

June 04, 2024

Chalet Hotels Limited: Ratings upgraded to [ICRA]A (Positive)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based –Term loans	2,748.50	1802.39	[ICRA]A (Positive); upgraded from [ICRA]A- (Positive)
Long-term fund-based limits	137.00	138.90	[ICRA]A (Positive); upgraded from [ICRA]A- (Positive)
Short-term non-fund based limits	60.00	60.00	[ICRA]A1; upgraded from [ICRA]A2+
Long-term/Short-term –Unallocated	0.50	944.71	[ICRA]A (Positive)/[ICRA]A1; upgraded from [ICRA]A- (Positive)/[ICRA]A2+
Total	2,946.00	2,946.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the ratings factors in the healthy improvement in Chalet Hotels Limited’s (CHL) performance in FY2024, improvement in the debt metrics supported by an equity fund raise of Rs. 1,000 crore in April 2024, and expectation of a sustained improvement in credit profile going forward. The hospitality segment, which represents about more than half of CHL’s total assets, reported strong growth in its revenues during FY2023 and FY2024, supported by both uptick in demand and addition of keys/properties (through organic route and acquisitions). The segment reported revenues of Rs. 1,293.2 crore in FY2024, 25.8% higher than FY2023 and 47.7% higher than FY2020 (pre-pandemic levels). The company’s real estate portfolio, which comprised retail and commercial assets pre-Covid and commercial and residential assets currently, also reported revenues of Rs 124.1 crore in FY2024, 24.1% higher than FY2023 and 23.7% higher than pre-Covid levels. The growth was driven by both leasing of new assets and rental escalations in the older assets. Improved operating leverage and sustenance of cost-optimisation measures taken in recent years have resulted in sustained improvement in operating margins to 41.7% in FY2024 vis-à-vis 40.6% in FY2023 and 36.9% in FY2020. The strong revenue growth and margins have cascaded into healthy accruals for the company, with CHL reporting net cash accruals of Rs. 377.3 crore in FY2024, vis-à-vis Rs. 330.0 crore in FY2023 and Rs. 206.9 crore in FY2020. The company’s coverage metrics have improved in FY2024 compared to earlier levels with adjusted net debt / OPBITDA improving 4.3 times as on March 31, 2024 (PY: 5.4 times), supported by healthy cash accruals. Further, the company has pre-paid ~Rs. 910.0 crore of its debt in April 2024 using the Qualified Institutional Placement (QIP) proceeds, resulting in further improvement in debt levels and coverage metrics.

Going forward, the favourable demand outlook for both hospitality and commercial/high-end residential real estate is likely to augur well for the company. This, along with expected inventory addition in both hospitality and real-estate segments, full year-impact of the recently acquired hotel, and occupancy ramp-up in the newly commenced Commercial Real Estate (CRE) properties are likely to support CHL’s topline and cash accruals going forward. ICRA expects the debt metrics also to gradually improve going forward, with better accruals from the hospitality and real estate assets. Refinancing part of the debt into LRD loans once the occupancies ramp up in the CRE assets, would also contribute to improvement in coverage metrics. The extent of improvement and sustenance of the same, however, remain to be seen.

The ratings remain supported by CHL being a part of the K Raheja Corp Group (referred to as ‘the Group’), an established name in the hospitality, commercial and residential real estate businesses, and CHL’s strong financial flexibility¹. The ratings also factor in CHL’s diverse business mix, management tie-up with reputed international hotel brands like Marriott International

¹ As on April 30, 2024, the promoters held 67.5% equity stake in the company, of which 32.01% was pledged or otherwise encumbered.

Inc. and Accor Hotels and adequate liquidity. CHL, however, has relatively high geographic concentration with 50% of its inventory in Mumbai, exposing it to region-specific exogenous shocks and risks. Its tenant concentration also remains high with ~60% of its CRE revenues coming from the top 5 tenants, although the concentration risks are likely to reduce going forward.

