

July 10, 2023

Chalet Hotels Limited: Ratings upgraded; outlook on the long-term rating revised to Positive from Stable and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loans	2,440.76	2,748.50	[ICRA]A- (Positive); upgraded from [ICRA]BBB+ (Stable); Assigned for the enhanced amount
Long-term fund-based limits	124.00	137.00	
Short-term non-fund based limits	75.00	60.00	[ICRA]A2+; upgraded from [ICRA]A2
Long-term/Short-term – Unallocated limits	22.24	0.50	[ICRA]A- (Positive) / [ICRA]A2+; upgraded from [ICRA]BBB+ (Stable) / [ICRA]A2
Total	2,662.00	2,946.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the ratings and outlook on the long-term rating factor in the healthy improvement in Chalet Hotels Limited's (CHL) performance in FY2023 and expectation of a sustained performance improvement in the same, going forward. The hospitality segment, which represents ~54% of the total assets, reported healthy revenues of Rs. 1,028.1 crore in FY2023, 13% higher than pre-Covid levels, aided by traction in demand. The commercial real estate (CRE) segment, accounting for ~46% of the total assets, also witnessed healthy traction in demand, resulting in an overall revenue growth of ~14% over pre-Covid levels. Improved operating leverage and sustenance of cost optimisation measures undertaken by the company during the Covid period resulted in healthy margins of 40.6% in FY2023, higher than the pre-Covid margins of 36.9%. Going forward, the demand for both hotels and CRE remain healthy. In addition, incremental inventory in hotels, multifold increase in leasable office area to 2.2 million sq. ft. by FY2024 from 0.5 million sq. ft. in FY2023, and sale of residential apartments from the ongoing project in Koramangala, Bangalore, are likely to support cashflows. CHL's margins are expected to remain healthy going forward, as scale and share of revenues from the higher margin CRE segment increase. While coverage metrics remained moderate with adjusted net debt/OPBDITA of 5.4 times¹ in FY2023, they are likely to improve as the business cash flows improve, going forward.

The ratings remain supported by CHL, being a part of the K Raheja Corp (CL Raheja) Group (referred to as 'the Group'), an established name in the hospitality, commercial and residential real estate businesses. The ratings also factor in CHL's healthy financial flexibility² and adequate liquidity, its diverse business mix, and management tie-up with reputed international hotel brands like Marriott International Inc. and Accor Hotels. CHL, however, has relatively high geographic concentration with ~54% of its inventory in Mumbai, exposing it to region-specific exogenous shocks and risks. Its tenant concentration also remains high with ~80% of revenues coming from a single lessee. However, the anticipated hotel inventory addition and likely addition of new tenants in the upcoming commercial properties in Mumbai and Bangalore are expected to reduce the risks, going forward.

¹ Adjusted net debt is total debt (Rs. 2,853.0 crore) including lease liabilities (Rs. 59.1 crore) and excluding cash and bank balance (Rs. 131.2 crore) and Promoter subscribed preference shares/loans from promoter group (Rs. 228.0 crore).

² As on March 31, 2023, the promoters held 71.65% equity stake in the company, of which 32.01% was pledged or otherwise encumbered.

Key rating drivers and their description

Credit strengths

Strong promoter group – CHL is part of the K Raheja Corp Group, which has a diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The Group is a leading player in CRE development across India with a strong track record of execution and leasing. The company enjoys healthy financial flexibility and lender/investor comfort by virtue of being a part of the stronger group. Further, CHL's promoters have infused over Rs. 250.0 crore of preference share capital/loans from promoters into the company as on March 31, 2023, to meet the cash flow requirements of the Koramangala residential project. ICRA expects the promoters to extend timely and adequate financial support to CHL for meeting its operational and financial commitments going forward, as and when required.

Healthy revenue growth and margins in FY2023; outlook remains healthy for both segments –

The hospitality segment, which represents ~54% of the total assets, reported healthy revenues of Rs. 1,028.1 crore in FY2023, 13% higher than pre-Covid levels, aided by traction in demand. The healthy performance in in hospitality segment reflected the recovery of Average Room Rates (ARR) and Occupancy aided by revival in domestic travel and MICE segment demand, although Foreign Tourist Arrivals (FTAs) are yet to reach pre-Covid levels. While the occupancy rate increased to 72% in FY2023 from 51% in FY2022 (71% in FY2020), the ARR increased to Rs. 9,169 in FY2023 from Rs. 4,576 in FY2022 (Rs. 8,482 in FY2020). The commercial real estate (CRE) segment, accounting for ~46% of the total assets, also witnessed healthy traction in demand, resulting in an overall revenue growth of ~14% over pre-Covid levels. Improved operating leverage and sustenance of cost-optimisation measures taken during the Covid period resulted in healthy margins of 40.6% in FY2023, higher than the pre-Covid margins of 36.9%. Going forward, demand for both hospitality and CRE businesses remain healthy. In addition, incremental inventory in hotels, multifold increase in leasable office area to 2.2 million sq. ft. by FY2024 from 0.5 million sq. ft. in FY2023, and sale of residential apartments from the ongoing project in Koramangala, Bangalore, are likely to support cash flows. CHL's margins are also expected to remain healthy going forward, as scale and share of revenues from the higher margin CRE segment increase.

