

July 08, 2019

Lemon Tree Hotels Limited: Ratings placed on watch with developing implications

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	99.37	[ICRA]A- & placed on rating watch with developing implications
Long-term/ Short -term – Fund Based Working Capital	30.00	[ICRA]A- & [ICRA]A2+ & placed on rating watch with developing implications
Short-term/ Short-term – Unallocated	4.11	[ICRA]A- & [ICRA]A2+ & placed on rating watch with developing implications
Total	133.48	

Material Event

On June 29, 2019 Lemon Tree Hotels Limited (LTHL) intimated the stock exchanges regarding the Board approval received for acquiring 100% stake in Berggruen Hotels Private Limited (BHPL), the owning company of Keys Hotels. The acquisition will be through its material subsidiary, Fleur Hotels Private Limited (FHPL). The LTHL board also approved the amalgamation of its wholly owned subsidiary, Meringue Hotels Private Limited (owner of the 303-room hotel at Andheri, Mumbai), with FHPL. The consummation of transactions is subject to conditions precedent being met by the BHPL management and requisite regulatory approvals.

Impact of Material Event

The rating has been put on watch as the aforesaid development may have a near-term impact on the financial profile of LTHL¹. Nonetheless, pending execution of definitive agreements between LTHL and BHPL and analysis of financials of the consolidated entity (i.e. LTHL along with BHPL) by ICRA, the extent of the impact cannot be ascertained yet. The execution of agreement is contingent upon satisfactory compliance of offer terms by the BHPL management and other requisite approvals.

A successful completion of the proposed transaction can lead to 35% increase in LTHL's operational room inventory (owned and managed), provide it access to currently unpenetrated markets and enhance its presence in a few key markets like Bengaluru and Pune. The same is in line with the company's long-term strategy to augment its geographic presence and revenues. Further, the proposed funding mix for the acquisition, primarily through equity infusion by APG Strategic Real Estate pool N.V., is a credit positive. Also, the project implementation risk on LTHL stands significantly reduced with the launch of its new properties in Pune (December 2018) and Andheri, Mumbai (June 2019) and another two (at Kolkata and Udaipur) expected over the next 3-4 months. Despite these properties being in demand-dense markets, which are expected to help stabilise them rapidly, the operating losses from the ramp-up phase, the incremental debt from BHPL (~Rs. 134 crore) and its upcoming as well as newly launched properties (Pune, Mumbai, Kolkata and Udaipur) may lead to subdued debt coverage metrics in the near-term.

As per discussions with its management, the BHPL transaction may get consummated in the next 45-60 days. ICRA will continue to monitor the developments and take an appropriate rating action after receiving the complete details and assessing their impact on LTHL's credit profile.

¹ ICRA has taken a consolidated view of LTHL, including properties under subsidiaries and associates, while assigning credit ratings to LTHL and FHPL, given the significant operational and financial linkages shared by the entities.

The previous detailed rating rationale is available on the following link : [Click here](#).

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Anupama Arora

+91 124 4545303

anupama@icraindia.com

Ritu Goswami

+91 124 4545826

ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
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Pune + (91 20) 2556 0194/ 6606 9999

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