

Chalet Hotels Private Limited

Instrument	Amount (Rs. Crore)	Rating Action
Term Loans	1,159.00 [Revised from 1,350.00]	[ICRA]BBB (Stable) reaffirmed
Long-term, Fund Based Limits	85.00 [Enhanced from 35.00]	[ICRA]BBB (Stable) reaffirmed
Short-term, Non-Fund Based Limits	100.00	[ICRA]A3+ reaffirmed

ICRA has reaffirmed the long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 1,159.00 crore* (reduced from Rs. 1,350.00 crore) term loans and the Rs. 85.00 crore (enhanced from Rs. 35.00 crore) long-term, fund based bank facilities of Chalet Hotels Private Limited ('CHPL' or 'the company')†. ICRA has also reaffirmed the short-term rating of [ICRA]A3+ (pronounced A three plus) to the Rs. 100.00 crore short-term, non-fund based bank facilities of the company. The outlook on the long-term rating is 'Stable'.

The reaffirmation of the ratings factor in the strong promoter group (C. L. Raheja Group) with considerable experience in hospitality, real estate development and retail businesses, the company's management tie-ups with well known international hospitality groups such as '*Starwood Hotels & Resorts Worldwide Inc.*' and '*Marriott International Inc.*' and benefits from their global branding, marketing and advertising networks. The ratings also draw comfort from the company's strategic investments in land parcels, which lend significant financial flexibility, especially with banks and financial institutions - to manage the liquidity profile of the company and meet the repayment obligations. Further, the company has demonstrated timely completion of several projects which it undertook in the past; the currently under-construction projects, with an exception of the Bengaluru residential project which is under litigation with Hindustan Aeronautics Limited (HAL), are also progressing as per schedule. The 585 key JW Marriott Hotel at Sahar, Mumbai commenced operations in March 2015 and has received favourable response, especially for F&B and MICE segments, during the nine months of its operations till date; the cash flows from this project, once the operations are stabilised, shall help the company in meeting the large debt obligations.

The ratings are, however, constrained by the moderate scale of current operations with five‡ operational properties, geographical concentration of properties on the Mumbai market and the risk of being saddled with a large unsold residential property inventory in its real estate business. The company has a stretched financial risk profile marked by leveraged capital structure and weak coverage indicators on account of large investments in new projects as well as in various group entities. With only part of the Sahar project [retail/commercial project] in Mumbai and the IT Park project [under Magna; bank debt completely repaid] in Bangalore under construction, the funding requirement towards future capex is expected to be moderate; CHPL's large asset base of existing properties and land banks, as well as steady cash flows from the existing hotel properties provide financial flexibility and funding options.

Though the hospitality industry is showing some signs of demand revival in the recent times, driven primarily by the improving sentiments in the domestic economy and various initiatives taken by the central government, the same has only helped the occupancies improve; average room rates continue to remain flat, with a marginal downward bias. While the Mumbai and Hyderabad markets have witnessed strong improvement in occupancies recently – driven by healthy demand as well as moderation in pace of supply addition in these markets, the performance, going forward, is expected to be impacted due to the strong supply pipeline, especially in Mumbai. Moreover, the hospitality industry is cyclical in nature and is vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, disease outbreak etc.).

* 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

‡ Excluding Bengaluru Marriott Hotel, Whitefield developed under the subsidiary Magna, as the hotel has been demerged from Magna

Timely completion of retail and commercial space in Sahar, stabilisation of JW Marriott, Sahar and early resolution of dispute with HAL with respect to the Bengaluru residential project are the key rating sensitivities.

Company Profile

Chalet Hotels Private Limited (CHPL; erstwhile Chalet Hotels Limited), promoted by the K. Raheja Corp Group (C. L. Raheja Group), is a company 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 operational hospitality properties include Renaissance Mumbai Hotel and Convention Centre, Powai (5-star Deluxe; 586 keys), Lakeside Chalet (Executive Apartments; 177 keys), Four Points by Sheraton, Navi Mumbai (4-star; 150 keys), Westin, Hyderabad (5-star Deluxe; 427 keys) and JW Marriott, Sahar, Mumbai (5-star Deluxe; 585 keys). All the hotels are run under management contracts/franchisee either with Starwood Hotels and Resorts Worldwide Inc. (Starwood) or Marriott International Inc. (Marriott). All the hotels of the company carry well known international brands and benefit from the global marketing and advertising network of these groups.

CHPL, through its subsidiary Magna, has also developed a 324 key Marriott Hotel at Whitefield in Bengaluru, which commenced operations in February 2013; the project also includes retail space (operational) and IT Park space (ready, but not yet let out). The hotel and the retail businesses of Magna have been demerged with Genext Hardware & Parks Private Limited and Magna currently holds only the 1.7 lakh sq. ft. IT Park space.

In addition, as part of the mixed use project involving JW Marriott, Sahar, the company is developing 1.5 lakh sq. ft. retail space and 3.1 lakh sq. ft. commercial space. Apart from these, CHPL has two ongoing real estate projects - a residential project at Madhapur in Hyderabad and another residential project at Koramangala in Bengaluru.

Recent Results

Chalet Hotels Private Limited, on a standalone basis, reported a net loss of Rs. 115.9 crore in 2014-15 on an operating income of Rs. 439.9 crore as against a net loss of Rs. 63.6 crore on an operating income of Rs. 500.9 crore in 2013-14.

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