Key rating drivers and their description

Credit strengths

Strong financial flexibility – 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 strong financial flexibility and lender/investor comfort by virtue of being a part of the larger 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, 2024, 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.

Diversified asset mix – CHL has a mixed portfolio, comprising hospitality, commercial and residential real estate assets. Its real estate assets constitute around 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 occupancies ramp up in the recently commenced CRE assets and incremental cash flows from the Koramangala residential project are received.

Sustained improvement in revenues and margins over the last few years, leading to healthy accruals; favourable demand outlook – The hospitality segment, which represents about half of CHL's total assets, has reported strong growth revenues in FY2023 and FY2024, compared to pre-pandemic levels supported by both demand uptick and addition of keys/properties, both organic and through acquisitions. The segment reported revenues of Rs. 1,293.2 crore in FY2024, 25.8% higher than FY2023 and 47.7% higher than FY2020 (pre-pandemic levels). The company's real estate portfolio, which comprised retail and commercial assets pre-Covid and commercial and residential assets currently, also reported revenues of Rs 124.1 crore in FY2024, 24.1% higher than FY2023 and 23.7% higher than pre-Covid levels. The growth was driven by both leasing of new assets and rental escalations in the older assets. Improved operating leverage and sustenance of cost-optimisation measures taken in recent years have resulted in sustained improvement in operating margins to 41.7% in FY2024 vis-à-vis 40.6% in FY2023 and 36.9% in FY2020. The strong revenue growth and margins have cascaded into healthy accruals for the company, with CHL reporting net cash accruals of Rs. 377.3 crore in FY2024, vis-à-vis Rs. 330.0 crore in FY2023 and Rs. 206.9 crore in FY2020. Going forward, the favourable demand outlook for both hospitality and commercial/high-end residential real estate is likely to augur well for the company. This, along with expected inventory addition in both hospitality and real-estate segments, full year-impact of the recently acquired hotel, and occupancy ramp-up in the newly CRE properties are likely to support CHL's topline and cash accruals going forward.

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. Eight out of its ten 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, albeit on an improving trend – The company's coverage metrics continued to remain moderate in FY2024, impacted by the continued debt-funded growth capex in the last several years and some of the properties under construction/in nascent stage of operation and not generating adequate cash flows until FY2024. The company's adjusted net

debt / OPBITDA stood at 4.3 times and its interest coverage stood at 3.0 times as on March 31, 2024. However, the coverage metrics have improved compared to earlier levels, supported by healthy cash accruals and pre-payment of ~Rs. 910.0 crore of its debt in April 2024 using the QIP proceeds. ICRA expects the debt metrics to gradually improve going forward, with better accruals from the hospitality and real estate assets. Refinancing part of the debt into LRD loans once the occupancies ramp up in the CRE assets, would also contribute to improvement in coverage metrics. The extent of improvement and sustenance of the same remain to be seen.

High geographic concentration in hospitality segment and high tenant concentration in CRE – Of CHL’s ten hotel properties in the key cities of Mumbai, Hyderabad, Bangalore, Pune, and NCR, four are located in Mumbai, comprising 50% of its current inventory of 3,052 rooms (as on March 31, 2024). The company derived 61% of its hospitality revenues from the Mumbai market, exposing it to region-specific exogenous shocks and risks. It has marginally reduced from earlier levels of 65% and is expected to reduce further as the company is plans to add close to 600 in other geographies including NCR. Also, the tenant concentration in its CRE assets is high with ~60% of its revenues coming from the top 5 tenants, thus exposing CHL to market risk, in case of any vacancy/non-renewal of the property lease. However, this has also reduced from earlier levels with addition of new properties and is expected to reduce further going forward with the anticipated addition of new tenants as leasing is completed in the recently operationalised CRE assets in Mumbai and Bangalore.

