

October 07, 2022

Muthoot Hotels Private Limited: Rating 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-I

Rationale

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

The ratings reaffirmation of MPG Hotels and Infrastructure Ventures Private Limited continues to take into account its strong parentage by virtue of it being a part of the larger Muthoot Pappachan Group and periodic financial support from the promoters in the past, through unsecured loans and equity capital. As on March 31, 2022, the group had unsecured loans of Rs. 131.2 crore (according to unaudited financials) with no predefined repayment terms. Further, the promoters have committed to extend adequate and timely financial support going forward as well, as and when required. The ratings also draw comfort from the MPG’s diversified revenue profile with presence in hospitality, IT park, air catering, commercial real estate and residential real estate businesses, and management tie-ups with established international and domestic hospitality brands.

However, the ratings are constrained by its weak capital structure and coverage metrics. The group total debt excluding loans from promoters stood at Rs. 394.4 crore as on March 31, 2022 (according to unaudited financials). Further, the group reported negative net worth of Rs 57.0 crore as on March 31, 2022 (according to unaudited financials) owing to continued accumulated losses. The weak accruals/net worth along with relatively high debt levels, have resulted in weak capital structure and coverage metrics. The group had interest coverage of 0.4 times and adjusted debt¹/ OPBDITA of 28.6 times, as on March 31, 2022 (according to unaudited financials). While ICRA expects improvement in accruals going forward supported by improved operating leverage and sustenance of cost-optimisation measures undertaken in the last two years, the debt repayment obligations are expected to remain relatively high as a proportion of anticipated accruals.

MPG has a commercial real estate asset – Technopolis IT park in Kakkanad, Kochi, with 3.55 lakh sq ft of office space. It houses several IT/ITeS majors as tenants, and about 45% of the rental income was from Cognizant Technology Solutions Private Limited (CTS) in FY2022. The net rental from the IT park was Rs 18.0 crore in FY2022. When the hospitality segment witnessed lower than pre-pandemic revenues and cash flows in FY2021 and FY2022, lease rentals from the commercial real estate segment supported the group cash flows to an extent. CTS has vacated the space from October 01, 2022. Although the group is in talks with potential clients for occupying the space, risk of vacancy remains till leasing arrangements with new clients are tied up. The group has an LRD loan of Rs 99.4 crore as on June 30, 2022 against lease rentals from this property. The debt obligations (P+I) are likely to be over Rs. 15.0 crore per year for FY2023-FY2025. With the creation of rental escrow mechanism for the LRD loan, the cash flows of this loan would be ring-fenced from the overall cash flows of MPG. Hence, the rating for the LRD term loan is one notch higher at [ICRA]BB+ (Stable).

¹ Adjusted for promoter loans/debentures (of Rs. 131.2 crore as on March 31, 2022)

Key rating drivers and their description

Credit strengths

Strong parentage – MPG 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. MPG has received periodic financial support from the promoters in the past, in the form of unsecured loans and equity capital. As on March 31, 2022, the group had unsecured loans of Rs. 131.2 crore (according to unaudited financials) with no predefined repayment terms. The promoters have committed to extend adequate and timely financial support going forward as well, as and when required.

Diversified business mix with portfolio comprising hospitality, commercial and residential assets – MPG has a diversified business mix with presence across hotels (37% of revenues in FY2022), IT park (20% of revenues in FY2022), premium restaurant (3% of revenues in FY2022), air catering (2% of revenues in FY2022) and residential real estate business (38% of revenues in FY2022). The commercial and residential real estate assets have supported the group cash flows during the downcycles in the hospitality industry. When the hospitality segment witnessed lower than pre-pandemic revenues and cash flows in FY2021 and FY2022, lease rentals from the commercial real estate segment supported the group cash flows to an extent.

Management tie-up with well-known international and Indian hospitality chains - MPG has management tie-ups with established international hotels operators such as Hilton and Accor, and Indian operators such as The Indian Hotels Company Limited for operating its three hotels under brands such as Hilton Garden Inn, Novotel and Taj. The hotels benefit from the branding, marketing and advertising networks of the operators.

Credit challenges

Weak capital structure and coverage metrics – MPG has relatively high debt levels for its scale of operations. The group total debt excluding loans from promoters stood at Rs. 394.4 crore as on March 31, 2022 (according to unaudited financials). Further, the group reported negative net worth of Rs 57.0 crore as on March 31, 2022 (according to unaudited financials) owing to continued accumulated losses. The weak accruals/net worth along with relatively high debt levels, have resulted in weak capital structure and coverage metrics. The group had interest coverage of 0.4 times and adjusted debt²/ OPBDITA of 28.6 times, as on March 31, 2022 (according to unaudited financials). While ICRA expects improvement in accruals going forward supported by improved operating leverage and sustenance of cost-optimisation measures undertaken in the last two years, the debt repayment obligations are expected to remain relatively high as a proportion of anticipated accruals. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, for ensuring timely debt servicing.