Diversified asset mix – CHL has a mixed portfolio, comprising hospitality, commercial and residential real estate assets. Its real estate assets constitute over 40% of the capital employed currently and have supported the company's cash flows during the downcycles in the hospitality industry. While the hospitality segment witnessed lower than pre-pandemic revenues and cash flows in FY2021 and FY2022, steady lease rentals from the CRE segment supported the company's cash flows. The contribution from the real estate segment is likely to improve going forward, as the real estate assets under development complete construction and are occupied.

Management tie-up with well-known international hospitality operators – CHL derives hotel management support from the international hospitality chains, Marriott and Accor, and their well-established global brands. Six out of the eight hotels are managed under the premium brands of Marriott. Further, Novotel, Pune (which was acquired in February 2020) is managed under the Accor flag. The company benefits from Marriott's and Accor's global branding, marketing, and advertising networks for most of its properties.

Credit challenges

Moderate coverage metrics – The company's coverage metrics remained moderate in FY2023, impacted by the continued debt-funded growth capex in the last several years. Further, some of the properties were still under construction and did not generate cash flows until FY2023. The company's adjusted net debt stood at Rs. 2,493.8 crore and the adjusted net debt / OPBITDA stood at 5.4 times as on March 31, 2023. The coverage metrics are expected to gradually improve from current levels, going forward, with better accruals. Refinancing part of the debt into LRD loans as CRE assets are leased, given CHL's healthy financial flexibility, are expected to contribute to improvement in coverage metrics.

High geographical concentration in hospitality segment and high tenant concentration in CRE – Of CHL's eight hotel properties in the key cities of Mumbai, Hyderabad, Bangalore, and Pune, four are in Mumbai, comprising ~54% of its current inventory of 2,802 rooms (as on June 30, 2023). The company remains exposed to region-specific exogenous shocks and risks,

given its high geographical concentration in Mumbai. It has marginally reduced from earlier levels of 60% and is expected to reduce further once the pipeline inventory addition of 88 keys in Novotel (Pune), 141 keys in Marriott (Bangalore), 56 keys in Dukes Retreat (Lonavala, Maharashtra) and the upcoming ~400 key property at T3, Delhi International Airport Limited (DIAL), New Delhi, commence operations. Nevertheless, the company's revenue concentration in Mumbai is likely to reduce over the medium term. Also, the tenant concentration in its CRE assets is high with ~80% of revenues coming from a single lessee, thus exposing CHL to market risk, in case of any vacancy/non-renewal of the property lease. However, the anticipated addition of new tenants in the upcoming commercial properties in Mumbai and Bangalore are expected to reduce the same going forward.

Vulnerability of hotel revenues to inherent industry cyclicality, economic uncertainties, and exogenous events; exposure to execution and market risks for ongoing realty projects – The operating performance of the hospitality segment remains vulnerable to industry cyclicality/seasonality, macro-economic cycles, and exogenous factors (geopolitical issues, terrorist attacks, disease outbreaks, etc). Also, despite the strong execution capabilities of the promoters and significant progress in project execution, the execution risk remains a monitorable for under-construction projects. Although CHL has a strong track record of leasing and pass-through of rental escalations, any weakness in the economic environment could impact leasing for the upcoming assets and rent increments, going forward.

Environmental and social risks

Environmental considerations – Akin to other hotel companies, CHL is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The risk for CHL is accentuated by its geographic concentration. The company has been taking measures to improve its environmental impact by reducing energy, water, and plastic consumption, and increasing green initiatives among others.

Social considerations – CHL, akin to other hotel companies, would need to adapt to evolving social fabric (including changing consumer preferences and social trends) over time and it relies heavily on human capital. CHL is also vulnerable to data security and data privacy issues, like other hotels. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

CHL's liquidity profile is adequate, supported by anticipated healthy cash flow from operations in FY2024. Further, the company has unencumbered cash and bank balances of Rs. 131.2 crore, undrawn working capital lines of Rs. 111.0 crore and undrawn term loans of Rs. 592.0 crore as on March 31, 2023. The company also has a Board approval to raise interest free promoter loans of Rs. 100.0 crore from promoters for the Koramangala residential project. ICRA expects the promoters to extend timely and adequate financial support to CHL for meeting its operational and financial commitments, going forward, as, and when required. Against these sources of cash, CHL has capex commitments of ~Rs. 840crore, Rs. 540crore and Rs. 580crore (including the capex for the Koramangala project) in FY2024, FY2025 and FY2026, respectively, part of which is expected to be debt funded. CHL has expected debt repayment obligations of ~Rs. 260.0 crore, Rs. 340.0 crore and Rs. 330.0 crore for FY2024, FY2025 and FY2026, respectively. Any debt-funded acquisition will be evaluated on a case-to-case basis.

