May 24, 2019

Chalet Hotels Limited: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	1,570.8	1,088.4	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term Fund-based Limits	115.00	135.0	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short-term Non-fund based-Limits	75.00	75.0	[ICRA]A2; upgraded from [ICRA]A3+
Long-term/short-term Unallocated Limits	-	462.4	[ICRA]BBB+(Stable)/[ICRA]A2; upgraded from [ICRA]BBB(Stable) /[ICRA]A3+
Total	**1,760.8**	**1,760.8**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade takes into account the significant reduction in the gross debt levels of Chalet Hotels Limited (CHL) to Rs. 1,494.2 crore as on March 31, 2019 from Rs. 2,709.3 crore as on March 31, 2018, supported by equity inflows of Rs. 924.0 crore through Initial public offering (IPO) and return of loans/advances (Rs. 166.6 crore as on March 31, 2018) to group companies. This has resulted in significant improvement in the debt coverage indicators of the company as reflected in Total debt/OPBDITA of 4.8x as on March 31, 2019 compared to 10.3x as on March 31, 2018. The ratings upgrade also factor in the consistent improvement in operating metrics of the hotel properties and the lease tie-ups for retail and commercial properties in Sahar, Mumbai, which are expected to contribute significantly to profitability, going forward. The ratings also factor in the agreement by CHL's promoters to provide funds to the company upto Rs. 200 crore[1], to meet the cash flow requirements of the stalled Koramangala, Bengaluru residential project. The ratings also favourably factor in CHL'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 consider the strong promoter group (CL Raheja Group) with considerable experience in hospitality, real estate development and retail businesses, and the financial flexibility available with the company as part of the Group. Also, CHL's large asset base of existing properties and land banks, and the steady cash flow from its existing hotel properties provide financial flexibility and funding options.

CHL has a significant capital expenditure plan of ~Rs. 1,165 crore for three new hotel properties and two commercial properties over the next four years, which may moderate its debt coverage metrics. Also, as the management continues look for inorganic opportunities, any large hotel acquisition resulting in moderation of the financial risk profile will be a credit negative. The geographical concentration risk remains high with 65% of CHL's inventory of 2,331 rooms driven by the Mumbai market alone. In addition, the RoCE remains moderate at 9.8% in FY2019.

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 or RevPAR) is currently being driven by improvement in occupancies as well as by the average room rates (ARRs). During the past 12 months, the Mumbai and

[1] In the form of subscription to '0.001'% Non-Cumulative Redeemable Preference Shares of the company

the Hyderabad markets have witnessed improvement in ARRs, aided by muted supply additions amid strong demand. ICRA expects the performance of these cities to remain robust, given the muted supply pipeline. This is expected to augur well for CHL's hospitality division. However, the hospitality industry is cyclical in nature and is vulnerable to general economic slowdown and exogenous shocks (geo-political crises, disease outbreaks, natural calamities, etc.).

Outlook: Stable

ICRA expects CHL to continue to benefit from its tie-up with the Marriott Group and from the favourable industry scenario. The outlook may be revised to Positive if improving RevPAR and timely ramp-up of its ongoing projects strengthen its financial risk profile. The outlook may be revised to Negative in case of delays in completing its ongoing projects, or if any large inorganic investments result in a moderation of the financial risk profile.

Key rating drivers

Credit strengths

Strong promoter group with considerable experience in real estate development provides operational and financial flexibility – CHL is part of the CL Raheja Group, which has diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The Group is a leading player in the commercial real estate development with developed area of over 22.6 million square feet (sq. ft.). CHL 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; CHL benefits from Marriott's global branding, marketing and advertising network – CHL derives hotel management support from Marriott, renowned international hospitality chains with well-established global brands. All the five hotels, including a hotel with a co-located serviced residence, 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. During FY2019, CHL's portfolio of hotels reported a blended occupancy of 76% (vs. 73% in FY2018) and ARR of Rs. 8,218 (5% YoY growth), resulting 10% YoY growth in RevPAR to Rs. 6,283. The operating margins from hospitality business continue to remain healthy at 41.0% in FY2019 aided by RevPAR growth and cost control initiatives taken.

IPO fund raising of Rs. 924.0 crore (net proceeds) has led to significant reduction in debt levels – CHL was listed on the Bombay Stock Exchange and the National Stock Exchange on February 7, 2019. The net proceeds of Rs. 924.0 crore from fresh issue and return of loans/advances (Rs. 166.6 crore as on March 31, 2018) given to Group companies led to reduction in gross debt to Rs. 1,494.2 crore as on March 31, 2019 from Rs. 2,709.3 crore as on March 31, 2018. This has resulted in significant improvement in the debt coverage indicators of the company as reflected in Total debt/OPBDITA of 4.8x as on March 31, 2019 compared to 10.3x as on March 31, 2018.

Successful completion and lease tie-ups for Sahar, Mumbai, retail and commercial properties to significantly contribute to profitability, going forward– For the Sahar Business Centre commercial property in Mumbai with a leasable area of 374,358 square feet, CHL has entered into an agreement with WPP Marketing Communications India Private Limited and its group companies to use and occupy the business centre for a period of 10 years commencing from September 1, 2019. Further, The Orb, Sahar, retail property, with a leasable area of 123,081 square feet, has commenced operations from April 2019, wherein CHL has leased out space to various retail brands including food and beverage chains. Both the retail and commercial properties near CHL's JW Marriott, Sahar, hotel property are expected to contribute significantly to profitability, going forward.

