May 24, 2024 (Revised)

Tulsi Palace Resort Private Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture programme	50.00	50.00	[ICRA]A-(Stable); upgraded from [ICRA]BBB+(Stable)
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a consolidated view of Tulsi Palace Resort Private Limited (TPRPL) and Moonburg Power Private Limited (MPPL), given that MPPL was created only to acquire 50% of stake in TPRPL (acquisition done in May 2023). The balance 50% stake in TPRPL is owned by BSREP III Joy Two Holdings (DIFC) Limited, which is the parent company of MPPL. Further, there are no operations under MPPL, and both the entities are expected to be amalgamated in the near term.

The rating upgrade for TPRPL factors in the healthy improvement in REVPARs, driven by the continued strong demand in the domestic hotel industry. The company's sole hotel property operates under the five-star luxury brand, 'Leela', in Jaipur. Aided by healthy demand in the wedding business and significant pick up in leisure travel to drive to destinations (MICE[1]), TPRPL was able to improve its average room rate (ARR) by ~11.2% YoY in FY2023 and ~7.6% YoY in FY2024. The same is expected to sustain at healthy levels, supported by the strong brand/location pull and healthy demand environment. The entity was able to sustain its healthy occupancy of 62% in FY2024 (PY: 60%), which is likely to improve in the medium term. The company's debt coverage metrics are adequate as Rs. 425 crore of debt (out of Rs. 475 crore of total debt) has no interest and principal obligations till May 2026. The rating takes comfort from the strong sponsor profile - Brookfield Asset Management, which owns and manages twelve Leela hotels across India with strong brand recognition and an experienced professional management team.

The rating, however, is constrained by TPRPL's limited geographical and segment diversification. Moreover, its presence in a single location (i.e., Jaipur), exposes it to adversities in its region of operations and competition from other existing and upcoming properties. 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. The company's leverage metric as measured by debt/EBITDA is expected to remain elevated in the medium term. On a consolidated basis, the company remains exposed to refinancing risk as the acquisition debt (Rs. 425 crore raised in MPPL) has a three-year bullet repayment in May 2026. However, comfort can be drawn from the strong financial flexibility by being a part of the Brookfield Group and healthy operating performance of the asset, which mitigates the risk.

The Stable outlook on the rating reflects ICRA's expectation that the strong brand and market position of the property, healthy improvement in REVPARs will continue to support the credit profile.

[1] *MICE: Meetings, Incentives, Conferences and Exhibition business*

Key rating drivers and their description

Credit strengths

Healthy operational profile and favourable demand outlook – Aided by healthy revenues from the wedding business and significant pick up in leisure travel to drive to destinations (MICE), TPRPL was able to improve its ARR by ~11.2% YoY in FY2023 and ~7.6% YoY in FY2024. The same is expected to sustain at healthy levels, supported by the strong brand/location pull and healthy demand environment. The entity was able to sustain its healthy occupancy of 62% in FY2024 (PY: 60%), which is likely to improve in the medium term. The company's debt coverage metrics are adequate as Rs. 425 crore of debt (out of Rs. 475 crore of total debt) has no interest and principal obligations till May 2026.

Favourable location of hotel and strong brand – TPRPL owns a 200-room hotel, which is operated under a well-established five-star brand, 'Leela'. It benefits from its location in Kukas near Jaipur, a busy holiday destination in northern India. Further, its proximity to the densely populated Delhi NCR ensures healthy tourist traffic throughout the year, while proximity to the international airport in Jaipur improves its accessibility.

Strong financial flexibility and sponsor group – TPRPL enjoys strong financial flexibility by virtue of being part of the Brookfield Group. The Group owns five and manages seven Leela hotels across India, with more than 3,000 keys under its umbrella as on March 31, 2024. The sponsor has proven experience in scaling its owned hotel properties and lends healthy financial flexibility to TPRPL.

Credit challenges

Moderate scale of operations and asset concentration risk – The scale of operation of the entity remains moderate. With no expansion plans, the revenue growth is expected to remain rangebound and will be driven by movement in occupancy and ARRs. Moreover, its presence in a single location (i.e., Jaipur), exposes it to adversities in its region of operations and competition from other existing and upcoming properties.

