

October 17, 2017

SRP Prosperita Hotel Ventures Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Term Loan	67.0	[ICRA]BBB(Stable) assigned
Total	67.0	

*instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 67-crore term loan of SRP Prosperita Hotel Ventures Limited (SPHVL). The long-term rating carries a Stable outlook.

Rationale

The assigned rating takes into account the strong parentage of SPHVL and ICRA's expectation that the company will receive funding support from its parent company, Brigade Enterprises Limited (BEL, rated [ICRA]A with Stable outlook) to meet any shortfalls in cash generation from its operations. The Brigade Group has an established presence in the hospitality segment with 704 operational keys spread across four hotels and another 801 keys under development across four hotels. The rating also takes into account the favourable location of SPHVL's hotel and the management contract with the IHG Group for operating the hotel under the Holiday Inn brand.

The rating, however, is constrained by the nascent stage of operations of the hotel that has been resulting in low occupancy levels and operational profitability. Consequently, the company is expected to remain dependent on funding support from its promoters to meet debt obligations in the near-to-medium term. The rating also factors in the competition faced by the hotel from other established hotels in the vicinity, which may put pressure on occupancy and room rates.

Going forward, the company's ability to improve the occupancy levels and profitability in the hotel and conclude construction and tie-up of tenants in a timely manner in the commercial space will be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Operational and financial support received as a subsidiary of BEL** – BEL has demonstrated funding support to SPHVL in the past in the form of fully convertible debenture (FCD) of Rs. 21.5 crore and interest-free unsecured loan of Rs. 10.9 crore as on March 31, 2017. The Brigade Group has an established presence in the hospitality segment with 704 operational keys and another 801 keys under development across four hotels.
- **Attractive location and strong brand name support growth prospects** – The hotel has been developed on Old Mahabalipuram Road (OMR) in Chennai. Given its close proximity to Ramanujan IT SEZ and other corporate offices on the OMR, the hotel's demand prospects appear favourable. The fact that it will be managed by Intercontinental Hotels Group under the brand name Holiday Inn also supports growth prospects.

Credit weaknesses

- **Nascent stage of operations results in low occupancy levels** – The hotel was recently commissioned (in Q1 FY2018) and hence the average occupancy level remained moderate at around 40% in the initial months of operations. Consequently, the company would be dependent on funding support from its promoters in the near-to-medium term or until stabilisation of operational and financial metrics.
- **Competition from other hotels** – The hotel faces competition from other established hotels in the vicinity, which could put pressure on occupancy and room rates.

Analytical approach: While assigning the ratings, ICRA has analysed the standalone business and financial profile of SPHVL and also the linkages of SPHVL's credit profile with that of its parent company, BEL.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)
[Rating Methodology for Entities in the Hotel Industry](#)
[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company

SPHEL, incorporated in 2012, is a subsidiary of BEL (that holds 50.01% equity stake in the company). Most of the remaining stake is held by the promoters of Subramanian Engineering Ltd. (SEL). The company has developed a hotel in Chennai on the OML under the brand – Holiday Inn. The hotel, which consists of 202 keys and a banquet hall that can accommodate close to 500 people at a time, commenced operations in Q1 FY2018. Year to date (YTD) FY2018, the hotel has reported average occupancy of around 40% and average room rent (ARR) in the range of Rs. 4,000–Rs. 4,500. The hotel was developed with a total capital expenditure of close to Rs. 200 crore funded by a mix of equity, unsecured loans from promoters and bank debt. The company is also constructing a commercial office space in the hotel complex, which will have an annual rental potential of around Rs. 3 crore.

Key financial indicators (Audited)

	FY2016	FY2017
Operating income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	0.1	-3.7
OPBDITA/ OI (%)	-	-
RoCE (%)	2.1%	-49.2%
Total Debt/ TNW (times)	0.4	0.8
Total Debt/ OPBDIT (times)	-131.3	-13.7
Interest coverage (times)	-	-
NWC/ OI (%)	-	-

Source: company, ICRA; **OPBDITA:** Operating Profit before Depreciation, Interest, Taxes and Amortization; **PAT:** Profit after Tax; **NWC:** Net Working Capital; **TNW:** Tangible Net Worth; **RoCE:** Return on Capital Employed; **OI:** Operating Income

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

**Rating history for last three years
Table**

Sl. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date and rating	Date & rating in FY2017	Date & rating in FY2016	Date & rating in FY2015
				October 2017	-	-	-
1	Term Loans	Long Term	67	[ICRA]BBB (Stable)	-	-	-

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

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan 1	-	-	December2024	55.0	[ICRA]BBB (Stable)
Term Loan 2	-	-	December2024	12.0	[ICRA]BBB (Stable)
Total				67.0	

Source: SPHVL



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