Potential vacancy risk in the commercial real estate asset – MPG has a commercial real estate asset – Technopolis IT park in Kakkanad, Kochi, with 3.55 lakh sq ft of office space. It houses several IT/ITeS majors as tenants, and about 45% of the rental income was from Cognizant Technology Solutions Private Limited (CTS) in FY2022. The net rental from the IT park was Rs 18.0 crore in FY2022. When the hospitality segment witnessed lower than pre-pandemic revenues and cash flows in FY2021 and FY2022, lease rentals from the commercial real estate segment supported the group cash flows to an extent. CTS has vacated the space from October 01, 2022. Although the group is in talks with potential clients for occupying the space, risk of vacancy remains till leasing arrangements with new clients are tied up. The group has an LRD loan of Rs 99.4 crore as on June 30, 2022 against lease rentals from this property. The debt obligations (P+I) are likely to be over Rs. 15.0 crore per year for FY2023-FY2025. Any shortfall in lease rentals for meeting the P+I commitments of the LRD loan, are expected to be funded by the promoters, to ensure timely debt servicing.

² Adjusted for promoter loans/debentures (of Rs. 131.2 crore as on March 31, 2022)

Vulnerability of revenues inherent to hospitality industry cyclicality, economic cycles and exogenous events; nevertheless, diversification of revenues through real estate assets mitigates risk to an extent – The operating performance of the hospitality segment remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk to revenues is partially mitigated by cash flows from the real estate portfolio, akin to what was witnessed during the pandemic. The group has a residential real asset under construction, the sale of which would add to the cash inflows over the medium term.

Relatively high geographical concentration risk – MPG has three hotel properties located in Trivandrum, Kovalam near Trivandrum and Kakkanad in Kochi. Its commercial real estate asset is located at Kakkanad, Kochi. Also, its two residential projects are located in Akkulam and Kowdiar in Trivandrum. With presence only in Kerala, MPG is exposed to region-specific risks. Moreover, MPG witnesses stiff competition from other luxury hotels and resorts and IT parks in the region.

Liquidity position: Stretched

MPG’s liquidity position is stretched with debt repayment obligations expected to remain relatively high as a proportion of anticipated accruals in FY2023. The group has principal repayments of ~Rs. 41.0 crore for FY2023, Rs. 55.0 crore for FY2024 and Rs. 51.0 crore for FY2025, on its existing loans. As against this, the group had only minimal undrawn lines of Rs. 11.0 crore and cash and cash equivalents of Rs. 5.3 crore as on June 30, 2022. While it is looking at monetisation of unused land banks as an avenue for debt reduction and liquidity support, the timeline of materialisation and extent of debt reduction from the same, remains to be seen. ICRA expects the promoters to extend adequate and timely financial support, as and when required, to meet MPG’s operating and financial commitments going forward.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators and adequate deleveraging leading to significant improvement in debt metrics, could be a trigger for improvement in the ratings.

Negative factors – Negative pressure on the ratings could arise from further weakening of liquidity position arising from sharp deterioration in the MPG’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 MPG are based on implicit support received from the Muthoot Pappachan Group. The promoters have extended timely and adequate financial support to MPG in the past, and this is expected to continue going forward, as and when required.
Consolidation/Standalone	The ratings are based on the consolidated financials of the MPG Hotels and Infrastructure Ventures Private Limited and its subsidiaries as mentioned in Annexure-2

About the company

MPG Hotels and Infrastructure Ventures Private Limited (MPGHIVPL), has two hotels, a 132-key Hilton Garden Inn at Trivandrum and a 128-key Novotel at Kakkanad, Kochi; flight kitchen in the name of Muthoot Skychef; IT Park in Kochi SEZ under the name ‘Muthoot Technopolis’; and residential real estate assets in Kowdiar and Akkulam in Trivandrum. The group

also operates a speciality restaurant in Trivandrum under the name 'Villa Maya'. Through its subsidiary, Muthoot Hotels Private Limited (MHPL), it owns a 59-key villa luxury deluxe beach resort in Kovalam, Kerala named Taj Green Cove Resort and Spa. This resort is undermanagement contract with Indian Hotels Company Limited.

MPG is part of the Muthoot Pappachan Group, a Kerala-based conglomerate with business interests in multiple segments including hospitality, infrastructure development, non-banking financial services and automobile dealership to name a few. Muthoot Fincorp Limited is the flagship entity of the Muthoot Pappachan Group. The promoters hold 100% stake in MPG, partly in individual capacity and partly through other group entities.

Key financial indicators

Consolidated	FY2021 (Audited)	FY2022 (Unaudited)
Operating income	45.8	106.4
PAT	-52.4	-43.1
OPBDIT/OI	7.8%	12.9%
PAT/OI	-114.5%	-40.6%
Total outside liabilities/Tangible net worth (times)	-35.4	-10.8
Total debt/OPBDIT (times)	148.5	38.2
Interest coverage (times)	0.1	0.4

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
					Oct 12, 2021	Sep 27, 2021			
1	Unallocated	Long term	111.0	0.00	Oct 07, 2022	Oct 12, 2021	Sep 27, 2021	Jan 07, 2021	Mar 16, 2020
					[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated Facilities	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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	111.00	[ICRA]BB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

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

Source: Company [^]Step down subsidiary

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