May 03, 2023

Moonburg Power Private Limited: Provisional [ICRA]BBB+(Stable) Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-convertible Debenture Programme	425.00	Provisional [ICRA]BBB+(Stable) assigned
Total	**425.00**	

Rating in the absence of pending actions/documents	Not Meaningful

**Instrument details are provided in Annexure-1*
Note: The table above also captures ICRA's opinion on (a) the rating if the pending actions/ documents are not completed

Rationale

While assigning the rating, ICRA has considered a consolidated profile of Tulsi Palace Resort Private Limited (TPRPL) with Moonburg Power Private Limited (MPPL), given the proposed acquisition of 50% of stake in TPRPL by MPPL as part of the transaction. MPPL, a special purpose vehicle (SPV) for this transaction, is owned by BSREP III Joy Two Holdings (DIFC) Limited.

ICRA has assigned a rating of provisional [ICRA]BBB+ with a stable outlook on the Rs. 425.00-crore proposed non-convertible debentures (NCD) programme. The provisional rating is subject to the fulfilment of all conditions under the structure and review of documentation pertaining to the transaction by ICRA.

The assigned rating takes into account the strong brand recognition of the underlying five-star hotel asset under TPRPL, as part of the Leela Group, the experienced professional management team, as well as strong sponsor profile in the form of Brookfield Group. Brookfield Asset Management owns five and manages seven Leela hotels across India and has proven experience of scaling the businesses in those properties post-acquisition. The rating also favourably considers the continued improvement in the company's operating metrics as a result of notable improvement in occupancy and average revenue rate (ARR) and consequent strong cash accruals, aided by a strong revival in demand witnessed in the domestic hotel industry. The same is also supported by locational advantages with presence in Jaipur, one of the preferred tourist destinations in India, given its heritage charm and proximity to other such heritage cities in Rajasthan. The rating also takes into consideration the favourable near-to-medium-term growth outlook for the hotel industry with sustenance of domestic leisure travel, demand from Meetings, Incentives, Conferences and Exhibitions (MICE) and business travel, and social events (weddings) along with increase in Foreign Tourist Arrivals (FTA) would support operating metrics.

The rating, however, is constrained by MPPL's moderate scale of operations with high asset and geographical concentration, given that it operates a single resort property in Jaipur. Further, the rating considers the cyclical nature of the hospitality industry, with revenue generation exposed to seasonality, exogeneous shocks and to overall macro-economic performance.

ICRA notes that MPPL is undertaking large share acquisition debt to acquire 50% of TPRPL, being funded by the proposed Rs. 425-crore NCD and Rs. 45-crore compulsorily convertible unsecured debentures (CCDs). Thereafter, MPPL is proposed to be merged with TPRPL. On a consolidated basis, the company remains exposed to refinancing risk, given that the acquisition debt will have a three-year bullet payment, by when the cash flows are unlikely to be adequate to meet the repayment. Also, given the large share acquisition debt, the credit metrics are expected to be subdued in the near to medium term and improve only once amortisation under the refinancing structure kicks in.

The Stable outlook on the ratings reflect ICRA's expectation that the long and established track record of the promoters in the hospitality sector, strong brand positioning and market position of the property, will continue to support the credit profile in the near to medium term.

Key rating drivers and their description

Credit strengths

Strong brand recall and management support from Leela Group – The company benefits from its well-experienced promoters with an established track record of operating in the hospitality market. MPPL also has an advantage from its association with the Leela Group, an established hospitality services provider in India.

Favourable location of hotel – The consolidated entity owns a 200-room hotel, which is operated under a well-established five-star brand, 'Leela', and benefits from its location in Kukas near Jaipur, a busy holiday destination in northern India along with high demand for destination weddings. Furthermore, its proximity to the densely populated Delhi NCR ensures healthy tourist traffic throughout the year along with its proximity to the international airport in Jaipur, which provides it access to a large catchment area.

Notable improvement in occupancy and ARR witnessed post-Covid; favourable demand outlook – Leela, Jaipur, saw a strong and continued recovery in demand in FY2023, with occupancy levels remaining above pre-Covid levels. Improved ARR and occupancy levels have resulted in higher revenue per available room (RevPAR), well above pre-pandemic levels. The occupancy level and ARR improved over the last two years with decline in fresh cases of Covid-19 and ease in domestic and international travel restrictions. The average occupancy level in FY2023 was ~60% compared to ~40% in FY2022 and ~25% in FY2021. The ARR also improved significantly to ~Rs. 22,000/night in FY2023 from ~Rs. 20,000/night in FY2022 and ~Rs. 13,000/night in FY2021. The demand scenario is expected to remain stable in the near term with sustenance of domestic leisure travel, demand from MICE and business travel, along with increase in FTAs. However, the pace of recovery over the next few months is expected to be weighed in by the challenging economic environment and discovery of new variants/surge in Covid cases or infectious diseases, if any.

Strong sponsor group with established track record lends financial flexibility – The entity enjoys financial flexibility as part of a strong sponsor, Brookfield Group, having an established track record of asset management in the infrastructure space across the globe. The Group owns five and manages seven Leela hotels across India, with more than 3,000 keys under its umbrella as of March 31, 2023. The sponsor has proven experience in scaling its owned hotel properties and lends healthy financial flexibility to MPPL.

