

April 17, 2020

## Bestech Hospitalities Private Limited: Rating reaffirmed; outlook revised from Stable to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	175.28	175.28	[ICRA]BBB+; Rating reaffirmed and outlook revised to Negative from Stable
<b>Total</b>	<b>175.28</b>	<b>175.28</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in outlook to Negative for Bestech Hospitalities Private Limited (BHPL) follows the impact of the novel coronavirus (Covid-19) pandemic on the global travel and tourism industry and is in line with ICRA's Negative outlook for the sector.

The occupancies across most hotels have crashed across the country, following the pan-India lockdown announced by the Government of India (GoI). The sharp drop in occupancy is in line with that of the hospitality industry globally. ICRA expects the hospitality industry to undergo one of the longest periods of recovery, contributed by the widespread business slowdown over the next couple of quarters. This would exert significant pressure on the revenue-per-available room (RevPARs). Given the discretionary nature of spend, especially in leisure travel, the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases and meltdowns. While some deferred travel, particularly for business, will eventually come back following some semblance of normalcy, room nights are essentially perishable commodities. Considering the high operating leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on the industry's ability to service its debt. ICRA will continue to monitor the situation as it evolves in India and globally over the coming weeks and take the appropriate rating action wherever required.

This is expected to lead to a sharp reduction in cash accruals and possible losses for BHPL in the near term. The company has closed operations for two of its hotels in Nagpur and Indore after the lockdown, while prior to the lockdown, the average occupancy was low in March 2020. Its debt levels increased to Rs. 147 crore in March 2019 owing to debt-funded FSI acquisition for future hotel projects in Gurgaon from a Group entity, resulting in moderate leverage and coverage indicators (TD/OPBIDTA of 6.3x, interest coverage of 2.4x and DSCR of 2.8x as on March 2019). The company has taken various steps to cut all variable costs and prune fixed costs. Nonetheless, the sharp scale-down in revenues is likely to weaken its credit profile, the extent of which will remain contingent upon the pace of recovery following the pandemic. Prior to lockdown, it had ongoing capex plans including the construction of two Park Inn hotels in Indore (110 keys) and Nagpur (140 keys), apart from one Radisson Red hotel in Mohali (156 keys). It plans to start construction for Radisson Red hotel in Gurgaon (180 keys) FY2022 onwards. In the wake of the spread of Covid-19, the Group is re-evaluating and re-calibrating its expansion plans.

Going forward, the adequacy of liquidity post net deficit from operations against the interest and principal payments (after moratorium) will be the key rating monitorable. The rating continues to be constrained by the inherently high operating leverage of the hospitality industry (which increases the reliance on remunerative RevPars to sustain profitability) and the cyclical nature of revenue generation due to economic or seasonal cycles.

The rating continues to favourably factor in the established track record of the promoter group in the hospitality and real estate segments and BHPL's management tie-up with the Radisson Hotel Group, a well-known international hospitality group. It enjoys the associated benefits from its global branding, marketing and advertising networks. The rating considers the favourable maturity profile of the properties, which are operational for more than eight years and have a dominant market share in the upscale hospitality segment in their respective micro markets. ICRA has noted the significant improvement in the company's net profit margin on account of monetisation of the commercial space in the erstwhile Gurgaon Suites Hotel in Gurgaon. Further, ICRA factors in the promoters' proposal to infuse ~Rs. 10-crore equity, which will provide additional cushion in the debt servicing requirements, amid the sharp contraction in revenues.

BHPL did not honour its scheduled interest and repayment obligations due on March 31, 2020, pertaining to the Rs. 175.28-crore facilities rated, as it has sought a moratorium on payments from its lenders as a part of the Covid-19 - Regulatory Package announced by the Reserve Bank of India (RBI) on March 27, 2020. A formal approval from the lender was received subsequent to the original date of debt servicing. As guided by the SEBI vide its circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020, ICRA has not considered the above missed payment as a default.

## Key rating drivers and their description

### Credit strengths

**Experienced promoters with established track record in hospitality industry** – The promoters have an extensive experience in the hospitality and real estate segments of NCR. Further, BHPL has a demonstrated track record of successful operations of five hotel properties (including those in subsidiaries) – Park Plaza in Gurgaon (45 keys), Radisson Suites in Gurgaon (35 keys), Radisson Blu Suites in Indore (201 keys), Radisson Blu Hotel in Nagpur (214 keys) and Radisson in Noida (88 keys). Park Plaza Gurgaon and Radisson Suites Gurgaon have been divested by the Group.

