

May 17, 2024

Mfar Hotels & Resorts Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loan	206.16	206.16	[ICRA]BB- (Stable); reaffirmed
Long-term fund-based	10.00	10.00	[ICRA]BB- (Stable); reaffirmed
Short-term non fund-based limits	3.00	3.00	[ICRA]A4; reaffirmed
Long-term/short-term non-fund based	1.50	1.50	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Long-term unallocated	6.56	6.56	[ICRA]BB- (Stable); reaffirmed
Total	227.22	227.22	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings for bank lines of Mfar Hotels & Resorts Private Limited ('MHRPL' / 'the company') considers ICRA's expectation of a sustained financial performance in the near to medium term aided by the favourable location of properties, management tie-up with well-known Marriott International, Inc. and continued financial support from the promoters in the form of unsecured loans, as evidenced in the past. As on March 31, 2024, the promoter loans/ preference share capital stood at Rs. 84.5 crore, and the promoters have infused Rs. 45 crore incrementally in April and May 2024. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, for meeting MHRPL's operating and financial commitments and external debt reduction.

However, the ratings remain constrained by the company's weak financial profile stemming from stretched debt metrics because of relatively high external borrowings. The company's external debt stood at Rs. 181.8 crore as of March 31, 2024¹. Its external debt/OPBDITA stood at 3.8 times, while its debt service coverage ratio stood at 0.8 times as on March 31, 2024, despite demand uptick and improvement in revenues and operating profits in FY2023 and FY2024. The company has relatively high repayment obligations over the medium term, as a proportion of anticipated accruals - Rs. 77.6 crore in total over FY2025 and FY2026 (after factoring in prepayments of Rs. 24.8 crore in YTD FY2025). ICRA expects MHRPL's debt metrics to remain stretched over the medium term. MHRPL's scale is expected to remain moderate over the medium term, and it is exposed to any localised downturn/unforeseen events or region-specific risks because of its geographic concentration. Also, akin to other players in the industry, the company's revenues and margins are exposed to industry cyclicity/seasonality, macroeconomic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, etc.).

Key rating drivers and their description

Credit strengths

Periodic fund infusion by promoters on a need basis; likely to continue going forward – MHRPL is promoted by Dr. P. Mohamad Ali, the founder of the Mfar Group, with over 30 years of experience in the engineering and construction industry. The promoters have sizeable net worth and have been periodically infusing funds into the company by way of unsecured loans with no fixed repayment schedule and preference debt, directly or through Group companies, for funding MHRPL's operating

¹ As per unaudited financials

and financial commitments. As on March 31, 2024², the promoter loans/ preference share capital stood at Rs. 84.5 crore. Further, the promoters have infused Rs. 45 crore in April and May 2024. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, for meeting MHRPL's operating and financial commitments and external debt reduction.

Management tie-up with well-known international hospitality group; favourable location of properties – The company operates two hotels under the established brands, 'Le Meridien' in Kochi and 'The Westin' in Chennai, of the Marriott Group. MHRPL benefits from the tie-up with the Marriott International, Inc. for management and marketing of the hotel properties, which imparts brand recognition, management expertise and access to the Group's global reservation system.

Credit challenges

Weak financial profile – Despite demand uptick and improvement in revenues and operating profits in FY2023 and FY2024, the company's debt metrics remain stretched because of relatively high external borrowings of Rs. 181.8 crore as of March 31, 2024. The company's external debt/OPBDITA stood at 3.8 times, while its debt service coverage ratio stood at 0.8 times as on March 31, 2024. Further, the company has relatively high principal repayment obligations on its existing loans as a proportion of anticipated accruals over the medium term, although it has prepaid part of its obligations for FY2025. ICRA expects MHRPL's debt metrics to remain stretched over the medium term.

Moderate scale of operations; revenues exposed to exogenous shocks – MHRPL has moderate scale of operations with revenues of Rs. 168.3 crore in FY2024 and an inventory of 438 keys as on April 30, 2024. Also, akin to other players in the industry, the company's revenues and accruals are exposed to industry cyclicity/seasonality, macroeconomic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, etc.). This was witnessed in FY2021 and FY2022, when MHRPL's performance was significantly impacted by the pandemic.

High geographic concentration – MHRPL owns two hotels, 'The Westin' in Chennai and 'Le Meridien' in Kochi. Presence only in two cities exposes the company's revenues and accruals to any localised downturn/unforeseen events or region-specific risks. However, the well-established position of both the properties mitigates the risk to an extent.

Liquidity position: Stretched

MHRPL's liquidity position remains stretched with relatively high repayment obligations over the medium term, as a proportion of anticipated accruals. The company has Rs. 77.6 crore repayment obligations in total over FY2025 and FY2026 (after factoring in prepayments of Rs. 24.8 crore in YTD FY2025). This apart, the company has capex plans of ~Rs. 70 crore over FY2025 to FY2027 for renovation of 'Le Meridien', Kochi, apart from regular maintenance capex. However, ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, for meeting MHRPL's operating and financial commitments. As on March 31, 2024, the company had free cash and bank balances of Rs. 11.9 crore and unutilised working capital lines of Rs. 1.2 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates significant improvement in debt metrics and liquidity position on a sustained basis.

