July 19, 2021

# Chalet Hotels Limited: Ratings reaffirmed, and negative outlook retained; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term loans | 1,985.00 | 1,832.00 | [ICRA]BBB+ (Negative); reaffirmed |
| Long-term fund-based limits | 135.00 | 155.00 | [ICRA]BBB+ (Negative); reaffirmed |
| Short-term Non-fund based limits | 75.00 | 75.00 | [ICRA]A2; reaffirmed |
| Long-term/Short-term unallocated limits | - | 600.00 | [ICRA]BBB+ (Negative)/ [ICRA]A2; reaffirmed |
| Total | **2,195.00** | **2,662.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The ratings remain supported by Chalet Hotels Limited (CHL) being a part of the K Raheja Corp (CL Raheja) Group (The Group) which is an established name in hospitality, real estate development and retail businesses; the company's diverse business mix comprising hospitality, commercial and retail assets; and CHL's management tie-up with Marriott International Inc. and Accor Hotels, and the associated benefits from its extensive branding, marketing and advertising networks. In FY2021, CHL's revenues declined by ~70% on a YoY basis to Rs. 296.6 crore, due to the impact of pandemic on the hospitality segment. Nevertheless, the mixed-use model of hotel development and investments in commercial real estate supported the company's cash flows during the pandemic, with rentals from the commercial portfolio remaining unaffected. While there was an OPBITDA loss of Rs. 21.4 crore in the hospitality segment, the overall earnings and cash flows were relatively insulated compared to other hospitality players, because of the healthy performance of commercial real estate segment. The company also benefitted from its stringent cost saving initiatives. Covid 2.0 derailed the company's revenue recovery in Q1 FY2022 by a few months and recovery to pre-Covid levels is unlikely in the next one year. Also, the business segment, where CHL's inventory is concentrated, is expected to witness a relatively gradual recovery compared to the tourist-based destinations, which is likely to witness an early recovery owing to the diversion of outbound leisure travel. The situation is still evolving and remains contingent on the pace of vaccination, efficacy of vaccines, high infection rates and possibility of a third Covid-19 wave.

The company has tied up incremental lines of credit with its lenders, which are sufficient to meet its financial and operational requirements in FY2022. As on June 30, 2021, CHL has cash and bank balances of Rs. 169.8 crore, undrawn ECLGS line of Rs. 65.0 crore and undrawn construction finance loan of Rs. 600.0 crore. As against the available sources of funds, CHL has capex obligations of ~Rs. 360-380.0 crore and term loan repayments of ~Rs. 244.0 crore in FY2022. Further, the promoters have committed infusion of Rs. 200.0 crore preference capital into the company (of which Rs. 125.0 crore has been received as on date), specifically for the Koramangala (Bengaluru) residential project. ICRA expects the promoters to extend timely and adequate financial support to CHL going forward, as and when required.

CHL has moderate coverage metrics owing to its sizeable debt levels, and it is expected to remain so going forward, given the relatively sizeable debt-funded capex plans over the next two years. Further, the company has moderate refinancing risks, given that the construction finance loan availed for upcoming commercial projects have bullet repayment in July 2026. However, the company can refinance the same through LRDs from its existing facilities to the tune of rentals. Moreover, the Group's healthy financial flexibility with lenders mitigates the refinancing risks to a large extent. The company has high geographical concentration in Mumbai for its hotel inventory (59%), exposing it to region-specific exogenous shocks/risks. Further, CHL also has high tenant concentration under the commercial real estate segment, although the reputed tenant profile and investments towards fit outs provide comfort . CHL remains exposed to execution risks for its upcoming projects and any prolonged weakness in the economic environment which could impact incremental leasing going forward.

# Key rating drivers and their description

## Credit strengths

**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 across India. It is the hospitality arm of the Group and benefits from its vast experience in real estate development. By virtue of being a part of the stronger group, the company enjoys considerable financial flexibility from its lenders. CHL's promoters have committed infusion of Rs. 200.0 crore preference capital into the company (of which Rs. 125.0 crore has been infused as on March 31, 2021), to meet the cash flow requirements of the stalled Koramangala, Bengaluru residential project. ICRA expects the promoters to extend timely financial support to CHL in the future as well, as and when required.

**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, international hospitality chains with well-established global brands. Five out of the six hotels are managed under premium brands of Marriott. Novotel, Pune (which was acquired in February 2020) is managed under the Accor flag. CHL benefits from Marriott and Accor's global branding, marketing and advertising networks.

