Chalet Hotels Private Limited

March 16, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	1,187.00	1,570.79	[ICRA]BBB (Stable); Reaffirmed
Fund-based Working Capital Facilities	85.00	115.00	[ICRA]BBB (Stable); Reaffirmed
Non-fund based Working Capital Facilities	100.00	75.00	[ICRA]A3+; Reaffirmed
Total	**1,372.00**	**1,760.79**	

* Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) assigned to the Rs. 1,570.79 crore[1] (enhanced from Rs. 1,187.00 crore) term loans and the Rs. 115.00 crore (enhanced from Rs. 85.00 crore) long-term, fund-based working capital facilities of Chalet Hotels Private Limited ('CHPL' or 'the company')[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) assigned to the Rs. 75.00 crore (revised from Rs. 100.00 crore) short-term, non-fund based working capital 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 financial flexibility available with the company by being a part of the group. The ratings also favourably factor in CHPL'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 585 key JW Marriott Hotel at Sahar, Mumbai, which commenced operations in March 2015, has scaled up considerably and has stabilised its operations within the second year of launch. The cash flows from this project, coupled with sale of investments in group companies, has helped CHPL in improving its financial risk profile during FY2017, although the same continues to remain stretched with TD/OPBDITA at 11.9x during FY2017. The retail and the commercial segments of the Sahar project have been completed, albeit with some delay, and both the segments are expected to be operational by FY2019. This is expected to cushion the cash flows and improve the financial risk profile further. With the completion of these projects and in the absence of any greenfield projects in the near term, the future funding requirement towards capital expenditure (capex) is expected to be moderate. CHPL's large asset base of existing properties and land banks, and the steady cash flow from the existing hotel properties provides financial flexibility and funding options.

[1] *100 lakh = 1 crore = 10 million*

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

The ratings are, however, constrained by the moderate scale of current operations with six operational properties, geographical concentration of properties on the Mumbai market (64% of hospitality segment revenues in FY2017), and the risk of being saddled with a large unsold residential property inventory in its real estate business (Hyderabad and Bengaluru). CHPL, over the past four years, has been compensating the residential unit holders for the delay in providing procession of the flats.

Timely commencement of operations of the retail and the commercial space in Sahar (by October 2018) and timely receipt of approvals from the residential unit holders for hiving off the Bengaluru project are the key rating sensitivities.

The Indian hospitality industry, over the past three years, has been showing signs of revival from a prolonged downturn. This has been driven primarily by the slowdown in supply addition starting FY2015, while the demand remained robust. The growth in industry performance metrics (revenue per available room-RevPAR) is currently being driven by improvement in occupancies as well as the average room rates (ARR). During the past 12 months, the Mumbai and the Hyderabad markets have witnessed improvement in ARRs, aided by muted supply additions amidst strong demand. ICRA expects the performance of these cities to remain robust given the modest-to-moderate 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.).

Outlook: Stable

ICRA believes that CHPL's hotel properties will maintain their leading position in their respective markets and segments, leading to robust cash flows. With the industry poised for an uptrend, we expect the hotel cash flows to improve over the medium term, thus supporting improvement in debt coverage indicators. We expect the retail and the commercial spaces of Sahar project to be launched by H1 FY2019, further supporting the cash flows. The outlook may be revised to positive in case CHPL manages to reduce its debt levels significantly, aided by fresh equity infusion either by the promoters or from external sources. The outlook may be revised to negative if the Bengaluru residential project continues to be stalled due to the dispute with HAL, impacting profitability. Any large debt-funded capex or acquisition resulting in higher than expected debt levels will also be a credit negative.

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

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 over 20 million square feet (sq. ft.). 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.

