

## Muthoot Hotels Private Limited

March 15, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	111.00	0.00	-
Unallocated facilities	0.00	111.00	[ICRA]BB (Stable); Reaffirmed
<b>Total</b>	<b>111.00</b>	<b>111.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

While arriving at the rating ICRA has taken a consolidated view on Muthoot Hotels Private Limited and its parent company MPG Hotels & Infrastructure Ventures Private Limited (MHIVPL), jointly referred to as “the Group”. The Group has diversified presence in various segments including hotels, airline catering, restaurant and IT Park.

MHPL on a standalone basis has witnessed improvement in operating margin from 25.8% in FY2017 to 27.4% in FY2018 supported by improved average room rent (ARR) from Taj Green Cove Resort & Spa (Taj Green Cove), Kovalam. Although, the margins had deteriorated significantly to 12.5% during 9M FY2019 with reduced occupancy in Taj Green Cove on account of outbreak of Nipha virus in June 2018 and the Kerala floods in August 2018, with increased demand during Q4 of the year margins are expected to stabilise going forward. Replacement of bank loans with interest free promoter loans with no fixed repayment obligation, is likely to boost the coverage metrics of the company. The ratings also consider the management contract tie-up of the company with Indian Hotels Company Limited for operating its hotel.

However, the ratings are constrained by the Group’s financial profile characterised by accumulated losses, stretched capitalisation and coverage indicators and modest scale of operations. The ratings are further constrained by the significant intra group transactions (such as investments in perpetual debt instruments/ loan to group entities) despite high debt levels in the past, stagnated projects such as munnar project owing to legal issues and susceptibility of revenues to exogenous shocks, like the outbreak of nipha virus and the Kerala floods in June 2018 and August 2018 respectively.

### Outlook: Stable

ICRA believes that Muthoot Hotels Private Limited will continue to derive support from the group companies and promoters. The outlook may be revised to 'Positive' if the company witnesses sharp growth in profitability, capitalisation and coverage metrics. The outlook may be revised to 'Negative' if the capitalisation and coverage metrics continues to stretch in the absence of equity infusion or constrained cash flows.

### Key rating drivers

### Credit strengths

**Strong parentage by virtue of being part of Muthoot Pappachan Group** – MHPL, a wholly owned subsidiary of MHIVPL is part of the Muthoot Pappachan Group of companies, a Kerala based conglomerate with business interests in non-

banking financial services, hospitality, infrastructure development and automobile dealership to name a few. The company derives funding support from the parent entity and the promoters/promoter group whenever required.

**Management contract tie-up with Indian Hotels Company Limited** - The only hotel in the company, the Taj Green Cove Resort & Spa, Kovalam, a 59-key property, has tied up with reputed Indian hotel operator - Indian Hotels Company Limited for a management contract.

**Improved operating margin in FY2018** – The company’s operating margin have improved from 25.8% in FY2017 to 27.4% in FY2018 primarily on account of increase in average room rate (ARR) for Taj Green Cove, Kovalam. The margins had deteriorated significantly to 12.5% during 9M FY2019 with reduced occupancy of Taj Green Cove from 75% during 9M FY2018 to 58% during 9M FY2019 on account of outbreak of Nipha virus in June 2018 and the Kerala floods in August 2018. However, with increased demand during Q4 for every year, the margins are expected to stabilise going forward.

**Interest free promoter loans to boost the coverage metrics** – During FY2019 the company had replaced their entire bank debt with interest free promoter loans that does not have defined repayment obligation. As a result, the coverage metrics of the company are likely to improve going forward.

## Credit challenges

**Financial profile characterised by stretched capitalisation and coverage metrics albeit improved** – Owing to accumulated losses and high debt levels, the company’s capitalisation and coverage metrics had remained stretched in the past. However, during FY2018, the company’s capital structure had improved, with gearing moderating from 4.0 times as on March 31, 2017 to 2.9 times as on March 31, 2018 with reduction in debt levels from the proceeds of sale of investments in group entities. Total debt to OPBDITA remains stretched at 8.5 times as on March 31, 2018 albeit improved from 13.7 times as on March 31, 2017. MHPL has an interest coverage of 1.3 times and DSCR of 1.1 times for FY2018.

**Modest scale of operations with high geographic concentration** – The company only has one 59 key hotel under it, located at Kovalam. High concentration of a single leisure destination exposes the company to general economic slowdown and exogenous shocks such as outbreak of Nipha virus in June 2018 and the Kerala floods in August 2018. Further, by virtue of being in the hotel industry, the company is susceptible to risks arising from cyclicity.

**Stagnated projects (18.7% of total assets as on March 31, 2018)** – The operations for the renovated bungalows under the Munnar project did not commence owing to legal issues, although the company has already invested ~Rs. 6.7 crore in them. Further, investments through its 100% subsidiary company –The Right Ambient Resorts Private Limited which owns land opposite the Taj Green Cove property in Kovalam, have not borne fruit since further development of new rooms/banquet space in the location has been stalled pending CRZ approval.

**Significant intra group transactions** – Despite significant debt, the company has invested in investments/ loans and advances to the group companies in the past; 18.5% of the company’s total assets was invested during FY2018. Although, these have reduced to zero in FY2018, the same might increase in the future.

## Liquidity Position:

The company’s liquidity position has improved significantly during FY2019 with the replacement of entire bank loans with interest free promoter loans. Also, there are no major capex plans and defined repayment obligations for the company going forward. However, the liquidity could deteriorate if these promoter loans are replaced with bank loans in the future.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a>
Parent/Group Support	Group: Muthoot Pappachan Group The rating assigned to MHPL factors in the high likelihood of its promoters, part of Muthoot Pappachan Group, extending financial support to it MHPL out of their need to protect their reputation from the consequences of a group entity's distress. There also exists a consistent track record of the promoter's having extended timely financial support to MHPL in the past, whenever a need has arisen.
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the parent company MPG Hotels and Infrastructure Ventures Private Limited

## About the company:

Muthoot Hotels Private Limited (MHPL) is part of the Muthoot Pappachan Group of companies, a Kerala based group with business interests in hospitality, infrastructure development, non-banking financial services, automobile dealership etc. Other business entities of the Muthoot Pappachan Group include three Non-Banking Finance Companies, Muthoot Capital Services Limited, Muthoot Fincorp Limited and Muthoot Microfin Limited, a housing finance company, Muthoot Housing Finance Company Limited, and an automobile dealership company, Muthoot Motors (Private) Limited.

MHPL owns a 59 key villa Luxury Deluxe Beach Resort in Kovalam, Trivandrum - "Taj Green Cove Resort & Spa", under management contract with Indian Hotels Company Limited. The company has also entered into a 12-year license agreement with Kannan Devan Hills Plantation Company Private Limited (KDHP) to renovate and operate 21 tea bungalows at Munnar. At present the company has renovated seven bungalows. However, the project did not commence operations owing to legal issues.

MHPL is a subsidiary of MPG Hotels and Infrastructure Ventures Private Limited (MHIVPL; erstwhile Muthoot Hotels & Infrastructure Ventures Private Limited; rated – [ICRA]BB (Stable) /[ICRA]A4+ which operates across the following segments – a 134 key Hilton Garden Inn and a 128 key Novotel, The Muthoot Skychef (flight kitchen) and Muthoot Technopolis (IT Park in Cochin SEZ). The company also operates a speciality five-star restaurant in Trivandrum under the name 'Villa Maya'.

## Key financial indicators (audited)

MHIVPL - Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	90.7	99.2
PAT (Rs. crore)	-10.1	-11.6
OPBDIT/OI (%)	23.0%	26.2%
RoCE (%)	5.9%	3.4%
Total Debt/TNW (times)	7.5	8.6
Total Debt/OPBDIT (times)	20.6	16.1
Interest coverage (times)	0.7	1.0

MHPL - Standalone	FY2017	FY2018
Operating Income (Rs. crore)	28.5	30.7
PAT (Rs. crore)	-0.5	-0.9
OPBDIT/OI (%)	25.8%	27.4%
RoCE (%)	4.1%	5.2%
Total Debt/TNW (times)	4.0	2.9
Total Debt/OPBDIT (times)	13.7	8.5
Interest coverage (times)	1.2	1.3

**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			
Instrument	Type	Amount Rated (Rs. crore)	Amount O/s (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018	Aug 2017	Date & Rating in FY2017	Date & Rating in FY2016
1	Unallocated facilities	Long	111.00	[ICRA]BB (Stable)	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term Loan	Long	-	-	[ICRA]BB (Stable)	[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	Unallocated facilities	NA		NA	111.00	[ICRA]BB (Stable)

Source: Muthoot Hotels Private Limited

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MPG Hotels and Infrastructure Ventures Private Limited	-	Full Consolidation
The Right Ambient Resorts Private Limited	100.00%	Full Consolidation

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Pavethra Ponniah**

+91 44 4596 4314

[pavethrap@icraindia.com](mailto:pavethrap@icraindia.com)

**Prem Tej Reddy T**

+91 44 4297 4323

[t.reddy@icraindia.com](mailto:t.reddy@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87  
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,  
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,  
Bangalore + (91 80) 2559 7401/4049  
Ahmedabad+ (91 79) 2658 4924/5049/2008  
Hyderabad + (91 40) 2373 5061/7251  
Pune + (91 20) 2556 0194/ 6606 9999

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