

Barque Hotels Private Limited

Instrument	Amount	Rating Action
	Rs. crore	March 2016
Term Loans	255	[ICRA]BBB (stable); reaffirmed

ICRA has reaffirmed **[ICRA] BBB** (pronounced ICRA Triple B) rating to Rs. 255.00 crore¹ bank limits of Barque Hotels Private Limited (BHPL)². The rating carries a **stable** outlook.

The rating draws comfort from BHPL's experienced management team, its large and reputed institutional investors, and its tie-up with Accor Group to develop 14 hotels (~1960 rooms) under the internationally established brand name "**Formule1**". The agreement with Accor provides brand recognition and offers BHPL access to Accor's best practices and its global reservation system. Accor's Formule1 is a budget category hotel brand and the product focuses on limited services offering, smaller room size, lesser common areas and has a low staffing ratio. This enables it to keep the costs low and cushions the operating margin even at low RevPar (revenue per available room). The cost of 14 hotels is planned to be funded through a debt equity ratio of 60:40. Out of the proposed 14 hotels with 1968 rooms, seven hotels with 1036 rooms are operational and the remaining are expected to become operational in the next two years. Promoters have already infused all equity contribution upfront and the debt has been tied up for entire portfolio, reducing financing risk.

The upfront equity infusion by promoters and strategic deferment of debt drawdown lowers the cost of the project by reducing interest during construction (IDC). Further, favorable debt terms (with door-to-door tenure of 16 years), ballooning repayment structure & comfortable moratorium period is likely to limit pressure on company's cash flows. The rating further draws comfort from diversified and favorable location of BHPL's 14 hotels, in close proximity to large commercial space primarily in Metros and Tier-I cities, and from asset-light lease model adopted by the company for its hotels, which reduces capital requirement.

The rating is, however, constrained by delays in execution of certain hotels in the portfolio which, coupled with the slower-than-expected ramp-up in RevPARs in few properties is likely to lead to higher than estimated support during stabilization phase of the portfolio. Rating is also constrained by BHPL's weak debt-coverage indicators as most of its hotels are currently in development or stabilization phase- BHPL's current muted revenue, coupled with high overhead expenses, has led to net losses of Rs. 9.29 crore in FY15 and Rs. 13.91 crore (provisional) in 9MFY16.

Competition in the budget segment is high due to low capex requirements, dominance of unbranded sector as well as presence of online room aggregators, who charge a competitive price while providing distribution support and online platform to standalone properties. Intense competition, initial stages of BHPL's hotel operations and low awareness of the Formule1 brand in India is likely to lead to subdued RevPars, at least in medium term, thus prolonging the gestation period.

With seven hotels (932 rooms) under various stages of development, the company continues to be exposed to project implementation risks. Further, large increase in the network RevPar would be required to meet the interest and principal payments, which start in October 2016. However, significant ramp-up in RevPar may be challenging considering the continuous addition of new properties to the network and prevailing intense competition in the segment. The rating is also constrained by inherently high operating leverage of the hospitality industry, cyclical nature of revenue generation owing to economic or seasonal cycles and anticipated oversupply situation in various pockets due to slow economic activity coinciding with supply additions.

Going forward, completing the remaining hotels within the estimated cost and time, generating healthy RevPars from existing as well as upcoming hotels and receipt of timely financial support from the promoters as and when required will be the key rating sensitivities.

¹ 100 lakh = 1 crore = 10 million

² For complete rating definition please refer to ICRA website www.icra.in or any of the ICRA Rating Publications

Company Profile

Barque Hotel Private Limited was incorporated in March 2008 by Accor SA to develop hotels under the 'Formule1' brand. In October 2012, SAMHI Hotels Private Limited (SHPL) acquired 60% stake in BHPL. BHPL has a portfolio of 14 Formule1 hotel projects, of which seven are operational in Greater Noida, Bangalore Whitefield, Ahmedabad, Pune Hinjewadi, Gurgaon Pune- Pimpri and Hyderabad- Hitech City. All 14 properties are located in Tier- I and Tier- II cities. The total operational room inventory is 1069 rooms, out of the proposed room inventory of ~1968 rooms.

Through various joint ventures and subsidiaries, SHPL has a portfolio of over 3,900 rooms across 25 properties under international brands such as Sheraton, Courtyard Marriott, Hyatt Place, Hyatt Regency, Four Points Sheraton, Fairfield Marriott, and Formule1. Of these, 16 hotels are operational and the rest are in various stages of development.

Recent Results

Barque Hotels Private Limited (BHPL) reported operating income of Rs. 18.50 crore and net loss of Rs. 9.29 crore in FY2015 against operating income of Rs. 10.47 crore and net loss of Rs. 1.98 crore in FY2014. In 9MFY2016 the company reported operating income of Rs. 21.15 crore (provisional) and net loss of Rs. 13.91 crore (provisional).

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For further details please contact:

Analyst Contacts:

Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: **9871221122**

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: **9821086490**

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: **+91 9903394664**

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: **989986490**

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: **9845022459**

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500