

## Bliss Hotels Limited

September 27, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund based facilities	0.60	5.50	[ICRA]BB (Positive); Reaffirmed; Outlook revised to 'Positive' from 'Stable'
Long-term, Term Loans	38.29	34.50	[ICRA]BB (Positive); Reaffirmed; Outlook revised to 'Positive' from 'Stable'
Long-term, Unallocated	1.11	-	
<b>Total</b>	<b>40.00</b>	<b>40.00</b>	

### Rating action

ICRA has reaffirmed the long-term rating for the Rs. 34.50-crore term loans and the Rs. 5.50-crore fund-based facilities of Bliss Hotels Limited (BHL)<sup>†</sup> at [ICRA]BB (pronounced ICRA double B). The outlook on the long-term rating is revised to Positive from Stable.

### Rationale

The revision in the rating outlook from "Stable" to "Positive" considers the expected improvement in BHL's operational profile after commercial operations of the new Gateway Hotel from Q4FY2019. Further, the rating takes into consideration the improved operational performance of the company in FY2018 on the back of healthy increase in revenue per available room (RevPar). The rating continues to draw comfort from the established presence of the hotels in the Tirupati market for over two decades and the long-standing experience of the promoter in the field of hospitality.

The ratings are, however, constrained by the leveraged capital structure and the stretched interest coverage owing to the large debt funded capital expenditure being incurred on new hotel project. The company is also exposed to significant market concentration risk as their operations are constrained to Tirupati region, which is intensely competitive in nature. Further the rating also takes into account the exposure of the hotel's performance to the cyclicity inherent in the hospitality business, and likely pressure on ARR (Average Room Revenue) and the occupancy levels of hotel due to increasing competition from new properties and existing hotels.

Going forward, the timely commencement of the proposed hotel, improvement in RevPar of the new property remains critical & a key rating sensitivity.

### Outlook: Positive

The Positive outlook of BHL reflects the expected improvement in operational profile post commercial operations of new Gateway Hotel from Q4FY2019, elongated repayment schedule of term loans, and the healthy operational track record of the existing Hotels. The ratings may be upgraded if the company is able to achieve commercialisation of the new Gateway Hotel as per schedule and register expected occupancy levels, without significantly impacting the profitability

<sup>†</sup> For a complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

and capital structure. Conversely, the downward pressure on ratings could emerge if there is substantial delay in project commencement, resulting in cost overruns which will impact the profitability of the operations.

## Key rating drivers

### Credit strengths

**Established presence of Bliss in the hotel business** – Operating in the Hotel industry market for more than three decades, the company has established a healthy brand presence in Tirupati and has strong relationship with corporate customers which lends stability to its volumes in the long term.

**Consistent year-on-year improvement in operating metrics** – The occupancy levels of Hotel Bliss and Hotel Vikram have remained healthy over the years and witnessed moderate improvement from 64% in FY2017 to 66% in FY2018 and 67% in FY2017 to FY2018 respectively. The occupancy levels have remained healthy on the back of increased pilgrimage visits in Tirupati and new corporate tie-ups supported by established reputation the hotel gained over the years. Moreover, the higher ARR and RevPAR of Hotel Bliss in FY2018 despite increased competition from other established properties in Tirupati, resulting in improved profitability.

**Healthy growth in revenue likely to continue following commercialisation of Gateway project** – The company's operating income (OI) grew by ~9% during FY2018. Going forward, the operating income is expected to improve due to expected commencement of operation of the new hotel. Further, the association with the Taj Gateway brand is expected to stabilize the operations faster and drive revenue growth in the future.

### Credit weaknesses

**Large debt-funded capital expenditure expected to impact BHL's capital structure and coverage indicators** – The capital expenditure towards setting-up of Gateway project totals to Rs.58 crore funded through a term debt of Rs.38.29 crore and the remaining through equity and internal accruals. The large debt-funded capital expenditure is likely to impact the capital structure and coverage indicators on the back of high repayments and interest expense. Further, the margins are expected to be impacted in the medium term, with the commercialisation of the new Gateway Hotel until the property stabilises. Net margins are expected to be impacted further by large interest payouts for the new capex loan. Nonetheless, long repayment schedule with ballooning repayments is expected to support the liquidity profile and stabilization of operations in the initial years.

**Significant market concentration risk** – With all the three properties located in Tirupati, BHL is exposed to significant market concentration risk, although the demand dynamics remain favourable in Tirupati.

**Intensely competitive and cyclical inherent in the hospitality market** - Cyclical inherent in the hospitality business exposes the company to variability in cash flows during the year as well as profitability. Further, the market is likely to remain competitive with expected additions to room supplies from competitors.

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Corporate Credit Methodology on Hotel Industry](#)

## About the Company:

Bliss Hotels Limited was incorporated in the year 1987 by Mr. Suryanarayana Reddy. During 1987, the company had established Hotel Vikram, a budget hotel in Tirupati with 36 rooms and further expanded to 65 rooms. Later, in 1999, the company started Hotel Bliss, a three-star hotel with 116 rooms, two restaurants, two bars and eight banquet halls. Other than BHL, the promoter also owns two petrol pumps and two movie theatres in Andhra Pradesh.

Currently, the company is constructing a five-star hotel with 130 rooms in Tirupati for which BHL has entered into a 20-year management contract with Indian Hotels Company Limited to market the property under the Gateway brand.

## Key Financial Indicators (Audited)

	FY2017	FY2018 (Provisional)
Operating Income (Rs. crore)	16.9	18.5
PAT (Rs. crore)	1.3	1.6
OPBDIT/ OI (%)	13.3%	16.2%
RoCE (%)	16.4%	15.4%
Total Debt/ TNW (times)	1.2	1.9
Total Debt/ OPBDIT (times)	9.9	12.6
Interest coverage (times)	9.8	8.5
NWC/ OI (%)	-7.5%	-2.9%

## 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 Outstanding as on March 2018 (Rs Crore)	Date & Rating in FY2019 September 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2016 Feb 2016	Date & Rating in FY2016 Jan 2016	
Instrument	Type	Amount Rated (Rs. crore)						
1 Fund-based facilitates	Long-Term	5.50	4.15	[ICRA]BB (Positive)	[ICRA] BB (Stable)	[ICRA] BB (Stable)	[ICRA] BB (Stable)	
2 Term Loan	Long-Term	34.50	34.80	[ICRA]BB (Positive)	[ICRA] BB (Stable)	[ICRA] BB (Stable)	[ICRA] BB (Stable)	
3 Long-term, Proposed facilities	Long-Term	-	-	-	[ICRA] BB (Stable)	[ICRA] BB (Stable)	[ICRA] BB (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](http://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	Fund based facilitates	-	NA	-	5.50	[ICRA]BB (Positive)
NA	Term Loan	FY2015	NA	FY2025	34.50	[ICRA]BB (Positive)

Source: BHL

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