**Diversified business mix –** CHL has a mixed portfolio, comprising hospitality, commercial and retail assets. This hotel led mixed-use development by the company has supported its cash flows during the downcycle in the hospitality industry in FY2021. While the hospitality segment witnessed ~77% decline in revenues on a YoY basis, the commercial real estate business remained relatively stable, with revenues of Rs. 92.7 crore in FY2021 vis-à-vis Rs. 100.3 crore in FY2020 (a drop of 8%, primarily due to the impact of the pandemic on the retail malls). Losses from hotel operations were offset by steady performance in commercial assets, with the overall OPBITDA remaining positive at Rs. 5.2 crore in FY2021 (OPM of 1.7%). Although the hospitality sector would remain susceptible to exogenous shocks and prolonged impact of the Covid-19 pandemic, the steady cash flows from the commercial real estate portfolio are expected to benefit the company going forward as well. Additionally, the company is developing ~1.5 million sq.ft. of office space in Mumbai and Bangalore, which would provide reasonable stability to cashflows over the medium term.

**Financial closure to support operational and financial commitments in FY2022 –** Notwithstanding the delay in recovery in the hospitality segment and the resultant impact on its cash flows going forward, CHL's liquidity is adequate, supported by cash and bank balances of Rs. 169.8 crore, undrawn ECLGS line of Rs. 65.0 crore and undrawn construction finance loan of Rs. 600.0 crore as on June 30, 2021. This is expected to support the entire operational and financial commitments (repayments of Rs. ~244 crore and capex of ~Rs. 360-380.0 crore) in FY2022.

## Credit challenges

**Sharp dip in revenues and margins in FY2021 due to pandemic; hospitality segment performance in FY2022 to remain impacted, while commercial real estate business performance expected to remain steady –** CHL's performance has been impacted by the pandemic, which resulted in a sharp decline in global and domestic travel, disrupting the demand for the hospitality sector. With most of the company's hotels located in business-focussed locations and most corporates continuing with work-from-home policy, CHL's occupancy was weaker than its peers in FY2021. Overall, the revenues declined by ~70% in FY2021 to Rs. 296.6 crore, even as the income from real estate segment remained stable. Nevertheless, aided by steady cash flows from the commercial office segment and stringent cost saving initiatives undertaken by the company, CHL managed to report an operating profit of Rs. 5.2 crore in FY2021 (OPM of 1.7% vis-à-vis OPM of 36.3% in FY2020). While the hospitality segment witnessed some sequential recovery in Q3 FY2021 and Q4 FY2021, aided by ramp up in leisure travel and social MICE (including weddings), the recovery was halted post the onset of the second wave of the pandemic. The near-term demand for the company is expected to remain subdued owing to its dependence on corporate travel (majorly international), which are likely to remain weak over the next several months, given the fear of contagion. While wider vaccine rollout could help in restoring confidence to an extent, the concerns on the third wave of Covid-19 outbreak remains. Further, corporate meetings are anticipated to remain virtual for a large part of FY2022 because of safety and slowdown-related cost saving, which will impact business travel demand. Consequently, the company's performance is likely to remain subdued in FY2022. Nevertheless, the commercial real estate portfolio would continue to be an anchor, providing steady cash flows going forward.

**Moderate coverage metrics and refinancing risk; coverage metrics likely to remain moderate over the medium term owing to sizeable debt-funded capex plans over the next two years–** Owing to its sizeable debt levels and sharp reduction in accruals, the company has witnessed moderation in coverage metrics with DSCR of less than 1.0 times as on March 31, 2021. With sizeable debt-funded capex plans of ~Rs. 840.0 crore during FY2022-FY2023, the company’s debt levels are expected to increase further from the current levels, which is likely to result in further moderation in debt protection metrics. Nevertheless, the company has sufficient tied-up banking lines for meeting both the financial and operational requirements for FY2022 (in the form of ECLGS loan of Rs. 200.0 crore and construction finance loan of Rs. 600.0 crore). It has availed construction finance loan to fund its upcoming commercial projects and with bullet repayment falling due in July 2026, the company is exposed to refinancing risk. However, the company can refinance the same through LRDs from its existing facilities to the tune of rentals. Moreover, the Group’s healthy financial flexibility with lenders mitigates the refinancing risks to a large extent

**High geographical concentration under hospitality segment and high tenant concentration risk in commercial real estate sector –** 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 its current inventory of 2,554 rooms. Owing to the high geographical concentration in Mumbai, the company would be exposed to region-specific exogenous shocks and risks. Moreover, the tenant concentration is high with 100% of the area of each of the commercial office space occupied by two lessees, thus exposing CHL to market risk in case of any vacancy / non-renewal of lease. Nonetheless, this risk is mitigated by the reputed profile of the tenants and the investments made by them towards fit outs.

**Moderately high execution risk for project; sustained weakness in economic environment may impact incremental leasing –** The construction for the upcoming commercial real estate projects started in FY2019 and is expected to be completed by FY2024. Despite the strong execution capabilities of the promoters, the execution risk remains moderately high due to the intermediate stage of project construction with less than ~30% of the project development cost incurred till March 31, 2021. While the project loan has already been tied up thereby minimising the funding risks, any escalations in project cost may necessitate more funding support. Though the commercial office leasing segment faced minimal impact of the Covid-19 pandemic and the subsequent lockdown, prolonged weakness in the economic environment shall impact the incremental leasing for the upcoming projects.

