Brigade Hotel Ventures Limited

June 01, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loans	439.0	[ICRA]A- (Stable); Assigned
Long term – Unallocated facilities	61.0	[ICRA]A- (Stable); Assigned
Total	**500.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 439-crore term loans and Rs. 61-crore unallocated facilities of Brigade Hotel Ventures Limited (BHVL). The outlook on the long-term rating is Stable.

Rationale

The rating assigned takes into consideration the strong parentage of BHVL, which is a wholly-owned subsidiary of Brigade Enterprises Limited (BEL; rated [ICRA]A (Stable)/[ICRA]A1), and the Group's track record in the hospitality sector. The rating also takes into account the stable operational parameters in the established hotels and improvement in the operational parameters of the newly-commissioned hotels of BHVL, which have supported the growth in the company's revenues and profitability in FY2018.

The rating, however, is constrained by BHVL's moderate standalone financial profile characterised by high leverage and modest debt coverage indicators. Going forward, the debt levels are expected to increase on account of capital expenditure in the under-construction and upcoming projects. Moreover, the company will be dependent on funding support from the parent company to part fund the equity commitments towards the planned capex.

Going forward, BHVL's ability to stabilise the operational parameters in the newly-commissioned hotels and timely construction progress in the under-construction projects will be the key monitorables.

Outlook: Stable

ICRA believes that the stable operational parameters in the established hotels and improvement in the operational parameters in the newly-commissioned hotels will support BHVL's financial risk profile in the near-to-medium term. The outlook may be revised to Positive in case of better-than-expected improvement in the operational performance of newly-commissioned hotels, resulting in improved cash flow. The outlook may be revised to Negative in case of any delay in ramp-up in the operational parameters of the newly-commissioned hotels or slower construction progress in the under-construction projects.

Key rating drivers

Credit strengths

Strong promoter profile with established track record in real estate business: BHVL is a wholly-owned subsidiary of BEL, which is one of the leading real estate players in Bangalore. Also, hospitality is one of the key strategic operating divisions of Brigade Group. In fact, the Group has medium-term plans to double the number of operational keys in this segment from the current levels.

Strong operating parameters in the established hotels in Bangalore: Sheraton and Grand Mercure in Bangalore have reached stable occupancy levels and contribute to most of the revenues and profits of the company. Despite some decline in the occupancy levels during the last two years in these hotels, the occupancy rates remain higher than the market average for the city.

Improvement in operational performance of newly-commissioned hotels in recent months: The operational parameters (occupancy levels and average room rate (ARR)) in the newly-commissioned hotels such as Grand Mercure Mysore and Holiday Inn Chennai have improved in the recent months, thereby supporting the company's revenues and profitability in FY2018. Going forward, the performance of these hotels is expected to further improve as the operations stabilise.

Credit challenges

Moderate financial profile characterised by high leverage and modest debt coverage indicators: BHVL's debt level has increased significantly from Rs. 229.7 crore as on March 31, 2017 to Rs. 341.1 crore as on March 31, 2018 on account of the fresh debt drawn to fund the capex requirements in the under-construction hotels. The coverage indicators have also weakened in FY2018 as the newly-commissioned hotels are yet to reach optimal occupancy levels. Going forward, the company's debt levels are expected to increase further to fund the capex being undertaken. Nonetheless, the impact will be mitigated to some extent by improving profitability from the new hotels.

Dependence on BEL for funding support: Considering that the operational performance of the newly-commissioned hotels is yet to reach stable levels, BHVL will remain dependent on funding from BEL to part fund the debt repayments and equity commitments towards the planned capex. Nonetheless, the extent of such funding required is not very high in relation to the scale of operations of BEL.

Analytical approach: While assigning the ratings, ICRA has analysed the standalone business and financial profile of BHVL and also the linkages of BHVL's credit profile with that of its parent company, BEL.
Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Hotel Industry
Impact of Parent or Group Support on an Issuer's Credit Rating

About the company

BHVL is a wholly-owned subsidiary of BEL and was incorporated in August 2016 to bring in all the hotel operations of Brigade Group under one company. Consequently, the assets and liabilities pertaining to four operational hotels, two under-construction hotels and one upcoming hotel were transferred from BEL to BHVL through a demerger process. BEL's 50.01% stake in a subsidiary that has one operational hotel has also been transferred to BHVL. This scheme of arrangement has October 1, 2016 as the appointed date and became effective from April 1, 2018, when the NCLT approval for the scheme of arrangement was received.

Key financial indicators (based on provisional financials)

	H2 FY2017	FY2018
Operating Income (Rs. crore)	81.8	166.5
PAT (Rs. crore)	1.4	-11.7
OPBDIT/ OI (%)	32.7%	28.5%
RoCE (%)	13.7%	2.5%
Total Debt/ TNW (times)	0.8	1.3
Total Debt/ OPBDIT (times)	4.3	7.2
Interest Coverage (times)	2.4	1.8

Source*: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE; Return on Capital Employed; OI: Operating Income*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					June 2018	-	-	-
1	Term loans	Long term	439.0	341.1^	[ICRA]A- (Stable)	-	-	-
2	Unallocated facilities	Long term	61.0	-	[ICRA]A- (Stable)	-	-	-

^As on March 31, 2018

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan 1	December 2016	-	December 2021	130.5	[ICRA]A- (Stable)
-	Term loan 2	March 2017	-	March 2027	122.5	[ICRA]A- (Stable)
-	Term loan 3	April 2016	-	January 2023	56.0	[ICRA]A- (Stable)
-	Term loan 4	March 2017	-	March 2022	65.0	[ICRA]A- (Stable)
-	Term loan 5	January 2018	-	October 2030	65.0	[ICRA]A- (Stable)
-	Unallocated limits	-	-	-	61.0	[ICRA]A- (Stable)

Source: Brigade Hotel Ventures Limited

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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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