September 27, 2021

Muthoot Hotels Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated facilities	111.00	111.00	[ICRA]BB (Stable); Reaffirmed
Total	**111.00**	**111.00**	

**Instrument details are provided in Annexure-1*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view on MPG Hotels & Infrastructure Ventures Private Limited (MPGHIVPL) and its subsidiary Muthoot Hotels Private Limited (MHPL) together, jointly referred to as "MPG Hotels & Infrastructure Ventures Private Limited and subsidiary (MPGS)".

The ratings reaffirmation factors in MPGS's strong parentage by virtue of it being a part of the larger Muthoot Pappachan Group. It has received periodic financial support from the promoters in the past, through unsecured loans and equity capital. As on March 31, 2021, the company had unsecured loans of Rs. 128.95 crore (according to provisional financials) with no predefined repayment terms and the promoter infused Rs. 25.0 crore equity in FY2021. Going forward, the promoters are likely to extend adequate and timely financial support, on need-basis. The ratings also draw comfort from the MPGS's management tie-ups with established international and domestic hospitality brands and its diversified revenue profile with presence in hotels, restaurant, IT park, air catering and real estate business. While its revenues declined by 60.8% YoY to Rs. 45.8 crore in FY2021 (according to provisional financials) from Rs. 116.7 crore in FY2020 due to the Covid-19 pandemic, the rental income from IT park supported cash flows to an extent. However, MPGS has relatively high geographic concentration, with properties located only in Kerala. MPGS has availed a lease rental discounting (LRD) loan of Rs. 120 crore against the rental receivables from the IT park. With the creation of rental escrow mechanism for the LRD loan, the cash flows of the rated loan would be ring-fenced from the overall cash flows of MPGS. Hence, the rating for the LRD term loan is one notch higher at [ICRA]BB+ (Stable).

ICRA expects MPGS's revenue and profits to reach pre-Covid levels only over the medium term, although FY2022 is expected to be significantly better than FY2021 supported by higher RevPAR in the hotel segment, steady rental income from IT park and sale of apartments from the real estate segment. The situation is still evolving and is contingent on the pace of vaccination, efficacy of vaccines, infection rates and the possibility of a third Covid-19 wave. MPGS has weak capital structure and coverage metrics and stretched liquidity, although undrawn lines to the tune of Rs. 22.4 crore, free cash and cash equivalent of Rs. 9.7 crore as on June 30,2021, sanction of Rs. 18.7 crore ECLGS 3.0 loan in August 2021, and timely and adequate financial support from promoters are expected to oversee Its operational and financial requirements going forward.

Key rating drivers and their description

Credit strengths

Strong parentage – MPGS is part of the larger Muthoot Pappachan Group, a Kerala-based conglomerate with diverse business interests in non-banking financial services, hospitality, infrastructure development and automobile dealership to name a few. MPGS has received periodic financial support from the promoters in the past, in the form of unsecured loans and equity capital. As on March 31, 2021, the company had unsecured loans of Rs. 128.95 crore (according to provisional financials) with no predefined repayment terms and the promoter infused Rs. 25.0 crore equity in FY2021. Going forward, the promoters are likely to extend adequate and timely financial support, on need-basis.

Diversified revenue profile – MPGS has a diversified revenue profile with presence across hotels (48% of revenues in FY2021), IT park (43% of revenues in FY2021), premium restaurant (4% of revenues in FY2021), air catering (4% of revenues in FY2021) and real estate business (1% of revenues in FY2021). In FY2021, while the hotels revenue declined by ~70% YoY due to subdued demand environment in the hospitality/airline segment caused by the Covid-19 pandemic, the rental income from Technopolis, the IT park in Kochi (clients include Cognizant Technology Solutions, Sutherland Global Services Private Limited, among others) supported cash flows to an extent. MPGS is undertaking construction of two residential projects in Trivandrum, which is expected to further increase its revenue flows in the medium term. ICRA expects MPGS's revenue and profits to reach pre-Covid levels only over the medium term, although higher RevPAR in the hotel segment, steady rental income from IT park and sale of apartments from the real estate segment is expected to support its revenue in FY2022 to an extent.

Management tie-up with well-known international and indian hospitality group – MPGS has management tie-ups with established international hotels operators such as Hilton International Manage LLC and Accor Hotels, and Indian operators such as Indian Hotels Company Limited for operating its three hotels under brands such as Hilton Garden Inn, Novotel and Taj. The hotels benefit from the marketing and advertising network of these brands.

Credit challenges

Sharp dip in revenues and margins in FY2021 due to pandemic; FY2022 revenues to be weaker and recovery to pre-Covid levels a few years away – MPGS's performance has been impacted by the pandemic in FY2021. Its revenues declined by 60.8% YoY to Rs. 45.8 crore in FY2021 (according to provisional financials) from Rs. 116.7 crore in FY2020 and its OPM decreased to 7.8% in FY2021 from 27.0% in FY2020 due to lower operating leverage despite various cost control measures undertaken by the management. ICRA expects MPGS's earnings to be weaker than pre-covid levels, although the same in FY2022 is anticipated to be better than FY2021 supported by likely higher RevPAR in the hotel segment, steady rental income from the IT park and sale of apartments from the real estate segment. However, the situation is still evolving and is contingent on the pace of vaccination, efficacy of vaccines, infection rates and the possibility of a third Covid-19 wave Recovery to pre-covid levels is expected only over the medium term.