CHL's large asset base and financial flexibility with its lenders supports refinancing options and liquidity profile– The healthy operational hotel, retail and commercial asset base of CHL provides considerable financial flexibility to its lenders in raising funds for any project, and also supports its liquidity profile. CHL owns certain premium land parcels in key cities as well, further enhancing the financial flexibility.

Credit challenges

Considerable capex planned over medium term may lead to moderation in credit metrics – CHL is setting up three new hotels, totaling 588 keys at a total capital expenditure of Rs. 414.0 crore. Apart from hotel properties, CHL is also setting up two commercial projects with a total leasable area (excluding car parking/utilities) of 1.12 million square feet at a total capital expenditure of Rs. 751.0 crore. The new hotel and commercial properties are expected to be operational by FY2022. Given the significant capital expenditure plans, the debt levels are expected to increase from the current levels, which may lead to moderation in credit metrics.

High geographical concentration on the North Mumbai market – Out of CHL's five hotel properties, including a hotel with a serviced apartment, three are in Mumbai (including one in Navi Mumbai). These three properties in Mumbai, comprising 65% of CHL's current inventory of 2,331 rooms, drove 64% of CHL's hospitality segment revenues in FY2019. However, high entry barriers in Mumbai market, where CHL's properties are located act as a comforting factor.

Any large acquisition resulting in higher than expected debt addition will be a credit negative – The company is open to hotel room additions through acquisition, depending on viability and turnaround possibility. However, any large inorganic investments resulting in moderation of the financial risk profile will be a credit negative.

Cyclical industry; vulnerable to general economic slowdown and exogenous factors - The industry is exposed to macro-economic conditions, tourist arrival growth and several exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc), which lead to an inherent cyclicality. During the past 12 months, the Mumbai and the Hyderabad markets have witnessed improvement in ARRs, aided by muted supply additions amid strong demand. ICRA expects the performance of these cities to remain robust, given the muted supply pipeline.

Liquidity position

The liquidity profile has improved post the company's IPO due to fresh net proceeds of Rs. 924.0 crore resulting in reduced debt liabilities. The cash accruals are expected to improve, going forward, with the commencement of lease rentals streams from the Sahar, Mumbai, retail and commercial properties from FY2020 and FY2021, respectively. This will support the debt repayments, going forward. Overall, CHL has modest liquidity, supported by cash and cash equivalents of Rs. 82.7 crore as of March 31, 2019, and undrawn working limits. Further, CHL derives financial flexibility as part of K Raheja Corp/ CL Raheja Group.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry
Parent / Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the consolidated financial profile of the company. The list of companies consolidated is given in Annexure-2.

About the company

CHL, promoted by the K Raheja Corp Group (CL 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.

CHL's existing owned hotel properties of 2,331 keys (as on April 2019), include the Renaissance Mumbai 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 Marriott Hotel, Whitefield, Bengaluru (5-star; 391 keys). All the hotels are run under management contracts/franchisee with Marriott. Further, CHL has entered into a memorandum of understanding (MOU) with Marriott for rebranding the existing Renaissance Mumbai Convention Centre Hotel and Lakeside Chalet -Marriott Executive Apartments in Mumbai to Westin brand by 2020.

CHL has also developed two commercial and retail projects of approximately 0.86 million square feet, adjacent to its existing hotel properties (JW Marriott, Sahar, Mumbai, and Marriott Hotel, Whitefield, Bengaluru) from which it earns lease income. CHL also has an ongoing residential project at Koramangala, Bengaluru, which is currently under litigation.

Key financial indicators (audited)

Rs. crore	FY2018	FY2019
Operating Income (Rs. crore)	815.6	987.2
PAT (Rs. crore)	-92.9	-7.6
OPBDIT/ OI	32.5%	32.3%
RoCE	2.7%	9.8%
Total Debt/ TNW (times)	22.1	1.5
Total Debt/ OPBDIT (times)	10.3	4.8
Interest Coverage (times)	1.2	1.2

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth (TNW) + Deferred Tax Liability - Capital Work in Progress - Capital Advances)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating May 2019	Chronology of Rating History for the Past 3 years: Date & Rating in FY2018 March 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 January 2016
1	Term Loans	Long-term	1,088.4	1,088.4	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based Limits	Long-term	135.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-fund based-Limits	Short-term	75.0	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	Long-term/ short-term	462.4	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

**As on April 2019*

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
NA	Term Loan-1	FY2014	NA	September 2026	184.6	[ICRA]BBB+(Stable)
NA	Term Loan-2	FY2014	NA	June 2025	129.3	[ICRA]BBB+(Stable)
NA	Term Loan-3	FY2014	NA	March 2027	86.0	[ICRA]BBB+(Stable)
NA	Term Loan-4	FY2016	NA	November 2026	85.8	[ICRA]BBB+(Stable)
NA	Term Loan-5	FY2016	NA	FY2023	174.7	[ICRA]BBB+(Stable)
NA	Term Loan-6	July 2017	NA	July 2029	73.0	[ICRA]BBB+(Stable)
NA	Term Loan-7	FY2019	NA	CY2028	305.0	[ICRA]BBB+(Stable)
NA	Term Loan-8	FY2019	NA	CY2028	50.0	[ICRA]BBB+(Stable)
NA	Long-term Fund-based Limits	NA	NA	NA	135.0	[ICRA]BBB+(Stable)
NA	Short-term Non-fund based- Limits	NA	NA	NA	75.0	[ICRA]A2
NA	Long-term/short-term Unallocated Limits	NA	NA	NA	462.4	[ICRA]BBB+(Stable)/ [ICRA]A2

Source: Chalet Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Chalet Hotels & Properties (Kerala) Private Limited	90%	Full Consolidation

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About ICRA Limited:

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