Credit challenges

Moderate scale of operations with high asset and geographical concentration – Although improved, the scale of operation of the consolidated entity remains moderate with provisional revenue of Rs. 179.5 crore in FY2023 (Rs. 113.5 crore in FY2022). With no major expansion plans, the revenue growth is expected to remain range-bound and will be driven by movement in occupancy and average room rates. Further, dependence on a single operational property exposes the company to adversities in the Jaipur hospitality market.

High refinancing risk – MPPL plans to raise Rs. 425-crore non-convertible debenture (NCD) for acquisition of 50% shares of TPRPL in FY2024; to be repaid after three years in bullet form. In addition, TPRPL is to issue Rs. 50-crore NCD to pay off its existing debt facilities. On a consolidated basis, therefore, the company remains exposed to refinancing risk, given the cash flows from the hotel may not be adequate to repay the bullet repayment after three years, thus necessitating refinancing. Hence, its ability to refinance the debt at favourable terms, with long tenure amortisation remains critical for improvement in its credit profile.

Credit metrics to weaken in near to medium term, with large share acquisition debt – The capital structure and coverage indicators remained healthy in FY2023 as reflected by gearing of 0.6 time as on March 31, 2023, Total debt/ OPBITDA of 0.5 time and interest coverage of 20.7 times in FY2023, on provisional basis. However, with large share acquisition debt, the credit metrics are expected to weaken in the near to medium term.

Vulnerability of revenues to inherent industry cyclicality and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macro-economic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. As such, global and domestic economic conditions will remain a key monitorable for MPPL, as part of this industry. Further, the hotel continues to remain exposed to competition from other luxury hotels in Jaipur.

Liquidity position: Adequate

MPPL`s liquidity profile at a consolidated level is expected to remain adequate, given the operational cash accruals, free cash and liquid investments of ~Rs. 51.4 crore and undrawn OD limit of Rs. 15.0 crore as of March 2023, available in TPRPL. The consolidated entity is expected to prepay all its existing term loans from the Rs. 50-crore proposed NCD infusion in TPRPL. With limited scheduled repayments for three years for the consolidated entity, coupled with absence of any major capex, the liquidity profile is expected to remain adequate for the entity.

Rating sensitivities

Positive factors: A sustained improvement in operational performance of the hotel and profitability indicators (in terms of scale and margins) leading to significant improvement in liquidity and coverage metrics, could be a trigger for an improvement in rating.

Negative factors: Negative pressure on the rating could arise from weakening in operating metrics resulting in weakening of debt servicing indicators and liquidity position of the company. Delay in timely tie-up of refinancing of debt and in a way that weakens the debt servicing metrics materially will also exert pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating Approach – Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MPPL and TPRPL.

Pending actions/documents required for conversion of provisional rating into final rating

The assigned rating is provisional and would be converted into a final rating, pending the following:

1. Bond Trustee Agreement
2. Bond Trust Deed
3. Final Term Sheet
4. Any other documents executed for the transaction

Validity of the provisional rating

In case the debt instrument for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings, available at **www.icra.in**.

If neither the pending actions/documents nor the issuance are/is completed after one year of the assignment of the provisional rating, ICRA would withdraw the same. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings, available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of any pending actions/documents. ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings, available at www.icra.in.

About the company

MPPL was incorporated in June 2022, to acquire 50% shareholding in TPRPL, which is currently held by the Sukhani family and its sponsor, Brookfield Group, through, BSREP III Joy Two Holdings (DIFC) Limited. MPPL is currently raising Rs. 425-crore NCD and Rs. 45-crore CCDs to acquire 50% shares in TPRPL. Incorporated in 2012 by Mr. Mohan Sukhani and Mr. Vikram Sukhani, TPRPL owns a five-star hotel in Kukas, Rajasthan. It earlier operated under Marriott Hotels India Private Limited. However, in 2020, TPRPL and Marriott mutually agreed to terminate the agreement and the company entered into an operation and management service agreement with Schloss HMA Private Limited to operate the hotel under the Leela brand. In May 2021, 50% of TPRPL was acquired by BSREP III Joy Two Holdings (DIFC) Limited. The property has 200 rooms and offers facilities like meeting rooms, banquets, swimming pool, fitness centre and dining options at five restaurants.

Key financial indicators (audited)

Consolidated	FY2022	FY2023*
Operating income (Rs. crore)	113.5	179.5
PAT (Rs. crore)	25.0	59.7
OPBDIT/OI (%)	42.3%	50.2%
PAT/OI (%)	22.0%	33.3%
Total outside liabilities/Tangible net worth (times)	3.0	1.6
Total debt/OPBDIT (times)	1.3	0.5
Interest coverage (times)	5.7	20.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; * Provisional*
All ratios as per ICRA's calculations; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					May 3, 2023	-	-	-
1	Proposed Non-convertible Debenture	Long-term	425.00	-	Provisional [ICRA]BBB+(Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Proposed Non-convertible Debenture	Simple

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: Click Here

Annexure-I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Proposed Non-convertible Debenture**	NA	NA	NA	425.00	Provisional [ICRA]BBB+(Stable)

Source: Company

Annexure-II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Moonburg Power Private Limited	Parent Entity	-
Tulsi Palace Resort Private Limited	50% (proposed)	Full consolidation

Note: ICRA has taken the consolidation approach, given that MPPL is proposed to acquire 50% share of TPRPL

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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