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. Specific metrics for an upgrade include adjusted net debt (excluding promoter loans)/OPBDITA reducing to less than 5.0 times on a sustained basis.

Negative factors – Negative pressure on CHL's ratings could arise from deterioration in debt metrics or any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies 9 Bold	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating Methodology for Debt Backed by Lease Rentals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of CHL.

About the company

Chalet Hotels Limited, promoted by the K. Raheja Corp Group (C. L. 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, retail and hospitality segments. The company's existing hotel properties of 2,802 keys (as of June 30, 2023), include The Westin Mumbai Powai Lake (600 keys; owned), Lakeside Chalet, Mumbai-Marriott Executive Apartments, Powai (173 keys; owned), Four Points by Sheraton, Navi Mumbai (152 keys; owned), The Westin Hyderabad (427 keys; owned), The Westin Hitech City Hyderabad (168 keys; leased), JW Marriott Mumbai Sahar (588 keys; owned), Bangalore Marriott Hotel Whitefield (391 keys; owned), Novotel Pune Nagar Road (223 keys; owned) and The Dukes Retreat, Lonavala (80 keys; owned). All the hotels except Novotel, Pune (managed by the Accor Group) and The Dukes Retreat, Lonavala are run under management contracts with Marriott International and its affiliates.

Further, the company is expected to add around 285 more rooms to its existing properties by the end of FY2025 and ~400 rooms at T3, DIAL. The company has two operational commercial properties of approximately 0.5 million sq. ft., adjacent to its existing hotel property (JW Marriott Mumbai Sahar) from which it earns lease income. The leasable area is expected to increase to 2.2 million sq. ft., in the next 6-12 months. CHL currently has 2.6 million sq. ft. of commercial property under development. CHL also has an ongoing residential project at Koramangala, Bangalore, which was under litigation as Hindustan Aeronautics Limited (HAL) raised objections regarding the permissible height of the buildings. The company has signed terms for an amicable settlement of all disputes and received an NOC from HAL. The company has restarted the construction and 4 of the 11 towers are in advanced stages of completion.

While the company has received approval from the National Company Law Tribunal (NCLT), Mumbai Bench, vide its letter dated May 19, 2023, for the scheme of amalgamation of Belaire Hotels Private Limited (BHPL) and Seapearl Hotels Private Limited (SHPL) with CHL, it is in the process of winding up the companies.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income (OI)	513.7	1,132.2
PAT	-74.9	185.8
OPBDIT/OI	20.7%	40.6%
PAT/OI	-14.6%	16.4%
Total outside liabilities/Tangible net worth (times)	3.0	2.8
Total debt/OPBDIT (times) ³	24.5	6.2
Interest coverage (times)	0.7	3.0

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

³ The company's Adjusted Net Debt / OPBDIT stood at 21.6 times and 5.4 times for FY2022 and FY2023, respectively.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
				July 10, 2023	Sep 29, 2022	July 19, 2021	Dec 11, 2020	Apr 13, 2020	
1	Term loans	Long term	2,748.50	2,562.50	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
2	Fund based limits	Long term	137.00	9.02	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)
3	Non-fund based limits	Short term	60.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated limits	Long term/ Short term	0.50	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	[ICRA]BBB+ (Negative)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund based – term loans	Simple
Long-term fund based limits	Simple
Short-term non-fund based limits	Very Simple
Long-term / Short-term – Unallocated limits	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2014-FY2023	NA	FY2037	2,748.50	[ICRA]A- (Positive)
NA	Cash Credit	NA	NA	NA	137.00	[ICRA]A- (Positive)
NA	LC / BG	NA	NA	NA	60.00	[ICRA]A2+
NA	Unallocated	NA	NA	NA	0.50	[ICRA]A- (Positive) / [ICRA]A2+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership %	Consolidation Approach
Belaire Hotels Private Limited	100%	Full consolidation
Seapearl Hotels Private Limited	100%	Full consolidation
Chalet Hotels & Properties (Kerala) Private Limited	90%	Full consolidation
Chalet Airport Hotel Private Limited	100%	Full consolidation
Sonmil Industries Private Limited	100%	Full consolidation
The Dukes Retreat Private Limited	100%	Full consolidation

Source: Company

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