December 18, 2020

Brigade Hotel Ventures Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term loan	410.00	400.63	[ICRA]A-(Stable); Reaffirmed
Fund based- overdraft	25.00	30.00	[ICRA]A-(Stable); Reaffirmed
Non fund based	25.00	20.00	[ICRA]A2+; Reaffirmed
Long-term Unallocated facilities	40.00	49.37	[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 track record in the hospitality sector. The ratings consider that the company has commissioned majority of its hotels and has only one under construction hotel in Mysore. The ratings continue to positively factor in the stable operational parameters of the established hotels in the long term, which have supported the company's revenue growth in FY2020.

ICRA however takes note of the extensive impact of the Covid-19 pandemic on the global travel and hospitality industry which has resulted in a sharp decline in revenues and profits for BHVL. BHVL reported an operating loss in H1FY2020 and is expected to break-even in the second half of the year aided by marginal improvement in occupancies and stringent cost containment measures. The liquidity profile was aided by the moratorium on the debt servicing as per RBI regulatory package for Covid-19. With the impact of Covid-19 on the hospitality sector likely to extend into FY2022, BHVL's financial metrics are expected to remain weak in the medium term with high leverage and weak debt coverage metrics. BHVL will remain dependent on BEL in the near term to fund likely shortfall in its operational cash flows to meet its debt servicing obligations.

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.

Key rating drivers and their description

Credit strengths

Strong promoter profile with long 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. On a standalone basis, BHVL has six operational hotels, with 1143 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 one ongoing project of around 151 keys in this segment.

Established profile of BHVL's operational assets: 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 83% of EBITDA in FY2020.

Moreover, the operational parameters (occupancy and GOP margin) in the newly-commissioned hotels such as Grand Mercure Mysore, Holiday Inn Express Bangalore and Four Points Sheraton, Kochi improved in FY2020.

Limited scale of projects under development: With majority of its projects being already operational, BHVL has low execution risk associated with its under-construction projects. Currently BHVL has a single under-construction hotel in Mysore. Nonetheless, majority of the capex is expected to be deferred until the hotel operations are normalized.

Credit challenges

Adverse impact of Covid-19 pandemic: The outbreak of Covid-19 pandemic has impacted the occupancy levels in the hospitality industry significantly. This has resulted in a sharp decline in the operating revenues and has led to operating losses for the company in the near term. The operational metrics of the company are expected to remain weak over the next few quarters, in line with that of the industry.

Financial profile characterised by high leverage and modest debt coverage indicators: BHVL's external debt / OPBITDA stood at 6.9 times in FY2020. BHVL reported an operating loss in H1FY2020 and is expected to break-even in the second half of the year aided by marginal improvement in occupancies and stringent cost containment measures. Going forward, with the further weakening of the financial profile of the company, the leverage and coverage indicators are expected to remain weak in the near term.

Dependence on promoters for funding support: Considering that its operations have been hit by Covid-19 pandemic, BHVL remains dependent on BEL to fund its operational deficits as well as meeting its debt servicing obligations. In FY2020, BHVL received loans of Rs 35.8 crore from BEL and funding support from BEL in FY2021 is estimated at around Rs 60 crore.

Liquidity position: Adequate

While BHVL's liquidity is adversely impacted by Covid-19 pandemic related disruptions to its operations, which will result in weak debt coverage indicators, BHVL has been receiving timely funding support from its parent, BEL. BHVL has debt servicing obligations of around Rs 45 crore (including interest) in FY2021. The deficit in cash flows is expected to be funded by undrawn debt of Rs 21 crore (already sanctioned), new term debt and funds from BEL. The company had cash and liquid investments of Rs 23.8 crore (including encumbered cash of Rs 2.85 crore) as on March 31, 2020. Considering the expected funding support from the parent, the liquidity profile of BHVL is adequate.

Rating sensitivities

Positive Triggers: A rating upgrade in the near-term is unlikely, given the negative outlook on the industry due to the severe impact of the pandemic on the hospitality sector. Nonetheless ICRA could upgrade BHVL's rating if the company demonstrates a sustained improvement in its operational metrics over the medium term, leading to reduction in leverage; or if the rating of the parent company (BEL) gets upgraded.

Negative triggers : Negative pressure on BHVL's rating could arise if there is continued pressure on the operational and financial metrics of BHVL as a result of Covid-19 pandemic or if there is any weakening in the credit profile, financial support or linkages with the parent (BEL).

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	Parent Company: Brigade Enterprises Limited (BEL) 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 operational and financial deficits.
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)

	FY2019	FY2020
Operating Income (Rs. crore)	204.53	227.52
PAT (Rs. crore)	-12.32	-32.44
OPBDIT/OI (%)	24.83%	28.54%
PAT/OI (%)	-6.02%	-14.26%
Total Outside Liabilities/Tangible Net Worth (times)	2.17	2.97
Total Debt/OPBDIT (times)	8.71	8.74
Interest Coverage (times)	1.53	1.23

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020		FY2019	FY2018
					18-Dec-2020	4-Oct-2019	20-Sep-2019	1-Jun-2018	
1	Term Loan	Long Term	400.63	387.85	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Overdraft Facility	Long Term	30.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	-
3	Non Fund Based facilities	Short Term	20.00	-	[ICRA]A2+	[ICRA]A2+	-	-	-
4	Unallocated facilities	Long Term	49.37	-	[ICRA]A-(Stable)	[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	-	FY2025-FY2030	400.63	[ICRA]A- (Stable)
NA	Overdraft	FY2019	-	-	30.00	[ICRA]A- (Stable)
NA	Non Fund Based	-	-	-	20.00	[ICRA]A2+
NA	Unallocated limits	-	-	-	49.37	[ICRA]A- (Stable)

Source: Brigade Hotel Ventures Limited

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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