**Access to Radisson's brand, global reservation systems and best practices** – The company has entered into an agreement with the Radisson Hotel Group for marketing hotel properties, which imparts brand recognition, superior management expertise and access to its global reservation system.

**Favourable maturity profile of operational properties** – BHPL has a demonstrated track record of successful operations at the two operational hotel properties, i.e. Radisson Blu in Indore (200 keys) and Radisson Blu in Nagpur (214 keys). Both the properties have matured now (being operational for more than eight years) and have registered a steady improvement in RevPARs during the last three years (prior to the impact of Covid-19). Both these properties enjoy a dominant market share in the upscale hospitality segment in the respective micro markets.

**Significant increase in net profit in FY2019 due to monetisation of commercial suites** – The company was operating Radisson Suites in Sushant Lok in Gurgaon till FY2014. It was a 32-room property and was incurring losses at the time of closure. The hotel was shutdown and the space was converted into a commercial complex. Some area was sold off in FY2014, while most of it was monetised in FY2019 at a net profit of Rs. 19.8 crore. This led to a 117% YoY surge in its net

profit in FY2019 and consequently increased the return indicators, as depicted by its ROCE<sup>1</sup>, at 13% in FY2019 compared with 6.5% in the previous year.

## Credit challenges

**Significant adverse impact of Covid-19 on operational and credit risk profile** – Given the discretionary nature of spend, the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases and meltdowns. Given the Covid-19 pandemic, ICRA expects significant pressure on the industry RevPARs, initially through occupancies, during the next two quarters. As hotels have high operating and financial leverage, it renders the same highly vulnerable to any reduction in revenues. While the current liquidity buffer provides some cushion, the debt servicing requirements amid the sharp contraction in revenues will have a detrimental impact on BHPL's ability to service debt.

**Deterioration in leverage and coverage indicators in FY2019 due to debt-funded land acquisition for future hotel project in Gurgaon** – The company incurred debt-funded land acquisition from a Group company and plans to build a hotel project in the medium term. This led to an increase in the debt levels to Rs. 149 crore in FY2019 from Rs. 69 crore in the previous year. Consequently, the interest cost increased by 78% in the same year on account of an increase in the processing fees and bank charges. Increased debt levels and interest cost led to deterioration of the capital structure and debt coverage indicators. The gearing increased to 0.8x in FY2019 from 0.4x in FY2018. The coverage indicators such as TD/OPBIDTA increased to 6.3x in FY2019 from 2.7x in FY2018, while the interest coverage declined to 2.4x in FY2019 from 4.5x in FY2018.

**Exposure to execution, funding and market risks due to sizeable capex plans** – The company has aggressive capex plans, including construction of two Park Inn hotels in Indore (135 keys) and Nagpur (140 keys). Additionally, BHPL has entered into a 74:26 joint venture (JV) with the Radisson Hotel Group to establish multiple hotels under its Radisson Red brand. Currently, the company is developing one Radisson Red hotel in Mohali (156 keys) and plans to start construction for Radisson Red hotel in Gurgaon (180 keys) FY2022 onwards. These expose BHPL to project, funding and market risks. The total remaining outlay on all these projects is likely to be ~Rs. 271 crore (excluding the proposed five-star hotel in Gurgaon and under-construction hotel in Dharuhera). ICRA expects moderation in its debt protection metrics in the near to medium term, given the sizeable capex plans, along with planned renovations in the Indore property.

**Vulnerability of revenues to inherent industry cyclicity, economic cycles and exogenous events** – The operating performance of the properties remains vulnerable to seasonal industry, general economic cycles and exogenous factors (geopolitical crisis, terrorist attacks, disease outbreaks, etc). Despite black-swan events such as the Covid-19 pandemic, the risk to its operating revenues is partially mitigated by BHPL's geographically diversified portfolio, which allows it to withstand any demand vulnerability related to any micro-market.

## Liquidity position: Stretched

The company's liquidity in the near-to-medium term is likely to be **stretched** due to pressure on its cash flows on account of the Covid-19 pandemic and the fund requirement for the re-calibrated capex plan. The adequacy of liquidity post net deficit from operations, against the interest and principal payments (after moratorium) will be the key rating

monitorable. The current available liquidity is expected to suffice in covering the repayment liabilities and fixed cost for Q1 FY2021 (after accounting for moratorium). However, in light of the modest liquidity buffer and requirement of funds to execute the re-calibrated expansion programme, timely and adequate infusion by the promoters will be crucial.

