January 18, 2017

Chalet Hotels Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long-term, Fund Based Limits	85.00	[ICRA]BBB (Stable); reaffirmed
Term Loans	1,187.00 (enhanced from Rs. 1,159)	[ICRA]BBB (Stable); reaffirmed
Short-term, Non-Fund Based Limits	100.00	[ICRA]A3+; reaffirmed

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced as ICRA triple B)[1] for the Rs. 85.00 crore long-term, fund based bank facilities and Rs. 1,187.00 crore (enhanced from Rs. 1,159) term loans of Chalet Hotels Private Limited (CHPL). ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) for the Rs. 100.00 crore[2] short-term, non-fund based bank facilities of CHPL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of the ratings factors in the strong promoter group (C. L. Raheja Group) with considerable experience in hospitality, real estate development and retail businesses, and the company's management tie-up with '*Marriott International Inc.' – a* well known international hospitality group – and the associated benefits from its global branding, marketing and advertising networks. The ratings also draw comfort from the company's strategic investments in land parcels, which lend significant financial flexibility especially with banks and financial institutions to manage the liquidity profile of the company and meet the repayment obligations. Further, the company has demonstrated timely completion of several projects which it undertook in the past; the currently under-construction projects, with an exception of the Bengaluru residential project which is under litigation with Hindustan Aeronautics Limited (HAL), are also progressing largely as per schedule. The 585 key JW Marriott Hotel at Sahar, Mumbai, which commenced operations in March 2015, has received favourable response; the cash flows from this project, once the operations are stabilised, shall help the company in meeting the large debt repayment obligations.

The Indian hospitality industry is showing some signs of demand revival in the recent times, driven primarily by the improving sentiments in the domestic economy and various initiatives taken by the central government. However, the growth in industry performance metrics (revenue per available room-RevPAR) has largely been driven by occupancies, while the average room rates (ARR) continue to remain subdued. The Mumbai and the Hyderabad markets have witnessed strong improvement in occupancies recently – driven by healthy demand as well as moderation in pace of supply addition in these markets. ICRA expects the performance of these cities, going forward, is expected to remain robust given the modest supply pipeline. This is expected to augur well for CHPL's hospitality division. However, the hospitality industry is cyclical in nature and is vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, disease outbreak etc.).

The ratings are, however, constrained by the moderate scale of current operations with five[3] operational properties, geographical concentration of properties on the Mumbai market and the risk of being saddled with a large unsold residential property inventory in its real estate business. The company has a stretched financial risk profile marked by leveraged capital structure and weak coverage indicators on account of large investments in new projects as well as in various group entities. With only part of the Sahar project [retail/commercial project] in Mumbai under construction, the funding requirement towards future capex is expected to be moderate; CHPL's large asset base of existing properties and land banks, as well as steady cash flows from the existing hotel properties provide financial flexibility and funding options.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

[3] Excluding Bengaluru Marriott Hotel, Whitefield developed under the subsidiary Magna, as the hotel has been demerged from Magna

Timely completion of retail and commercial space in Sahar, stabilisation of JW Marriott, Sahar and early resolution of dispute with HAL with respect to the Bengaluru residential project are the key rating sensitivities.

Key rating drivers

Credit Strengths

- Strong promoter group (K. Raheja Corp/ C. L. Raheja Group) with considerable experience in real estate development provides operational and financial flexibility;
- Management tie-up with well-known international hospitality group Marriott International Inc (Marriott); CHPL benefits from Marriott's global branding, marketing and advertising network;
- Favourable response to the 585 key JW Marriott hotel launched (in Q4 FY2015) at Sahar, Mumbai boosts scale and cash accruals;
- The company's large asset base and financial flexibility with its lenders supports refinancing options and liquidity profile; further, absence of any large debt funded capital expenditure plan limits the future funding requirement.

Credit Weakness

- High geographical concentration on the North Mumbai market (78% of inventory and 76% of FY2016 hospitality segment revenues);
- Project risks associated with the stalled residential project in Bengaluru; risk of being saddled with a large unsold residential property inventory, both at its Bengaluru and Hyderabad projects;
- Stretched financial profile characterised by a high leverage and weak coverage indicators; considerable repayment obligations over the medium term.

Description of key rating drivers highlighted above:
CHPL is part of the C. L. Raheja Group ('the group'), which has diversified business interests across real estate development (residential and commercial), hospitality and retail. The group is a leading player in the commercial real estate development with developed area of approximately 20 million square feet. CHPL is the hospitality arm of the group and benefits from the vast experience of the group in real estate development, while also enjoying the financial flexibility in funding its projects. Further, the company derives the hotel management experience from Marriott and Starwood Hotels & Resorts (now part of Marriott), renowned international hospitality chains with well established global brands. All the five hotels owned by the company belong to the upper-upscale and luxury brands of Marriott, thus benefiting from Marriott's global branding, marketing and advertising network. This has been demonstrated by the continued robust performance of the hotel portfolio over the past six years, while the industry has been facing a downtrend. The newly launched 585 key JW Marriott, Sahar, Mumbai has also received favourable response since its launch in March 2015; the property has reported an occupancy of 58% and average room rates of Rs. 7,600 during H1 FY2017, resulting in a revenue per available room (RevPAR) of Rs. 4,400. Though the new property has increased the revenue concentration on Mumbai market, the risk is partly mitigated due to the strong demand outlook for the city and modest supply pipeline in the micro-market for the next four years. While the development of this new property resulted in considerable increase in debt levels, the commercialisation of the property now has improved the scale and accruals, thus cushioning the debt coverage. Early stabilisation of operations at the JW Marriott, Sahar and launch of the retail and the commercial spaces of this mixed use project will be key rating sensitivities.