Negative factors – Negative pressure on MHRPL's ratings could arise if the company witnesses sustained pressure on earnings and profitability, or if there is material increase in debt levels leading to weakening of its debt coverage indicators and deterioration in its liquidity position. Also, absence of timely and adequate fund infusion from the promoters would be a negative trigger.

² As per unaudited financials

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of MHRPL.

About the company

MHRPL owns two hotels, 'The Westin' in Chennai and 'Le Meridian' in Kochi with aggregate inventory of 438 keys. The company has been promoted by Dr. P Mohamad Ali and is part of the Mfar Group, which has interests in the engineering and construction industry in India, Oman and the Middle East, apart from hospitality.

Key financial indicators (audited)

Standalone	FY2023	FY2024 (Unaudited)
Operating income	138.9	168.3
PAT	0.0	16.4
OPBDIT/OI	22.4%	28.7%
PAT/OI	0.0%	9.7%
Total outside liabilities/Tangible net worth (times)	5.2	4.0
Total debt/OPBDIT (times)	9.1	5.5
Interest coverage (times)	1.3	2.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				May 17, 2024	-	Mar 31, 2023	Dec 28, 2022	Oct 04, 2021
1 Term Loan	Long-term	206.16	173.0	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)
2 Fund-Based facilities	Long-term	10.00	-	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Negative)
3 Non fund-based limits	Short-term	3.00	-	[ICRA]A4	-	[ICRA]A4	-	-

4 Non-fund Based	Long-term/Short-term	1.50	-	[ICRA]BB-(Stable)/[ICRA]A4	-	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]BB-(Stable)/[ICRA]A4	[ICRA]BB-(Negative)/[ICRA]A4
5 Unallocated	Long-term	6.56	-	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Term Loan	Simple
Long-term Fund-Based	Simple
Short-term non fund-based limits	Simple
Long-term/Short-term Non-fund Based	Very Simple
Long-term Unallocated	NA

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	Long-Term loan	FY2018	8.00%-11.15%	FY2031	206.16	[ICRA]BB- (Stable)
NA	Long-term fund-based	NA	10.20%	NA	10.00	[ICRA]BB- (Stable)
NA	Short-term non fund-based limits	NA	NA	NA	3.00	[ICRA]A4
NA	Long-term/short-term Non fund based-facilities	NA	NA	NA	1.50	[ICRA]BB- (Stable)/[ICRA]A4
NA	Unallocated	NA	NA	NA	6.56	[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 – Not applicable

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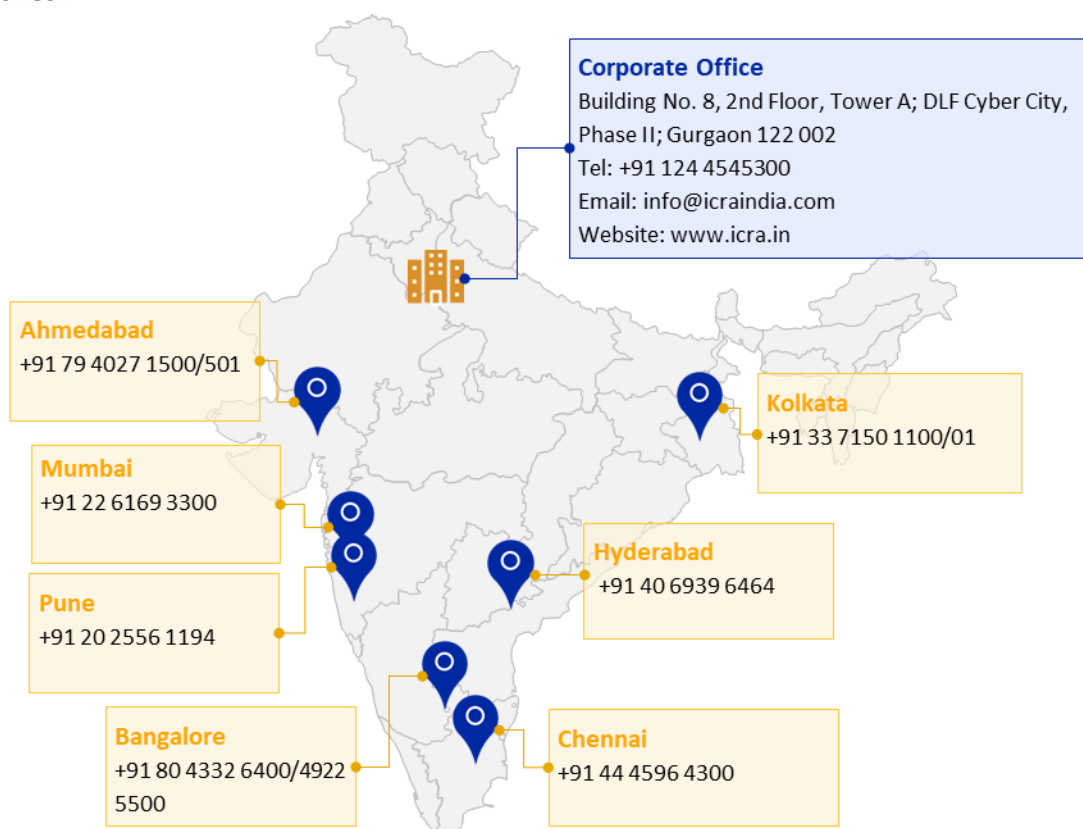


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