Weak capital structure and coverage metrics – MPGS had a total debt of Rs. 512.8 crore as on March 31, 2021 (according to provisional financials) that increased from Rs. 483.7 crore as on March 31, 2020 to fund the operational loss during the pandemic related lockdown. With high debt levels and moderation in accruals in FY2021, its coverage indicators remain weak as illustrated by an interest coverage and TD/OPBDITA at 0.1 times and 143.5 times in FY2021 (according to provisional financials). MPGS had negative networth of -Rs. 12.4 crore as on March 31,2021 leading to weak gearing. The debt metrics are expected to remain weak over the medium term.

Relatively high geographical concentration risk– MPGS has three hotel properties located in Kovalam near Trivandrum, Kakkanad in Cochin and Trivandrum. Also, its two residential projects are located in Akkulam and Kowdiyar in Trivandrum. With presence only in Kerala, MPGS is exposed to region specific risks. Moreover, MPGS witnesses stiff competition from other luxury hotels and resorts in Kerala.

Liquidity position: Stretched

MPGS's liquidity position is stretched with negative fund flow from operations (FFO) in FY2021, due to the muted demand environment caused by the Covid-19 pandemic. It had a free cash and cash equivalent of Rs. 9.7 crore, unutilized working capital limits in the form of undrawn overdraft limits to the extent of Rs 12.7 crore and undrawn ECLGS loan of Rs. 9.7 crore as on June 30, 2021. Further, MPGS has received a sanction of Rs. 18.7 crore ECLGS 3.0 loan in August 2021, which is completely undrawn. Against these sources, it has a principal repayment obligation of Rs. 16.0 crore in FY2022 and Rs. 29.7 crore in FY2023 for its existing term loans. ICRA expects the promoters to extend adequate and timely financial support, on need-basis, to meet the company's operating and financial requirements going forward.

Rating sensitivities

Positive factors – The ratings may be upgraded if MPGS witnesses a sharp growth in earnings beyond pre covid-19 levels with significant improvement in debt protection metrics and liquidity position.

Negative factors – Negative pressure on the ratings could arise from further weakening of liquidity position arising from sharp deterioration in the MPGS's operating performance. Moreover, absence of timely and adequate promoter support; or, significant net outflow/support extended to other Group companies may trigger a rating downgrade. Further, weakening of credit profile or linkages of/with the Muthoot Pappachan Group would also be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating Methodology for Debt Backed by Lease Rentals Consolidation and Rating Approach
Parent/Group Support	Group: Muthoot Pappachan Group The ratings assigned to MPGS are based on implicit support received from the Muthoot Pappachan Group. The promoters have extended timely and adequate financial support to MPGS in the past, which is expected to continue going forward, on need-basis.
Consolidation/Standalone	The ratings are based on the consolidated financials of the MPG Hotels & Infrastructure Ventures Private Limited and its subsidiary as mentioned in Annexure-2

About the company

Muthoot Hotels Private Limited (MHPL), subsidiary of MPGHIVPL, owns a 59-key villa luxury deluxe beach resort in Kovalam, Kerala named Taj Green Cove Resort and Spa (Taj), which is under management contract with Indian Hotels Company Limited.

MPGHIVPL, started as a partnership firm Muthoot Hotels & Tourism Ventures in 1999, operates across the following segments – two operational hotels, a 134-key Hilton Garden Inn at Trivandrum and a 128 key Novotel at Kakkanad, Kochi, Muthoot Skychef (flight kitchen) and Muthoot Technopolis (IT Park in Kochi SEZ) and real estate (residential). The company also operates a speciality restaurant in Trivandrum under the name 'Villa Maya'.

MPG Hotels and Infrastructure Ventures Private Limited (MPGHIVPL) and its subsidiary Muthoot Hotels Private Limited (MHPL) are part of the Muthoot Pappachan Group of Companies, a Kerala-based Group with business interests in hospitality, infrastructure development, non-banking financial services, automobile dealership, etc. Other business entities of the Muthoot Pappachan Group include three non-banking finance companies, Muthoot Capital Services Limited, Muthoot Fincorp Limited and Muthoot Microfin Limited; a housing finance company, Muthoot Housing Finance Company Limited; and an automobile dealership company, Muthoot Motors (Private) Limited.

Key financial indicators

Consolidated - MPGHIVPL	FY2020	FY2021 (Unaudited)
Operating Income (Rs. crore)	116.71	45.80
PAT (Rs. crore)	-35.9	-52.4
OPBDIT/OI (%)	27.0%	7.8%
PAT/OI (%)	-30.8%	-114.4%
Total Outside Liabilities/Tangible Net Worth (times)	79.1	-47.6
Total Debt/OPBDIT (times)	15.4	143.5
Interest Coverage (times)	0.7	0.1

Source: *Company, ICRA Research; Note: Amounts in Rs. crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 27,2021	Jan 07,2021	Mar 16,2020	Mar 15,2019
1	Unallocated	Long term	111.0	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Unallocated	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	111.00	[ICRA]BB(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Muthoot Hotels Private Limited (MHPL)	98.60% by MPGHIVPL	Full Consolidation
Right Ambient Resorts Private Limited^	100% by MHPL	Full Consolidation

^step down subsidiaries

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About ICRA Limited:

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