Exposure to refinancing risk – The company's leverage as measured by debt/EBITDA is expected to remain elevated in the medium term. On a consolidated basis, the company remains exposed to refinancing risk as the acquisition debt (Rs. 425 crore raised in MPPL) has a three-year bullet repayment in May 2026. Its ability to refinance the debt in a timely manner remains important. However, comfort can be drawn from the strong financial flexibility by being a part of the Brookfield Group and healthy operating performance of the asset, which mitigates the risk.

Vulnerability of revenues to inherent cyclicality in industry – Given the discretionary nature of spending, the rating considers the cyclical nature of the hospitality industry, with revenue generation exposed to seasonality, exogeneous shocks and to overall macro-economic performance. Further, the hotel continues to remain exposed to competition from other luxury hotels in Jaipur.

Liquidity position: Adequate

The liquidity profile at a consolidated level is expected to remain adequate with cash balance of Rs. 117.1 crore as on March 31, 2024, which includes the deferred interest payment on NCB of MPPL. It has limited scheduled repayments during FY2025 and FY2026 for the consolidated entity and no major capex plans.

Rating sensitivities

Positive factors – A sustained improvement in operational performance of the hotel and reduction in debt leading to significant improvement in debt protection metrics, could be a trigger for an upgrade. Specific credit metric include total debt/EBIDTA of less than 3.5 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise from material deterioration in operating metrics resulting in weakening of debt protection metrics and liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of Tulsi Palace Resort Private Limited (TPRPL) with Moonburg Power Private Limited (MPPL) given that MPPL does not have any operations and was only created to acquire 50% stake in TPRPL.

About the company

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 (a Brookfield Group entity). The property has 200 rooms and offers facilities like meeting rooms, banquets, swimming pool, fitness centre and dining options at five restaurants. MPPL was incorporated in June 2022, to acquire 50% shareholding in TPRPL, which it acquired in May 2023 using Rs. 425 crore NCD and Rs. 50 crore CCD. Currently, the company is 100% owned by Brookfield Group.

Key financial indicators

Consolidated (TPRPL + MPPL)	FY2023	FY2024
	Audited	Provisional
Operating income	176.8	185.8
PAT	57.1	12.3
OPBDIT/OI	48.5%	43.5%
PAT/OI	32.3%	6.6%
Total outside liabilities/Tangible net worth (times)	1.4	7.1
Total debt/OPBDIT (times)	0.5	6.5
Interest coverage (times)	19.7	1.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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:

The company faces prepayment risk given the possibility of debt acceleration upon the breach of covenants, including financial covenants and rating-linked covenants. Upon a failure to meet the covenants, if the company is not able to get waivers from the lenders/ investors or the lenders/ investors do not provide adequate time to the company to arrange for alternative funding to pay-off the accelerated loans, the ratings would face a downward pressure.

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2024 (Rs. crore)	Date & Rating in FY 2025	Date & Rating in FY 2024	Date & Rating in FY2023	Date & Rating in FY2022
					May 24, 2024	May 12, 2023	-	-
1	Non-convertible debenture	Long-term	50.00	47.8	[ICRA]A-(Stable)		-	-
2	Proposed non-convertible debenture	Long-term	50.00	-		[ICRA]BBB+(Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Moderately Complex

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
INE0HHL07014	Non-convertible debenture	May 24, 2023	9.43%	May 24, 2026	50.00	[ICRA]A- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Moonburg Power Private Limited	Parent Entity (holds 50% in TPRPL)	Full consolidation
Tulsi Palace Resort Private Limited	Rated Entity	Full consolidation

Note: ICRA has taken the consolidation approach given that MPPL holds 50% stake in TPRPL, and both the entities are expected to be merged in the near term

Corrigendum

Rationale dated May 24, 2024, has been revised with inclusion of coupon rate for the Non-convertible debenture on page number 5.

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 6939 6427
anupama.reddy@icraindia.com

Abhishek Lahoti
+91 40 6939 6433
abhishek.lahoti@icraindia.com

Rabbani Mohammed D
+91 40 6939 6422
d.rabbani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches