September 29, 2022

Chalet Hotels Limited: Ratings reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	1,832.00	2440.76	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Long-term fund-based limits	155.00	124.00	[ICRA]BBB+ reaffirmed; Outlook revised to Stable from Negative
Short-term Non-fund based limits	75.00	75.00	[ICRA]A2; reaffirmed
Long-term/Short-term unallocated limits	600.00	22.24	[ICRA]BBB+/[ICRA]A2 reaffirmed; Outlook revised to Stable from Negative
Total	**2,662.00**	**2,662.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in rating outlook to Stable factors in the healthy improvement in the operating performance of the Chalet Hotels Limited's (CHL) hospitality portfolio in Q1 FY2023 and expectations of sustained recovery over the near to medium term. This, along with steady rentals from the commercial real estate segment, would support the company's cash flows going forward. The ratings remain supported by CHL being a part of the K Raheja Corp (CL Raheja) Group (referred to as 'the Group') which is an established name in hospitality, commercial and residential real estate businesses; the company's diverse business mix comprising hospitality, commercial and retail assets; and CHL's management tie-up with Marriott International Inc. and Accor Hotels, and the associated benefits from their extensive branding, marketing and advertising networks.

CHL currently has 7 hotels under operation with an inventory of 2,554 rooms as on June 30, 2022. In addition, the company has ongoing brownfield expansions and an upcoming new property in T3, DIAL. In the commercial real estate segment, the company has one asset under lease, and it has multiple assets under renovation/construction, and these are likely to operationalize over the near to medium term. Market recovery and consequent improvement in accruals from the hospitality segment, and revenues from operationalization of various under-construction properties are likely to support the profit and cash flows going forward. Although the under-construction projects are exposed to execution/market risks, track record of strong execution capabilities and leasing mitigate the risk to an extent. Further, while the revenues from the hotel segment are vulnerable to any potential downcycles, diversification of revenues through real estate assets mitigates risk to an extent. The company has moderate coverage metrics and ICRA expects it to gradually improve from current levels over the medium term, supported by business accruals. While the company has sizeable capex plans, adequate tied-up banking lines for meeting majority of its financial and operational requirements for FY2023 provides comfort. ICRA also draws comfort from the company's healthy financial flexibility and comfort with lenders by virtue of being a part of the K Raheja Corp Group. 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.

Key rating drivers and their description

Credit strengths

Strong promoter group with considerable experience in real estate development provides operational and financial flexibility – CHL is part of the K Raheja Corp Group, which has diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The Group is a leading player in commercial real estate development across India. It is the hospitality arm of the Group and benefits from its vast experience in real estate development. By virtue of being a part of the stronger group, the company enjoys healthy financial flexibility from its lenders. CHL's promoters have infused Rs. 200.0 crore of preference capital into the company as on June 30, 2022, 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.

Management tie-up with well-known international hospitality group; CHL benefits from Marriott's and Accor's global branding, marketing and advertising network – CHL derives hotel management support from the international hospitality chains, Marriott and Accor, and their well-established global brands. Six out of the Seven hotels are managed under the premium brands of Marriott. Novotel, Pune (which was acquired in February 2020) is managed under the Accor flag. CHL benefits from Marriott and Accor's global branding, marketing and advertising networks.

Diversified business mix with portfolio comprising hospitality, commercial and residential assets – CHL has a mixed portfolio, comprising hospitality, commercial and residential real estate assets. About 67% of its OPBDITA was from real estate assets in FY2022. The real estate assets 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 commercial real estate segment supported the company's cash flows. Also, Chalet has been awarded the contract for operating a terminal hotel at T3, DIAL. The profit and cash flow contribution from the real estate segment is likely to improve going forward, as the real estate assets under development complete construction and are occupied.

Credit challenges

Vulnerability of revenues inherent to hospitality industry, economic cycles and exogenous events; nevertheless, diversification of revenues through real estate assets mitigates risk to an extent – The operating performance of the hospitality segment remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geo-political crises, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk to revenues is partially mitigated the anticipated steady cash flows from the commercial real estate portfolio, akin to what was witnessed during the pandemic. The company also has a residential real asset under construction, the sale of which would add to the cash inflows over the medium term.

Moderate coverage metrics and refinancing risk; however, healthy financial flexibility and financial closure to support majority of operational and financial commitments in FY2023 mitigate the risk to an extent – Owing to its relatively high debt levels and sharp reduction in accruals over pre-Covid levels, the company reported moderate coverage metrics in FY2022. Market recovery and consequent improvement in accruals from the hospitality segment, and revenues from operationalization of various under-construction properties are likely to support the profit and cash flows going forward. ICRA expects that the coverage metrics are likely to gradually improve from current levels over the medium term. While the company has sizeable capex plans, sufficient tied-up banking lines for meeting majority of its financial and operational requirements for FY2023, provide comfort. Moreover, the company's healthy financial flexibility with lenders mitigates the refinancing risks to a large extent. 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.

High geographical concentration under hospitality segment and high tenant concentration risk in commercial real estate sector - Of CHL's seven hotel properties (including a hotel with a serviced apartment) in key cities of Mumbai, Hyderabad, Bengaluru and Pune, four are in Mumbai (including one in Navi Mumbai), comprising 60% of its current inventory of 2,554 rooms. Owing to the high geographical concentration in Mumbai, the company would be exposed to region-specific exogenous shocks and risks. Moreover, the tenant concentration is high with 75% of revenues coming from a single lessee, thus exposing CHL to market risk in case of any vacancy / non-renewal of lease. However, the anticipated addition of new tenants in the upcoming commercial properties and the new hotel coming up in T3, DIAL are expected to reduce the risks going forward.

Exposure to execution and market risks for projects under development – Construction for the upcoming commercial real estate projects is underway and is expected to be completed by end of FY2023. Despite the strong execution capabilities of the promoters, the execution risk remains moderately high due to the intermediate stage of project construction with ~40% of the project development cost incurred till June 30, 2022. While the project loan has already been tied up thereby minimising the funding risks, any escalations in project cost may necessitate incremental funding. Though the commercial office leasing segment supported the company with steady cashflows in the last two years, any weakness in the economic environment will impact the incremental leasing for the upcoming projects.

Liquidity position: Adequate

Chalet's liquidity profile remains adequate, supported by healthy cash flow from operations in FY2023. Further, the company has a cash & bank balances of Rs. 46.4 crore, undrawn line of credit of Rs. 177.0 crore (including working capital), undrawn Non-Convertible Debentures (NCD) of Rs. 175.0 crore and undrawn construction finance loan of Rs. 320.0 crore as on June 30, 2022. The company has raised Rs. 200.0 crore of preference capital from promoters (last tranche of Rs. 25 crore subscribed in Q1 FY2023) for the Koramangala residential project and no further debt is expected to be raised for the project. CHL has capex commitments of Rs. 707.9 crore (including that for the Koramangala capex) and principal repayments of Rs. 170.5 crore on its existing term loans in Q2-Q4 FY2023. Further, the company has a capex plans of Rs. 625.0 crore and Rs. 503.6 crore in FY2024 and FY2025 respectively and principal repayments of Rs. 210.3 crore and Rs. 306.4 crore on its existing loans for FY2024 and FY2025 respectively. Though the company is exposed to moderate refinancing risk, the healthy financial flexibility and comfort with lenders by virtue of being a part of the K Raheja Corp Group, mitigate the risk to a large extent. 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.

Rating Sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators and adequate deleveraging leading to significant improvement in debt metrics, could be a trigger for improvement in the ratings.

Negative factors – Negative pressure on CHL's ratings could arise from deterioration from debt metrics or relatively slow recovery in its portfolio's operating metrics leading to sustained pressure on its earnings and profitability.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry Rating Methodology for Debt Backed by Lease Rentals
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 (C. L. Raheja 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, hospitality and malls. The company's existing owned hotel properties of 2,554 keys (as of June 2022), include The Westin Mumbai Powai Lake (five-star upper upscale; 600 keys), Lakeside Chalet, Mumbai-Marriott Executive Apartments, Powai (executive apartments; 173 keys), Four Points by Sheraton, Navi Mumbai (five-star upscale; 152 keys), The Westin Hyderabad Mindspace (five-star upper upscale; 427 keys), JW Marriott Mumbai Sahar (five-star luxury; 588 keys), Bengaluru Marriott Hotel Whitefield (five-star upper upscale; 391 keys) and Novotel Pune Nagar Road (five-star upscale; 223 keys). All the hotels except Novotel, Pune (managed by the Accor Group) are run under management contracts/franchisee with Marriott International and its affiliates. Further, Chalet is expected to add around 256 more rooms to its existing properties by end of FY2023 and 350-400 rooms at T3, DIAL. The company has two operational commercial properties of approximately 0.4 million sq. ft., adjacent to its existing hotel property (JW Marriott Mumbai Sahar) from which it earns lease income. Chalet has 2.6 million square feet of commercial property under development. CHL also has an ongoing residential project at Koramangala, Bengaluru, which is expected to recommence its construction once the necessary approvals are in place. The project was under litigation as Hindustan Aeronautics Limited (HAL) raised objections regarding the permissible height of the buildings. The company has signed terms for an amicable settlement of all disputes and received an NOC from HAL for restarting the construction activities.

CHL has two wholly owned subsidiaries, Belaire Hotels Private Limited (BHPL) and Seapearl Hotels Private Limited (SHPL) and another subsidiary - Chalet Hotels & Properties (Kerala) Private Limited with 90% of the shareholding, all of which are debt free as on June 30, 2022. The company is in the process of amalgamating BHPL and SHPL with Chalet and has filed petition with NCLT for the same.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	287.7	513.7
PAT (Rs. crore)	-135.5	-74.9
OPBDIT/OI	3.4%	20.7%
PAT/OI	-47.1%	-14.6%
Total outside liabilities/Tangible net worth (times)	2.3	3.0
Total debt/OPBDIT (times)[1]	212.7	24.5
Interest coverage (times)	0.1	0.7

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

[1] *Adjusted for preference share capital (infused by the promoters) of Rs. 174.7 crore in FY2022, the total debt excluding preference shares stood at Rs. 2,422.4 crore and Total Debt excl. preference shares/OPBITDA stood at 22.8 times as on March 31, 2022.*

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Sep 29, 2022	Jul 19, 2021	Dec 11, 2020	Apr 13, 2020	Jan 28, 2020	May 24, 2019
1	Term loans	Long-term	2,440.76	2,440.76	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Fund based Limits	Long-term	124.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
3	Non-Fund based Limits	Short-term	75.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2
4	Unallocated Limits	Long-term/ short-term	22.24	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Long-term fund-based limits	Simple
Short-term Non-fund based limits	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2014-FY2023	NA	FY2037	2440.76	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	124.00	[ICRA]BBB+ (Stable)
NA	LC/BG	NA	NA	NA	75.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	22.24	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: *Company*

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Belaire Hotels Private Limited	100.00%	Full Consolidation
Seapearl Hotels Private Limited	100.00%	Full Consolidation
Chalet Hotels & Properties (Kerala) Private Limited	90.00%	Full Consolidation

Source: *Company*

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