October 14, 2024

# Chalet Hotels Limited: Long-term rating upgraded to [ICRA]A+; short-term rating of [ICRA]A1 reaffirmed; outlook on the long-term rating remains 'positive'

## Summary of rating action

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

**Instrument details are provided in Annexure-I*

## Rationale

The upgrade in the long-term rating factors in the sustained improvement in Chalet Hotels Limited's (CHL) credit profile backed by healthy performance in FY2024 and Q1 FY2025; improvement in the debt metrics supported by an equity fund raise of Rs. 1,000 crore in April 2024 and sustenance of the same in YTD FY2025; and the expectation that the profile could continue to improve going forward supported by favourable demand outlook and healthy debt metrics.

The hospitality segment, which represents about half of CHL's total assets, has reported strong growth in revenues from FY2023, 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). For Q1 FY2025, it was 15.3% higher YoY and stood at Rs. 325.5 crore. 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. For Q1 FY2025, it was higher by 24.6% YoY and stood at Rs. 35.5 crore, aided by incremental income from leasing of new commercial real estate (CRE) assets. Improved operating leverage and sustenance of cost-optimisation measures have resulted sustained healthy operating margins of 41.7% in FY2024 and 38.8% in Q1 FY2025. 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 and Rs. 116.6 crore in Q1 FY2025, vis-à-vis Rs. 330.0 crore in FY2023 and Rs. 63.6 crore in Q1 FY2024. This apart, the company also generated customer advances of around Rs. 100.0 crore towards the sale of residential units in Q1 FY2025, supporting cashflows. The company's debt metrics have improved significantly with debt prepayment using the QIP proceeds in April 2024 and sustained broadly at these levels in YTD FY2025. The adjusted net debt / OPBITDA improved to 2.9 times as on June 30, 2024, from 4.3 times as on March 31, 2024, and 5.4 times as on March 31, 2023.

Going forward, the favourable demand outlook for both hospitality and commercial/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 hotel acquired in Q4 FY2024, and occupancy ramp-up in the newly commenced CRE properties are likely to support CHL's topline and cash accruals going forward. ICRA expects the debt metrics gradually improve going forward, with better accruals. Further, refinancing part of the debt through lease rental discounting (LRD) loans post the occupancy ramp up in the newly commenced CRE assets, would also contribute to improvement in debt metrics.

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 flexibility[1]. The ratings also factor in CHL's diverse business mix, management tie-up with reputed international hotel brands like Marriott International 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 in CRE also remains high with ~60% of its revenues from the top 5 tenants, although the concentration risks are likely to reduce going forward.

The positive outlook on the company's long term rating reflects ICRA's expectation that the company's credit profile could improve further in next 6-12 months supported by the favourable demand outlook and consequent improvement in debt metrics 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 June 30, 2024, to meet the cash flow requirements of CHL's ongoing residential project in Koramangala, Bengaluru. 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.

**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 in revenues from FY2023, supported by both demand uptick and addition of keys/properties, both organic and through acquisitions. The segment reported 25.8% and 15.3% YoY growth in FY2024 and Q1 FY2025 respectively. The company's real estate portfolio also reported 24.1% YoY and 24.6% YoY growth in revenues in FY2024 and Q1 FY2025 respectively, the latter was aided by incremental income from leasing of new CRE assets. Improved operating leverage and sustenance of cost-optimisation measures have resulted sustained healthy operating margins of 41.7% in FY2024 and 38.8% in Q1 FY2025. The strong revenue growth and margins have cascaded into healthy accruals for the company. This apart, the company also generated customer advances of around Rs. 100.0 crore towards the sale of residential units, supporting cashflows. Going forward, the favourable demand outlook for both hospitality and commercial/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 CRE properties are likely to support CHL's topline and cash accruals going forward.

**Diversified asset mix –** CHL has a mixed portfolio, comprising hospitality, commercial and residential real estate assets. Its commercial real estate assets constitute around 35% of the total assets currently and have supported the company's cash flows during the downcycles in the hospitality industry, including during the pandemic. Moreover, the proportion of revenues from the real estate segment has steadily increased in the last few quarters. It is likely to improve further going forward, as the occupancy ramps up in the recently commenced CRE assets and cash flows from the Koramangala residential project are received periodically.

**Management tie-up with well-known international hospitality operators –** CHL derives hotel management support from the international hospitality chains, Marriott International Inc. and Accor Hotels, and their well-established global brands. Eight out of its ten existing hotels are managed under the premium brands of Marriott. Further, Novotel, Pune (which was acquired

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

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 debt metrics, albeit significant and sustained improvement in YTD FY2025 –** The company's debt metrics continued to remain moderate, although it has improved significantly with debt prepayment using the QIP proceeds in April 2024 and sustained broadly at these levels in YTD FY2025. The company's debt metrics were 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. CHL's adjusted net debt / OPBITDA improved to 2.9 times as on June 30, 2024, compared to 4.3 times as on March 31, 2024, and 5.4 times as on March 31, 2023. ICRA expects the debt metrics gradually improve going forward, with better accruals from the hospitality and real estate assets. Further, refinancing part of the debt through LRD loans post the occupancy ramp up in the newly commenced CRE assets, would also contribute to improvement in debt metrics.

**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, Bengaluru, Pune, and NCR, four are located in Mumbai, comprising 50% of its current inventory of 3,052 rooms (as on March 31, 2024). This exposes it to region-specific exogenous shocks and risks. ICRA, however, notes that it is expected to reduce going forward as the company is plans to add at least 750 keys in other geographies including the NCR and Goa over the medium term. 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 progresses in the new assets.