Management tie-up with well-known international hospitality group Marriott International Inc (Marriott); CHPL benefits from Marriott's global branding, marketing and advertising network

CHPL derives hotel management support from Marriott and Starwood Hotels & Resorts (now part of Marriott), renowned international hospitality chains with well-established global brands. All the six hotels owned by the company belong to the premium 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 several years, while the industry had been facing a downtrend. During FY2017, CHPL's portfolio of hotels reported a blended occupancy of 67% and ARR of Rs. 7,675, resulting 12% YoY growth in RevPAR to Rs. 5,142. During April-October 2017, CHPL's blended occupancy stood at 69% (PY: 62%) and ARR at Rs. 7,416 (PY: Rs. 7,330), resulting in RevPAR of Rs. 5,116 (PY: Rs. 4,517).

Favourable response to the 585 key JW Marriott hotel (launched in March 2015) at Sahar, Mumbai boosts scale and cash accruals

JW Marriott, Sahar, Mumbai reported a healthy RevPAR of Rs. 5,320 in FY2017, its second year of operations, driven by occupancy of 65% and ARR of Rs. 8,183 (RevPAR of Rs. 5,440 during Apr-Oct 2017, with occupancy of 68% and ARR of Rs. 8,000). Though the new property has increased the concentration on Mumbai market to 65% of total inventory (previously 53%), 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 five 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.

CHPL's large asset base and financial flexibility with its lenders supports refinancing options and liquidity profile

Healthy operational hotel, retail and commercial asset base of CHPL provides considerable financial flexibility with its lenders in raising funds for any project and supports its liquidity profile. CHPL also owns certain premium land parcels in key cities, further enhancing the financial flexibility. Furthermore, absence of any large debt-funded capex plan in the near term limits the future funding requirement.

Credit challenges

High geographical concentration on the North Mumbai market

Out of the six operational hotel properties under CHPL, four are located in Mumbai (including one in Navi Mumbai). CHPL derived 64% of its FY2017 hospitality segment revenues from these four properties in Mumbai, which comprise of 65% of CHPL's current inventory of 2,320 rooms (including Marriott Bengaluru).

Project risks associated with the stalled residential project in Bengaluru

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. The project has seen cancellations aggregating to nearly 300,000 sq. ft. during FY2014-H1 FY2018, whereas bookings aggregating to nearly 400,000 sq. ft. remain outstanding as of September 30, 2017. Due to project delay, CHPL has been offering a mitigation program to customers, as per which it pays Rs. 25 per sq. ft. per month of delay for the customers who maintain their bookings, and refund the advance paid by the customers at an interest rate of 11% p.a. (13% p.a. till December 31, 2016) to those customers who wished to cancel their bookings. This has been impacting CHPL's profitability and networth over the past four years. CHPL's residential project in Hyderabad also had an unsold inventory of approximately 80,000 sq. ft. as of March 31, 2017.

Stretched financial profile characterised by a high leverage and weak coverage indicators; considerable repayment obligations over the medium term

CHPL's financial profile is currently stretched characterised by weak profitability (weighted average return on capital employed–RoCE–of 5.72% over the past three years), high leverage (Total Debt / OPBDITA of 11.9x as of March 31, 2017) and weak coverage indicators (Interest Coverage of 0.94x and DSCR of 0.95x as of March 31, 2017). 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. While CHPL reported an improvement in capital structure as of March 31, 2017, supported by improved cash flows from hotel operations and sale of investments, the same will largely be offset by the proposed demerger of the Bengaluru retail and hotel undertakings (currently part of Genext Hardware & Parks Private Limited–Genext, a group company) with CHPL (the scheme is pending approval from the National Company Law Tribunal–NCLT). The retail and hotel undertakings of Genext will bring debt amounting to ~Rs. 400 crore to CHPL's book, along with carried forward losses of ~Rs. 200 crore.

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

Links to applicable criteria:

Rating Methodology for Entities in the Hotel Industry
Corporate Credit Rating Methodology

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. CHPL's existing hotel properties include Renaissance Mumbai Hotel and Convention Centre, Powai (5-star Deluxe; 600 keys), Lakeside Chalet, Powai (Executive Apartments; 170 keys), Four Points by Sheraton, Navi Mumbai (4-star; 152 keys), Westin, Hyderabad (5-star Deluxe; 427 keys), JW Marriott, Sahar, Mumbai (5-star Deluxe; 585 keys) and Bengaluru Marriott Hotel, Whitefield (5-star; 324 keys + 64 keys detailed below). All the hotels are run under management contracts/franchisee with Marriott.