### Rating sensitivities

**Positive triggers** – An upgrade is unlikely in the near term, given the Negative outlook on the industry, driven by the likely severe impact of the Covid-19 pandemic on the travel and tourism business. Nonetheless, meaningful and timely infusion by the promoters, improvement in operating metrics and profitability, while managing the leverage, could lead to a change in outlook.

**Negative triggers** – Negative pressure on the Group’s rating could arise from the prolonged impact of the Covid-19 crisis, leading to further deterioration in its liquidity profile and credit risk profile. Additionally, the extent of time and cost overruns in new projects (including those in subsidiaries) or support extended to other Group companies to meet the funding needs will remain a monitorable.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Hotel Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among these

### About the company

Bestech Hospitalities Private Limited (BHPL) is part of the Bestech Group, which was founded by Mr. Dharmendra Bhandari and Mr. Sunil Satija in the early 1990s. The Group started as a construction contractor and has been in the construction business for over two decades. It has constructed over 16 million sq. ft of space for various real estate projects, including several residential and commercial projects in the NCR for developers such as Unitech, MGF, etc. In 2001, the Group diversified into real estate business and incorporated BIPL. Over the years, the Bestech Group has developed more than 11 million sq. ft. of residential and commercial projects in Gurgaon, Mohali and Dharuhera. In 2002, the Bestech Group diversified into the hospitality sector and incorporated BHPL, which has completed four hotel properties – Park Plaza Gurgaon (45 rooms), Radisson Suites Gurgaon (35 rooms), Radisson Blu Indore (200 rooms) and Radisson Blu Nagpur (214 rooms), Radisson (formerly Park Plaza) Noida (88 rooms). The company has sold Radisson Suites Gurgaon and Park Plaza Gurgaon. It is undertaking capex to develop two properties in BHPL – Park Plaza (Indore) and Park Plaza (Nagpur). This apart, it has a JV with the Radisson Hotel Group to develop a chain of Radisson Red hotels in India. In fact, one property – Radisson Red (Mohali) – is in the advanced stages of construction and will start operations by October 2021. Radisson Red (Gurgaon) is in the planning stages.

In FY2019, the company reported a net profit of Rs. 23.94 crore on an operating income (OI) of Rs. 117.74 crore compared with a net profit of Rs. 8.60 crore on an OI of Rs. 110.98 crore in the previous year.

### Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	110.98	117.74
PAT (Rs. crore)	8.62	23.94
OPBDIT/OI (%)	22.9%	20.1%
RoCE (%)	6.5%	13.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.40	0.77
Total Debt/OPBDITA (times)	2.71	6.29
Interest Coverage (times)	4.51	2.36
DSCR	4.91	2.82

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

**Any other information: None**

### Rating history for past three years

Instrument	Rating (FY2021)		Current Rating	FY2020	Rating History for the Past 3 Years			
	Type	Amount Rated			Amount Outstanding	FY2019	FY2018	FY2017
1 Term Loans	Long Term	175.28	175.28	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

*Amount in Rs. crore*

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans – 1	March, 2019	10.5%	February, 2033	117.0	[ICRA]BBB+(Negative)
NA	Term Loans – 2	May, 2019	10.2%	June, 2024	24.0	[ICRA]BBB+(Negative)
NA	Term Loan – Unallocated	-	-	-	34.18	[ICRA]BBB+(Negative)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Company Name	BHPL's Ownership	Consolidation Approach
JOP Hotels Limited	51%	Full Consolidation
Babylon Buildwell Private Limited	100%	Full Consolidation
Bestech Hotels and Resorts Private Limited	74%	Full Consolidation
Bestech Hotels Private Limited	74%	Full Consolidation

## Analyst Contacts

### Shubham Jain

+91 124 4545 306

[shubhamj@icraindia.com](mailto:shubhamj@icraindia.com)

### Kapil Banga

+91 124 4545391

[kapil.banga@icraindia.com](mailto:kapil.banga@icraindia.com)

### Pallavi Singh

+91 124 4545 393

[pallavi.singh@icraindia.com](mailto:pallavi.singh@icraindia.com)

## Relationship Contact

### Jayanta Chatterjee

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents