October 04, 2019

Brigade Hotel Ventures Limited: Long term ratings reaffirmed; [ICRA]A-(Stable) assigned to fund based overdraft limits and [ICRA]A2+ assigned to the non-fund based limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term loan	435.00	410.00	[ICRA]A-(Stable); Reaffirmed
Fund based- overdraft	0.00	25.00	[ICRA]A-(Stable); Assigned
Non-fund based	0.00	25.00	[ICRA]A2+; Assigned
Long-term Unallocated facilities	65.00	40.00	[ICRA]A-(Stable); Reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation draws comfort from the strong parentage of Brigade Hotel Ventures Limited (BHVL), which is a wholly-owned subsidiary of Brigade Enterprises Limited (BEL; rated [ICRA]A (Stable)/[ICRA]A1), and the Group's proven track record in the hospitality sector. The rating positively factors in the stable operational parameters of the established hotels and the improvement in the operational parameters of the newly-commissioned hotels, which have supported the company's revenue growth in FY2019.

The rating, however, is constrained by BHVL's moderate standalone financial profile, characterised by high leverage and modest debt coverage indicators. Going forward, the external debt level is expected to increase because of capital expenditure in the under-construction projects. Moreover, the company will be dependent on funding support from the parent company to part fund the equity commitments towards the planned capex.

The stable outlook represents ICRA's expectation that BHVL's credit profile will continue to benefit from BEL's support as well as the Group's track record in the sector. ICRA notes that the company is in the process of raising funds from private equity investors; the impact of any such transaction on the shareholding, capital structure and leverage metrics of the company will be a key rating monitorable.

Key rating drivers and their description

Credit strengths

Strong promoter profile with established track record in real estate business: BHVL is a wholly-owned subsidiary of BEL, which is one of the leading real estate players in Bangalore. Also, hospitality is one of the key strategic operating divisions of the Brigade Group. BHVL has five operational hotels, with 994 keys spread across Bangalore, Kochi and Mysore. Through its subsidiary SRP Prosperita Hotel Ventures Limited, BHVL also operates a Holiday Inn hotel in Chennai with 202 keys. Apart from the under-construction hotels, the Group has ongoing projects of around 309 keys in this segment.

Strong operating parameters in Bangalore-based established hotels: The Sheraton and the Grand Mercure hotels of BHVL in Bangalore have reached stable occupancy levels and contributed around 65% of the revenues and around 93% of EBITDA in FY2019. Moreover, the operational parameters (occupancy and GOP margin) in the newly-commissioned hotels such as Grand Mercure Mysore and Holiday Inn Express Bangalore have improved in FY2019. Going forward, the performance of these hotels is expected to further improve as the operations stabilise.

Credit challenges

Moderate standalone financial profile characterised by high leverage and modest debt coverage indicators: BHVL's external debt level increased significantly to Rs. 384.1 crore as on March 31, 2019 from Rs. 340.2 crore as on March 31, 2018 because of the fresh debt drawn to fund the capex requirements in the under-construction/ newly constructed hotels. BHVL's external debt / OPBITDA was 7.6 times in FY2019. The coverage indicators have weakened in FY2019 as the newly-commissioned hotels are yet to reach optimal occupancy levels. Going forward, the debt level is expected to increase further as the company undertakes capex in the Grand Mercure GIFT City and the IBIS Styles Mysore hotels. Nonetheless, the impact is expected to be mitigated to some extent by the improvement in profitability at the newly commissioned hotels.

Dependence on promoters for funding support: Considering that the operational performance of the newly-commissioned hotels is yet to reach stable levels, BHVL will be dependent on funding support from BEL to part fund the debt repayments and equity commitments towards the planned capex. Nonetheless, the extent of such required funding is not very high, when compared to the scale of operations of BEL. In FY2019, BHVL received unsecured loans of Rs 58 crore from BEL.

Liquidity position: Adequate

While BHVL's liquidity on a standalone basis is stretched because of the high capex commitments (in relation to the scale of cash accruals) and modest debt coverage metrics, BHVL has been receiving timely funding support from its parent, BEL (Rs 58 crore infused in BHVL in FY2019). BHVL has planned capex of around Rs 112 crore and scheduled debt repayments of around Rs 40 crore in FY2020. The deficit in cash flows is expected to be funded by undrawn debt of Rs 59 crore (available in FY2020), fresh term debt and loans from BEL. The company has cash and liquid investments of Rs 27.3 crore (including encumbered cash of Rs 18.9 crore). Considering the expected funding support from the parent, the liquidity profile of BHVL is adequate.

Rating sensitivities

Positive triggers – ICRA could upgrade BHVL's rating if the company demonstrates a sustained improvement in its operational metrics, leading to reduction in leverage; or if the rating of the parent company (BEL) gets upgraded. Specific credit metrics that could lead to an upgrade of BHVL's rating include Total Debt/ OPBITDA below 6 times on a sustained basis.

Negative triggers – Negative pressure on BHVL's rating could arise if there is negative pressure/rating action on the parent or if there is any decline in the financial support from the parent (BEL) as a result of any change in the shareholding. Negative pressure could also emerge if for reasons including a shift in the industry conditions, or a rise in capex or investments, the Total Debt/OPBITDA exceeds 8.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodologies for Entities in the Hotel Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	ICRA expects BEL to be willing to extend financial support, should there be a need. There also exists a consistent track record of BEL having extended timely financial support to BHVL in the past to meet its cash flow deficits and capital expenditure requirements.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

BHVL is a wholly-owned subsidiary of BEL and was incorporated in August 2016 to bring in all the hotel operations of Brigade Group under one company. Consequently, the assets and liabilities pertaining to four operational hotels, two under-construction hotels and one upcoming hotel were transferred from BEL to BHVL through a demerger process. BEL's 50.01% stake in a subsidiary that has one operational hotel has also been transferred to BHVL. This scheme of arrangement had October 1, 2016 as the appointed date and became effective from April 1, 2018, when the NCLT approval for the scheme of arrangement was received.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	166.5	204.5
PAT (Rs. crore)	-11.8	-12.3
OPBDIT/OI (%)	28.5%	24.8%
RoCE (%)	2.4%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	2.2
Total Debt/OPBDIT (times)	7.2	8.7
Interest Coverage (times)	1.8	1.5
DSCR	1.80	0.77

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on July 31, 2019	Rating	FY2020	FY2019	FY2018
					04-Oct-2019	20-Sep-2019	1-Jun-2018	-
1	Term Loan	Long Term	410.0	404.0	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Overdraft Facility	Long Term	25.0	-	[ICRA]A- (Stable)	-	-	-
3	Non Fund Based facilities	Short Term	25.0	-	[ICRA]A2+	-	-	-
4	Unallocated facilities	Long Term	40.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2017-FY2020	-	FY2022-FY2030	410.0	[ICRA]A- (Stable)
NA	Overdraft	FY2019	-	-	25.0	[ICRA]A- (Stable)
NA	Non Fund Based	-	-	-	25.0	[ICRA]A2+
NA	Unallocated limits	-	-	-	40.0	[ICRA]A- (Stable)

Source: BHVL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

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