

December 11, 2020

Belaire Hotels Private Limited: Ratings upgraded to [ICRA]BBB+(CE) (Negative)/[ICRA]A2(CE) from [ICRA]BB+(Stable)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	162.6	162.6	[ICRA]BBB+(CE) (Negative); upgraded from [ICRA]BB+(Negative)
Short-term, non-fund based limits	46.0	46.0	[ICRA]A2(CE); upgraded from [ICRA]A4+
Total	208.6	208.6	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above ratings are based on the strength of the corporate guarantee (CG) provided by Chalet Hotels Limited (CHL/ the guarantor; rated [ICRA]BBB+(Negative)/[ICRA]A2) for Belaire Hotels Private Limited's (BHPL) rated limits. The Negative outlook on this rating reflects ICRA's outlook on the rating of the guarantor, CHL.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by CHL in favour of the said instruments. The guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instruments. Taking cognizance of the above, ICRA has upgraded the ratings to [ICRA]BBB+(CE) (Negative)/[ICRA]A2(CE) from [ICRA]BB+(Negative)/ [ICRA]A4+ to the said instruments against the unsupported rating of [ICRA]BB+. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- » The guarantor shall not be entitled to and also hereby waive all the rights conferred on the guarantors under Sections 131, 133, 134, 135, 139, 140 and 141 of the Indian Contract Act, 1872
- » The guarantor shall not enter into any scheme of merger, amalgamation, compromise or reconstruction or declare any dividend or do a share buyback without's bank's prior written consent
- » No change in management/ownership pattern of the entity without bank's prior written consent

The above ratings favourably factor in CHL's management tie-up with 'Marriott International Inc.' and Accor Hotels (post the acquisition of Novotel, Pune housed under BHPL), the well-known international hospitality groups, and the associated benefits from its global branding, marketing and advertising networks. The ratings also factor in strong promoter group (CL Raheja Group) with considerable experience in hospitality, real estate development and retail businesses, and the

financial flexibility available with the company as part of the Group. The rating also takes into consideration the adequate liquidity profile of the CHL supported by cash and liquid investments of Rs. 44.8 crore and undrawn line of credit of Rs. 105 crore as on September 30, 2020.

The ratings, however, remain constrained by CHL's moderate debt coverage indicators (DSCR of 1.2x and TD/OPBDITA of 5.27 times as on March 31, 2020) and low return on capital employed (ROCE of 9.2% in FY2020). The relatively modest tenure of debt at 10 years, is a drag on the company's DSCR (even pre-covid). These metrics are expected to deteriorate further in the near to medium term, as the pandemic would cause sharp decline in revenues and profitability in FY2021 followed by a gradual recovery to pre-Covid levels over the next 2-3 years. Further, ICRA also notes the recommencement of capex related to two commercial projects of CHL at Renaissance Complex, Powai, Mumbai and Marriott Complex, Whitefield, Bengaluru which would moderate its debt coverage indicators going forward. ICRA draws comfort from the company's financial flexibility emanating from its healthy asset base, support from the Raheja group and the management's demonstrated track record of raising timely debt against projects and debt refinancing.

The Negative outlook on the long-term rating reflects ICRA's outlook on the rating of the guarantor, CHL taking into consideration the likelihood of extensive and extended impact of the Covid-19 pandemic on the global travel and hospitality industry in line with ICRA's Negative outlook for the sector.

Key rating drivers and their description

Credit strengths

Corporate guarantee extended by CHL towards the rated bank facilities of BHPL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by CHL towards the rated bank facilities of BHPL. The rated instrument does not involve a structured payment mechanism.

Strong promoter group with considerable experience in real estate development provides operational and financial flexibility – CHL is part of the K Raheja Corp Group, which has diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The Group is a leading player in commercial real estate development pan-India. CHL is the hospitality arm of the group and benefits from the vast experience of the group in real estate development, while also enjoying considerable financial flexibility from lenders and from the Raheja group.

Management tie-up with well-known international hospitality group; CHL benefits from Marriott's and Accor's global branding, marketing and advertising network – CHL derives hotel management support from Marriott and Accor (post the acquisition of Novotel, Pune), international hospitality chains with well-established global brands. Five out of six hotels, including a hotel with a co-located serviced residence (Renaissance) owned by the company are managed under premium brands of Marriott. The newly acquired Novotel, Pune (sixth hotel) is managed under the Accor flag. CHL benefits from Marriott's and Accor's global branding, marketing and advertising network.

Retail and Commercial real estate of CHL supports cashflows in the tough operating environment – The cashflows from the retail and commercial properties for the company remained largely unaffected during the recent pandemic induced shutdowns, supporting the operating cashflows for the company. The company reported a revenue of Rs. 44.2 crore from the retail and commercial segment in H1 FY2021, compared to Rs. 46.0 crore in H1 FY2020. This cashflow from retail and commercial helped the company in minimizing the overall operating loss to Rs. 8.3 crore in H1 FY2021. The company proposes to cover majority of its debt servicing from the assured cash flows from its retail and commercial real estate income by FY2024, limiting dependence on the hospitality division.