CHPL's financial profile is currently stretched characterised by high leverage and weak coverage indicators. The borrowings for the mixed use project at Sahar, and cash flow support for the stalled residential project in Bengaluru and investments in group companies have led to spike in debt levels over the years. However, the company's large asset base and financial flexibility with its lenders supports refinancing options and liquidity profile; further, absence of any large debt funded capital expenditure plan limits the future funding requirement. The project risks and inventory risks associated with the stalled residential project in Bengaluru continue to constrain the rating and resolution of the legal disputes associated with the project remains to be a key sensitivity.

Analytical approach: "For arriving at the ratings, ICRA has taken a consolidated view of CHPL along with its subsidiary company – Magna Warehousing & Distribution Private Limited (Magna) – since both operate in the similar line of business and share a common management."

Links to applicable Criteria

About the Company:
Chalet Hotels Private Limited, promoted by the K. Raheja Corp Group (C. L. Raheja Group), is engaged in hospitality and real estate development. The promoter group is one of the leading business houses in the country with a presence in real estate development, retail, hospitality and malls. The company's existing operational hospitality properties include Renaissance Mumbai Hotel and Convention Centre, Powai (5-star Deluxe; 586 keys), Lakeside Chalet (Executive Apartments; 177 keys), Four Points by Sheraton, Navi Mumbai (4-star; 150 keys), Westin, Hyderabad (5-star Deluxe; 427 keys) and JW Marriott, Sahar, Mumbai (5-star Deluxe; 585 keys). All the hotels are run under management contracts/franchisee with Marriott International Inc. (Marriott). All the hotels of the company carry well known international brands and benefit from their global marketing and advertising network.

CHPL, through its wholly owned subsidiary Magna[4], has also developed a 1.70 lakh square feet (sq. ft.) of IT Park space at Whitefield in Bengaluru, which was let out starting April 2016. In addition, the company has developed 1.30 lakh sq. ft. retail space (ready for fit-outs) and 3.60 lakh sq. ft. commercial space (in advanced stage of completion) as part of the mixed use project involving JW Marriott, Sahar. Apart from these, CHPL has two ongoing real estate projects - a residential project at Madhapur in Hyderabad and another residential project at Koramangala in Bengaluru.

CHPL recorded a net loss of Rs. 204.85 crore on an operating income of Rs. 572.74 crore for the year ending March 31, 2016 as against a net loss of Rs. 115.94 crore on an operating income of Rs. 439.86 crore for the year ending March 31, 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

[4] Magna developed a mixed use project (involving 324 key Marriott Hotel – operational since Feb-2013, retail space – operational since Aug-2012, and IT Park – operational since Apr-2016) in Whitefield, Bengaluru; the hotel and the retail businesses have been hived off and demerged with Genext Hardware & Parks Pvt. Ltd (Genext), with appointed date of April 01, 2013

Rating History for last three years:

Table: Rating History

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	January 2016	February 2015	January 2014
1	Fund based bank facility	Long Term	85.00	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA] BBB (Stable)**
2	Term Loans	Long Term	1,187.00	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**	**[ICRA] BBB (Stable)**
3	Non-fund based bank facility	Short Term	100.00	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**	**[ICRA]A3+**

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

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Crore)	Current Rating and Outlook
Overdraft/ Cash Credit	-	-	-	85.00	[ICRA]BBB (Stable)
Term Loan 1 (ICICI Bank)	2013	-	2027	198.50	[ICRA]BBB (Stable)
Term Loan 2 (ICICI Bahrain)	2014	-	2027	81.56	[ICRA]BBB (Stable)
Term Loan 3 (ICICI UK)	2014	-	2027	100.28	[ICRA]BBB (Stable)
Term Loan 4 (RBL Bank)	2015	-	2021	137.16	[ICRA]BBB (Stable)
Term Loan 5 (Yes Bank)	2016	-	2026	110.00	[ICRA]BBB (Stable)
Term Loan 6 (Standard Chartered Bank)	2015	-	2023	250.00	[ICRA]BBB (Stable)
Term Loan 7 (Bank of Baroda)	2015		2028	90.00	[ICRA]BBB (Stable)
Term Loan 8 (Standard Chartered Bank)	2016	-	2028	196.50	[ICRA]BBB (Stable)
Term Loan 8 - Proposed Buyer's Credit Facility (Yes Bank)	-	-	-	23.00	[ICRA]BBB (Stable)
Letter of Credit/ Buyer's Credit/ Bank Guarantee	-	-	-	100.00	[ICRA]A3+

Source: CHPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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