CHPL, through its wholly owned subsidiary Magna[3], has developed a 1.70 lakh sq. ft. of IT Park space at Whitefield in Bengaluru, which was let out starting April 2016 (as 1.09 lakh sq. ft. IT Park space and 64 hotel rooms / serviced apartments–managed by Marriott–as per the agreement with the tenant). In addition, CHPL has developed 1.28 lakh sq. ft. retail space (ready for fit-outs) and 3.67 lakh sq. ft. commercial space (completed; awaiting occupancy certificate) as part of the mixed-use project involving JW Marriott, Sahar. CHPL also has two ongoing real estate projects – a residential project at Madhapur, Hyderabad and another residential project at Koramangala, Bengaluru.

During FY2017, CHPL, on a standalone basis, reported a profit after tax (PAT) of Rs. 73.67 crore on an operating income (OI) of Rs. 643.19 crore, as against a net loss of Rs. 204.85 crore on an OI of Rs. 572.74 crore during FY2016.

Key financial indicators (audited; standalone)

	FY2016	FY2017
Operating Income (Rs. crore)	572.7	643.2
PAT (Rs. crore)	(204.9)	73.7
OPBDIT/ OI (%)	23.6%	26.9%
RoCE (%)	2.4%	12.2%
Total Debt/ TNW (times)	24.4	11.5
Total Debt/ OPBDIT (times)	16.7	11.0
Interest coverage (times)	0.6	0.9
NWC/ OI (%)	31.0%	33.7%

Source: CHPL

[3] *Magna Warehousing & Distribution Private Limited 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, which were hived off and demerged with Genext with appointed date of April 01, 2013, are now being hived off from Genext and merged with CHPL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Mar 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Jan 2016	Date & Rating in FY2015 Feb 2015
1	Term Loan	Long Term	1,570.79	1,570.79	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based Limit	Long Term	115.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-Fund Based Limit	Short Term	75.00	-	[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: Instrument Details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan (ICICI Bank)	Jun-13	NA	Jun-26	198.50	[ICRA]BBB (Stable)
NA	Term Loan (ICICI Bank ECB)	Sep-13	NA	Mar-27	176.00	[ICRA]BBB (Stable)
NA	Term Loan (RBL Bank)	Mar-15	NA	May-20	114.50	[ICRA]BBB (Stable)
NA	Term Loan (Yes Bank)	Sep-16	NA	Dec-26	110.00	[ICRA]BBB (Stable)
NA	Term Loan (Standard Chartered Bank)	Oct-15	NA	Oct-22	250.00	[ICRA]BBB (Stable)
NA	Term Loan (Standard Chartered Bank)	Mar-16	NA	Mar-23	190.00	[ICRA]BBB (Stable)
NA	Term Loan ((Bank of Baroda)	Aug-15	NA	Dec-27	90.00	[ICRA]BBB (Stable)
NA	Term Loan- Buyer's Credit (Yes Bank)	Jan-17	NA	Dec-20	23.00	[ICRA]BBB (Stable)
NA	Term Loan (Standard Chartered Bank)	Nov-17	NA	Dec-22	195.00	[ICRA]BBB (Stable)
NA	Term Loan (ICICI Bank)	Mar-15	NA	Jun-25	148.79	[ICRA]BBB (Stable)
NA	Term Loan (Standard Chartered Bank)	Jul-17	NA	Jul-29	75.00	[ICRA]BBB (Stable)
NA	Fund-Based Limit	NA	NA	NA	115.00	[ICRA]BBB (Stable)
NA	Letter of Credit / Buyer's Credit / Bank Guarantee	NA	NA	NA	75.00	[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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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