CHL's large asset base and financial flexibility with its lenders/ promoter group support refinancing options and liquidity profile– The healthy operational hotel, retail and commercial asset base of CHL provides considerable financial flexibility with its lenders in raising funds for any project, and also supports its liquidity profile. The company also has access to short-term funding support from the Raheja group. CHL owns certain premium land parcels in key cities as well, further enhancing the financial flexibility.

Credit challenges

Cyclical industry; vulnerable to general economic slowdown and exogenous factors-The industry is exposed to macro-economic conditions, tourist arrival growth and several exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc.), which leads to inherent cyclicity. Due to the ongoing outbreak of Covid-19, the operational metrics of the company are expected to be severely impacted over the next few quarters, in line with that of the industry.

Considerable capex planned over the medium term; to impact credit metrics – Although CHL has put on hold most of its capex plan in the hospitality division, it has recommenced its capex related to two commercial projects. The company has already incurred a capex of Rs. 34 crore in H1 FY2021 and have estimated plan of Rs. 115 crore in H2 FY2021 primarily for the commercial projects. Further the company has capex plans of ~Rs. 660 crore in FY2022 and FY2023 majorly towards commercial projects and some portion towards the hospitality projects (Hyderabad project and rebranding of Renaissance hotel). These commercial projects will become operational post FY2023. The company has a total debt outstanding of Rs. 1,927.3 crore as on September 30, 2020 and Rs. 1,901.6 crore as on March 31, 2020, which includes a debt of ~Rs. 125 crore and Rs. 110.8 crore respectively in the form of preference share subscribed by the promoters for funding the stalled residential project at Bengaluru. The promoters had via. subscription agreement with CHL, in 2018 agreed to provide CHL with funds required to meet any costs (and liabilities) pertaining to the stalled Koramangala residential project. As per the agreement, redemption of these preference share will be only post completion of the project, and only out of any surplus arising in this residential project.

Given the significant capital expenditure plans, the debt levels are expected to increase from the current levels, which could lead to moderation in credit metrics. CHL had moderate debt coverage indicators with DSCR of 1.2x and TD/OPBDITA of 5.27 times as on March 31, 2020.

High geographical concentration on the North Mumbai market– Out of CHL's six hotel properties, including a hotel with a serviced apartment in key cities of Mumbai, Hyderabad, Bengaluru and Pune, three are in Mumbai (including one in Navi Mumbai), comprising 59% of CHL's current inventory of 2,554 rooms. However, high entry barriers in Mumbai market, where CHL's properties are located act as a comforting factor. The total inventory includes the company's recently (February 20) acquired 223-key Novotel Pune, Nagar Road (housed under WOS Belaire Hotels Private Limited) providing some geographic diversification.

Liquidity position: Adequate

CHL's cashflow from hotel operations will be impacted during H2 FY2021 due to the prevailing Covid-19 pandemic. However, it is expected that the lease rentals from its commercial properties would be less impacted during this period, thereby supporting the company's operating cashflows. The company has an unutilized working capital facility of Rs. 105 crore as on October 31, 2020 and cash and liquid investment of Rs. 44.8 crore as on September 30, 2020 to support its liquidity profile. Additionally, the company has undrawn term loans of Rs. 222 crore as on October 31, 2020. The company is in the process of a sizable debt raise in H2 FY2021 to further shore up liquidity. The company has debt repayment of Rs.

85 crore and interest payment of Rs. 80 crore during H2FY2021. Further, CHL derives financial flexibility, as part of K Raheja Corp Group.

Rating sensitivities

Positive triggers: ICRA could upgrade the rating if there is an improvement in the credit profile of the guarantor, CHL.

Negative triggers: Negative pressure on the ratings would arise if there is any deterioration in the credit profile of the guarantor or weakening in support given by the guarantor, CHL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry Approach for rating debt instruments backed by third-party explicit support Parent Company: Chalet Hotels Limited (CHL)
Parent/Group Support	The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by BHPL's parent – CHL
Consolidation/Standalone	The ratings are based on the consolidated financial profile of CHL (Annexure – 2)

About the company

BHPL owns the 223-room five-star hotel–Novotel–at Nagar Road in Pune. The hotel commenced operations from December 2013. The hotel building has been built on a ground plus nine floors and two basement floors structure. Of this, two of the floors (the third and fourth; can accommodate 84 additional standard rooms) have been kept vacant at present. It is exploring various options to construct additional rooms/suites/serviced apartments or a combination of these on the vacant floors.