Vulnerability of hotel revenues to inherent industry cyclicity, 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 cyclicity/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 or any lag in the pre-leasing could impact the anticipated rentals 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 its anticipated healthy cash flow from operations. Further, the company has unencumbered cash and bank balances of Rs. 175.0 crore, and undrawn term loan of ~Rs. 170.0 crore² as on March 31, 2024. 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 principal repayment obligations of around Rs. 200.0 crore (excluding the prepayments in April 2024) each in FY2025 and FY2026, and Rs. 150.0 crore in FY2027 respectively on its existing loans. CHL also has capex commitments of Rs. 590.0 crore in FY2025, Rs. 730.0 crore in FY2026 and Rs. 450.0 crore in FY2027, which are expected to be funded through internal accruals, and debt. Apart from this, the company has around Rs. 340.0 crore capex in total over the next two years towards the Koramangala residential project, which is likely to be funded entirely from cashflows from the project. Any debt-funded acquisition will be evaluated on a case-to-case basis.

² Excludes the credit facilities closed in April 2024

Rating sensitivities

Positive factors – Sustenance of healthy revenue growth and profit margins, along with no material cost and time-overruns in ongoing projects, leading to improvement in debt metrics, could be a trigger for improvement in the ratings. Specific metrics for an upgrade include adjusted net debt³ (excluding promoter loans)/OPBDITA being less than 4.0 times on a sustained basis.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotel Industry Realty - Lease Rental Discounting (LRD) Realty – Commercial/Residential/Retail
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, 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 has 3,052 keys (as of March 31, 2024), and its existing hotel properties include The Westin Mumbai Powai (604 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 (311 keys; owned), The Dukes Retreat, Lonavala (80 keys; owned) and Courtyard by Marriott, NCR (158 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 865 more rooms to its existing/new properties in the next three years.

The company has four operational CRE properties of 2.1 million sq. ft, of which two properties of approximately 1.5 million sq. ft. were commenced in FY2024. CHL is likely to add another CRE property of 0.3 million sq. ft. in the near term and has 0.9 million sq. ft. of commercial property under pipeline at Powai, Mumbai. CHL also has an ongoing residential project at Koramangala, Bangalore wherein the company has started the sale for the 9 towers (out of 11) from October 2023 and has sold 204 units out of 321 units as of March 2024.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income (OI)	1,132.2	1,418.3
PAT	183.3	278.2
OPBDIT/OI	40.6%	41.7%
PAT/OI	16.2%	19.6%
Total outside liabilities/Tangible net worth (times)	2.8	2.5
Total debt/OPBDIT (times) ⁴	6.2	5.1

³ Adjusted net debt excludes free cash and bank balances and promoter loans

⁴ The company’s Adjusted Net Debt / OPBDITA stood at 5.4 times and 4.3 for FY2023 and FY2024, respectively.

Interest coverage (times)

3.0

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 numbers 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 on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				June 04, 2024	March 11, 2024	July 10, 2023	Sep 29, 2022	July 19, 2021
1 Term loans	Long term	1802.39	1,802.39	[ICRA]A (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2 Fund based limits	Long term	138.90	85.26	[ICRA]A (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
3 Non-fund based limits	Short term	60.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4 Unallocated limits	Long term/ Short term	944.71	-	[ICRA]A (Positive)/ [ICRA]A1	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [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	FY2017-FY2024	NA	FY2037	1802.39	[ICRA]A (Positive)
NA	Cash Credit	NA	NA	NA	138.90	[ICRA]A (Positive)
NA	LC / BG	NA	NA	NA	60.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	944.71	[ICRA]A (Positive) / [ICRA]A1

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
Chalet Hotels & Properties (Kerala) Private Limited	90.00%	Full consolidation
Chalet Airport Hotel Private Limited	100.00%	Full consolidation
Sonmil Industries Private Limited	100.00%	Full consolidation
The Dukes Retreat Private Limited	100.00%*	Full consolidation
Ayushi and Poonam Estates LLP	100.00%	Full consolidation

Source: Company; * 82.28% is held by Chalet Hotels Limited, and the remaining are held by Sonmil Industries Private Limited

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