-use project at Hospitality District of Indira Gandhi International Airport, New Delhi.

Key financial indicators (audited) - Consolidated

	FY2022	FY2023
Operating income	275.4	991.6
PAT	-104.6	179.4
OPBDIT/OI	24.9%	44.0%
PAT/OI	-31.5%	14.0%
Total outside liabilities/Tangible net worth (times)	-7.0	-10.3
Total debt/OPBDIT (times)	38.7	6.2
Interest coverage (times)	1.0	4.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 28, 2024	Dec 30, 2022	Sep 30, 2021	Apr 24, 2020	
1 Term loans	Long term	350.0	298.67	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple

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, is available on ICRA's website: [Click Here](#).

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Dec 2019	-	Sep 2031	350.0	[ICRA]A+(CE)(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	PHVL Ownership	Consolidation Approach
Prestige Hospitality Ventures Limited	100.00%	Full Consolidation
Sai Chakra Hotels Private Limited	100.00%	Full Consolidation
Northland Holding Company Private Limited	100.00%	Full Consolidation
Bamboo Hotel and Global Centre (Delhi) Private Limited	50.00%	Limited consolidation

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