The company is a special purpose vehicle (SPV) floated for development of the Novotel hotel in Pune. It is jointly owned by India Blue Mountains (InBM; 74%), through its step-down subsidiary in Mauritius, Belaire Holdings Limited, and the international hotel operator, Accor Hotels, through AAPC India Hotel Management Private Limited (26%). However, BHPL has been acquired by CHL for a gross consideration of Rs. 293.8 crore in Q4 FY2020 and thus, has become a 100% wholly-owned subsidiary of CHL.

The hotel has three multi-cuisine restaurants and two bars. It is also equipped with a divisible ballroom (400 people in theatre style), six conference rooms (maximum of 80 people in board-room style) and a total of 11,000 sq. ft. of indoor and outdoor banqueting area for large events.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	43.0	38.8
PAT (Rs. crore)	-11.9	-17.2
OPBDIT/OI (%)	20.5%	6.0%
PAT/OI (%)	-27.7%	-44.2%
Total Outside Liabilities/Tangible Net Worth* (times)	1.8	1.6
Total Debt/OPBDIT (times)*	21.4	77.7
Interest Coverage (times)	0.7	0.2

*The ratios are obtained considering unsecured loan from related party of Rs. 57.6 crore and Rs. 66.1 crore in FY2019 and FY2020 respectively as debt.

About the guarantor

CHL, promoted by the K Raheja Corp Group, is engaged in hospitality and real estate development. The promoter group is one of the leading business houses in the country with a presence in real estate development.

CHL's existing owned hotel properties of 2,554 keys (as on July 2020), include the Renaissance Mumbai Convention Centre, Powai (5-star Upper Upscale; 600 keys), Lakeside Chalet, Mumbai-Marriott Executive Apartments, Powai (Executive Apartments; 173 keys), Four Points by Sheraton, Navi Mumbai (5-star Upscale; 152 keys), The Westin Hyderabad Mindspace (5-star Upper Upscale; 427 keys), JW Marriott Mumbai Sahar (5-star Luxury; 588 keys) and Bengaluru Marriott Hotel Whitefield (5-star Upper Upscale; 391 keys) and Novotel Pune Nagar Road (5-star Upscale; 223 keys). All the hotels except Novotel, Pune (managed by Accor group) are run under management contracts/franchisee with Marriott International and its affiliates. Further, CHL has signed a new agreement with Marriott for rebranding the existing Renaissance Mumbai Convention Centre Hotel in Mumbai to a 'Westin' brand by 2021.

CHL has also developed two commercial and retail projects of approximately 0.86 million square feet, adjacent to its existing hotel properties (JW Marriott Mumbai Sahar and Bengaluru Marriott Hotel Whitefield) from which it earns lease income. CHL also has an ongoing residential project at Koramangala, Bengaluru, which is currently under litigation.

Key financial indicators of guarantor (CHL - audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	1,002.7	994.4
PAT (Rs. crore)	-7.6	99.6
OPBDIT/OI (%)	35.4%	36.3%
PAT/OI (%)	-0.8%	10.0%
Total Outside Liabilities/Tangible Net Worth* (times)	2.0	2.0
Total Debt/OPBDIT* (times)	4.4	5.3
Interest Coverage (times)	1.3	2.5

**These ratios are obtained considering Rs. 51.8 crore and Rs. 110.8 crore of preference share capital for the year FY2019 and FY2020 as debt.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current Rating (FY2021)		Rating History for the Past 3 Years							
Instrument	Type	Amount Rated	Amount Outstanding as on October 2020	Current Rating Dec 11, 2020	Previous Rating May 18, 2020	FY2020 Jan 28, 2020	FY2019 5-Dec-2019	FY2018 Sep 17, 2018	FY2017 Aug 4, 2017
1	Term Loans	162.6	100.1	[ICRA]BBB+ (CE) (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ & placed on watch with developing implications	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Non-fund based limits	46.0	-	[ICRA]A2(CE)	[ICRA]A4+	[ICRA]A4+ & placed on watch with developing implications	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan (Rupee)	Jun-12	13.00%	Jun-24	2.29	[ICRA]BBB+(CE) (Negative)
-	Term loan (ECB *)	Feb-12	LIBOR+4.5%	Feb-24	160.31	[ICRA]BBB+(CE) (Negative)
-	Bank Guarantee	-	-	-	12.00	[ICRA]A2(CE)
-	Loan Equivalent Risk	-	-	-	34.00	[ICRA]A2(CE)

Source: Belaire Hotels Private Limited

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

Company Name	Ownership	Consolidation Approach
Belaire Hotels Private Limited	100.00%	Full Consolidation
Seapearl Hotels Private Limited	100.00%	Full Consolidation
Chalet Hotels & Properties (Kerala) Private Limited	90.00%	Full Consolidation

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