

Varun Hospitality Private Limited

April 05, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	189.50	189.50	[ICRA]BBB-(Stable) reaffirmed
Fund based- Working Capital Facilities	0.00	3.50	[ICRA]BBB-(Stable) reaffirmed
Non Fund Based Limits	11.00	6.50	[ICRA]BBB-(Stable)/A3 reaffirmed
Unallocated Limits	0.00	1.00	[ICRA]BBB-(Stable) reaffirmed
Total	200.50	200.50	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs. 193.00 crore¹ fund based limits and Rs 1.00 unallocated limits of Varun Hospitality Private Limited (VHPL or the company)². ICRA has also reaffirmed the long term/short term rating of [ICRA]BBB-/ [ICRA]A3 (pronounced ICRA A three) assigned to the Rs 6.50 crore non-fund based limits of VHPL. The outlook on the long-term rating is 'Stable'.

Rationale

The reaffirmation of ratings continues to factor in diversified revenue profile of the company with fixed rental income from multiplex leased to INOX and revenues from hotel segment at Rs 67.85 crore in 11MFY2018 which increased marginally from Rs 73.77 crore in FY2017; and stable operating metrics of the hotel with Revenue per available room (REVPAR) of ~Rs. 3,887 on the back of high average room rates (ARRs) of Rs 5,794 despite decline in occupancy levels to 67% in 11MFY2018 from 70% in FY2017. The ratings continue to factor in the favourable location of the hotel in Visakhapatnam, and the management contract with Accor resulting in access to global marketing and advertising network of Accor. Also, the new 5 star hotel in Vijayawada is in advanced stages of completion with commercial operations expected to start from September 2018. The ratings are however constrained by the large ongoing capital expenditure towards setting up 5 star hotel in Vijayawada which could impact the debt coverage metrics of the company in the medium term; high gearing levels and large debt repayments over the next two years with repayments for Vijayawada project to start from March 2019; and vulnerability of the Vishakhapatnam hospitality market to economic cycles given the fact that a significant part of the demand arises from business travellers impacting revenue and profitability.

Outlook: Stable

The stable outlook reflects ICRA belief that Varun Hospitality Private Limited will continue to benefit from the extensive experience of its promoters in the Hotel industry. The outlook may be revised to 'Positive' if there is improvement in occupancy levels resulting in substantial growth in revenues with consistent margins and healthy accruals resulting in improved capital structure. The outlook may be revised to 'Negative' if there is decline in occupancy levels resulting in lower revenues, dip in operating margins with lower accruals and delay in completion of Vijayawada project with cost overruns.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Diversified revenue profile with healthy cash accruals: VHPL has a commercial complex comprising a 5-star hotel named Novotel Varun Beach and entertainment center called Varun INOX in Vishakhapatnam, Andhra Pradesh. The company gets a fixed rental income from Varun INOX and received rent and parking income of Rs 5.61 crore in 9MFY2018 while its revenue from hotel segment stood at ~Rs 58.00 crore in 9MFY2018.

Stable operating metrics: The occupancy levels for the hotel have been stable in the range of 67-75% over the last three years with revenue per available room (REVPAR) of ~Rs. 3,887 on the back of high average room rates (ARRs) of Rs 5,794 in 11MFY2018. The cash accruals have been healthy at Rs 22.60 crore for FY2017 on account of high operating margin of 41.1% in FY2017.

Management contract with Accor Group and favorable location: The management contract with Accor group for Novotel brand benefits VHPL from the global marketing and advertising network of Accor, one of the largest hotels chains in the world and favorable location of the hotel in Vishakhapatnam with all facilities and rooms having sea-facing view.

Credit weaknesses

Large ongoing capital expenditure: VHPL is adding a 227 rooms hotel in Vijayawada at a total cost of Rs. 139.27 crore (0.91 times of gross block as on March 31, 2017) which is primarily funded by debt of ~Rs 114.27 crore. Further, the project is in advanced stage of completion with commercial operations expected to begun from September 2018.

Increase in debt levels and large debt repayments in the near term: VHPL has refinanced the Vishakhapatnam hotel debt and raised term loan of Rs 100.00 crore from HDFC bank in FY2017 resulting in higher gearing levels. Further, the debt repayments are high at Rs. 14.81 crore in FY2019 and Rs. 21.99 crore in FY2020 however, the expected cash accruals would be comfortable to service the obligations. The repayments for Vijayawada project to start from March 2019.

Vulnerability to Vishakhapatnam hospitality market: The Vishakhapatnam hotel market is exposed to economic cycles given the fact that a significant part of the demand arises from business travelers impacting revenue and profitability.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology For Entities in the Hotel Industry](#)

About the company:

Varun Hospitality Private Limited (SRPL) has constructed a commercial complex called Varun Beach comprising a 5-star hotel named Novotel Varun Beach and entertainment center called Varun INOX in Vishakhapatnam, Andhra Pradesh. The property is situated at a prime location with beach facing. The Novotel Varun Beach consists of 225 rooms including 10 suites while Varun INOX consists of 6 screen multiplex with seating capacity of 1166 seats; shopping and mini restaurants. Varun INOX became operational from March 2010, Phase-1 of 161 rooms of Novotel Varun Beach hotel from December 2011 and phase-2 of 64 rooms from January 2013. Further, the company has constructed a resort with 28 rooms in Bhimili (32 km from Novotel Varun beach) which is operated as an extension to the current hotel and operations of the same started from July 2016. The company is constructing another 5-star hotel under Novotel brand in

Vijayawada with 227 rooms at a total cost of Rs. 139.27 crore which is funded by Rs 25.00 crore of promoter' funds and Rs 114.27 crore of debt. The hotel is expected to be operational in September 2018.

Key Financial Indicators

	FY 2016	FY 2017
Operating Income (Rs. crore)	71.89	80.65
PAT (Rs. crore)	14.72	12.97
OPBDIT/ OI (%)	44.65%	41.14%
RoCE (%)	26.35%	20.28%
Total Debt/ TNW (times)	1.66	2.11
Total Debt/ OPBDIT (times)	1.95	3.40
Interest coverage (times)	4.96	5.94
NWC/ OI (%)	11.99%	9.33%

Source: Annual Reports and ICRA Research

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: None

Rating history for last three years:

			Current Rating (FY2019)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating April 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 June 2015
Instrument	Type							
1 Fund Based – Cash Credit Limits	Long Term	3.50	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
2 Fund Based – Term Loan Limits	Long Term	189.50	112.52	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	
Non Fund Based- Bank Guarantee	Long/Short term	6.50	-	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	
3 Unallocated Limits	Long Term	1.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit				3.50	[ICRA]BBB- (Stable)
NA	Term Loan 1	Dec-2017		Aug-2026	89.50	[ICRA]BBB- (Stable)
NA	Term Loan 2	Nov-2016		Nov-2022	100.00	[ICRA]BBB- (Stable)
NA	Bank Guarantee				6.50	[ICRA]BBB- (Stable)/[ICRA]A3
NA	Unallocated limits				1.00	[ICRA]BBB- (Stable)

Source: Varun Hospitality Private Limited.

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