**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 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. 290.0 crore, and undrawn term loan of around Rs. 170.0 crore as on June 30, 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. 100.0 crore in H2 FY2025 and Rs. 200.0 crore in FY2026, and Rs. 150.0 crore in FY2027 respectively on its existing loans. CHL has a capex commitments of Rs. 700.0 crore in Q2-Q4 FY2025, Rs. 800.0 crore in FY2026 and Rs. 500.0

crore in FY2027, which are expected to be funded through a mix of internal accruals and debt. Apart from this, the company has around Rs. 350.0 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.

## Rating sensitivities

**Positive factors –** Improvement in operational metrics and profitability indicators leading to 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 3.0 times on a sustained basis.

**Negative factors –** Pressure on CHL's ratings could arise from sustained and significant 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** | Corporate Credit Rating Methodology<br>Hotel Industry<br>Realty - Lease Rental Discounting (LRD)<br>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 is part of the reputed K Raheja Corp Group, which has a diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The company's has 3,052 keys (as of June 30, 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), Marriott Hotel Whitefield, Bengaluru (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 Hotels) and The Dukes Retreat, Lonavala are run under management contracts with Marriott International Inc. 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 2.4 million sq. ft, of which three properties of approximately 1.8 million sq. ft. were commenced in FY2024 and Q1 FY2025. CHL is constructing another CRE property of 0.9 million sq. ft. in Powai, Mumbai. CHL also has an ongoing residential project at Koramangala, Bengaluru wherein the company has started the sale for the 9 towers (out of 11) from October 2023 and has sold 221 units out of 321 units with a collection of Rs. 523.3 crore as of June 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)**[2] | 6.2 | 5.1 |
| **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; *provisional*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

[2] *The company's Adjusted Net Debt / OPBDITA stood at 5.4 times and 4.3 for FY2023 and FY2024, respectively.*

## Rating history for past three years

| Instrument | | Current rating (FY2025) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on March 31, 2024 (Rs. crore) | Chronology of rating history for the past 3 years | | | | | |
| | | | | | Date & rating in FY2025 | | Date & rating in FY2024 | | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | | October 14, 2024 | 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]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]A- (Positive)** | **[ICRA]BBB+ (Stable)** | **[ICRA]BBB+ (Negative)** |
| 3 | **Non-fund based limits** | Short term | 60.00 | - | **[ICRA]A1** | **[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]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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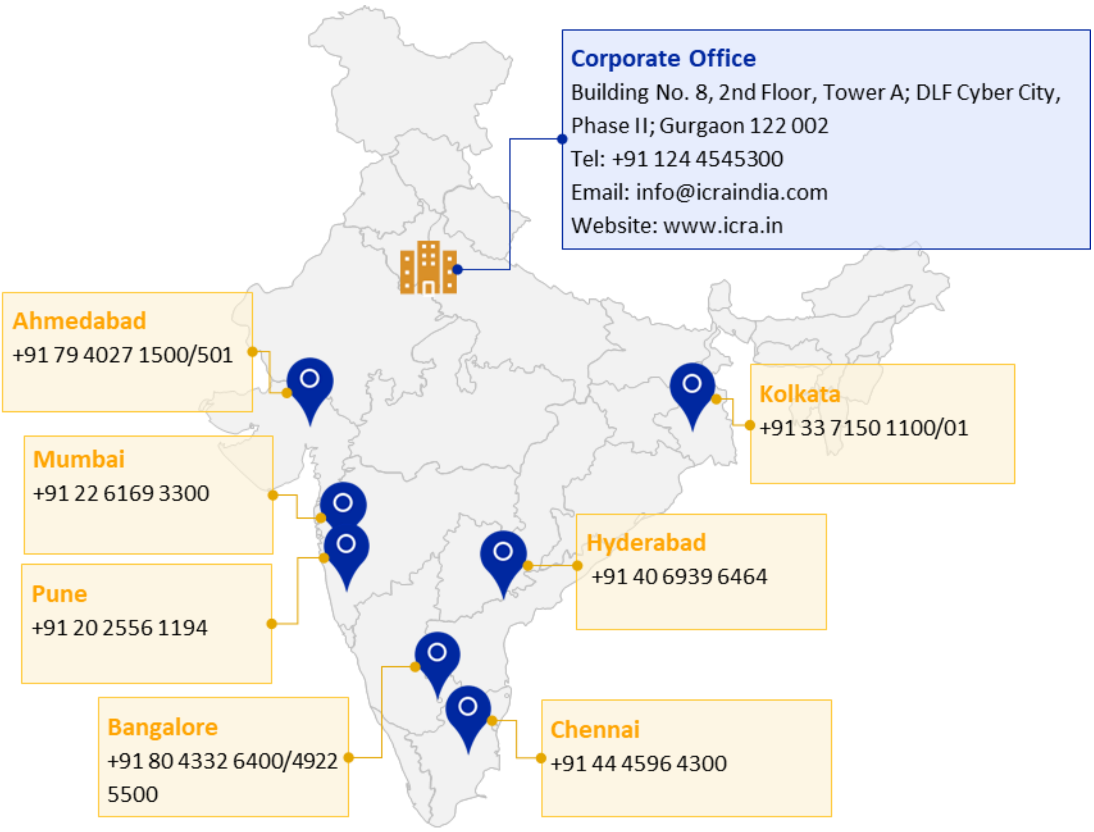



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