## Liquidity position: Adequate

CHL’s accruals were weak in FY2021, owing to sharp dip in revenues under the hospitality segment. Nevertheless, the lease rentals from the commercial real estate portfolio supported the cash flows to an extent. The company’s liquidity position is **adequate**, supported by cash and bank balances of Rs. 169.8 crore, undrawn ECLGS line of Rs. 65.0 crore and undrawn construction finance loan of Rs. 600.0 crore as on June 30, 2021. As against the available sources of cash, CHL has capex obligations of ~Rs. 360-380.0 crore and term loan repayments of ~Rs. 244.0 crore in FY2022. For FY2023, CHL has capex commitments of ~Rs. 470-490.0 crore and term loan repayments of ~Rs. 377.0 crore. Though it is exposed to moderate refinancing risk, aided by the healthy financial flexibility and comfort with lenders by virtue of being a part of the K Raheja Corp Group, the re-financing risk is mitigated to a large extent. Furthermore, ICRA expects the promoters’ commitment to extend timely financial support to CHL in the future, as and when required.

### Rating sensitivities

**Positive factors –** ICRA could change the outlook to Stable if the company demonstrates improvement in its operational metrics leading to improvement in debt coverage indicators on a sustained basis.

**Negative factors –** Negative pressure on CHL's ratings may arise if there is a sustained decline in its operational performance triggered by the Covid-19 pandemic, leading to weakening its liquidity or increase in debt metrics. Any large acquisition resulting in higher-than-expected debt addition will be a credit negative.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Entities in the Hotel Industry<br>Rating Methodology for Debt Backed by Lease Rentals |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The ratings are based on the company's consolidated financial profile |

## About the company

CHL, promoted by the K Raheja Corp Group, is involved 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. The company's existing owned hotel properties of 2,554 keys (as of June 2021), include the Renaissance Mumbai Convention Centre, Powai (five-star upper upscale; 600 keys), Lakeside Chalet, Mumbai-Marriott Executive Apartments, Powai (executive apartments; 173 keys), Four Points by Sheraton, Navi Mumbai (five-star upscale; 152 keys), The Westin Hyderabad Mindspace (five-star upper upscale; 427 keys), JW Marriott Mumbai Sahar (five-star luxury; 588 keys) and Bengaluru Marriott Hotel Whitefield (five-star upper upscale; 391 keys) and Novotel Pune Nagar Road (five-star upscale; 223 keys). All the hotels except Novotel, Pune (managed by the Accor Group) are run under management contracts/franchisee with Marriott International and its affiliates. It has 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. Objections were raised by HAL regarding the permissible height of the buildings. The construction activity at the project and sale of flats were suspended pursuant to an interim order of the Karnataka High Court in response to a petition filed by the company. CHL had filed an appeal in November 2020 against the said order. On May 29, 2020, the High Court had allowed the writ petition in part, annulling the cancellation of the NOC by HAL and remanding back the matter to HAL for re-survey in a timebound manner.

## Key financial indicators (audited)

| Standalone | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 994.1 | 296.6 |
| PAT (Rs. crore) | 99.6 | -139.1 |
| OPBDIT/OI (%) | 36.3% | 1.7% |
| PAT/OI (%) | 10.0% | -46.9% |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.0 | 2.3 |
| Total Debt/OPBDIT (times) | 5.3 | 399.2[1] |
| Interest Coverage (times) | 2.5 | 0.0 |

*Source: Company, ICRA Research; Note: Amount in Rs. crore*
*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;*

[1] *Adjusted for preference share capital (infused by the promoters) of Rs. 119.5 crore, the total debt stood at Rs. 1,938.9 crore as on March 31, 2021 and Total Debt/OPBITDA stood at 376.0 times as on March 31, 2021*

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2021 (Rs. crore) | Date & Rating | Date & Rating in FY2021 | | Date & Rating in FY2020 | Date & Rating in FY2018 |
| | | | | | July 19, 2021 | Dec 11, 2020 | April 13, 2020 | May 24, 2019 | - |
| 1 | Term Loans | Long Term | 1,832.00 | 1,861.9 | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Stable) | - |
| 2 | Fund-based Limits | Long Term | 155.00 | 80.82 | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Negative) | [ICRA]BBB+ (Stable) | - |
| 3 | Non-fund based-Limits | Short Term | 75.00 | 0.00 | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 | [ICRA]A2 | - |
| 4 | Unallocated Limits | Long-term/ short-term | 600.00 | - | [ICRA]BBB+ (Negative)/ [ICRA]A2 | - | [ICRA]BBB+ (Negative)/ [ICRA]A2 | [ICRA]BBB+ (Stable)/[ICRA]A2 | - |

### Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Term loans | Simple |
| Long-term fund-based limits | Simple |
| Short-term Non-fund based limits | Simple |
| Long-term/Short-term unallocated limits | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's 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 |
|---|---|---|---|---|---|---|
| NA | Term loans | FY2014-FY2021 | NA | FY2028 | 1,832.00 | [ICRA]BBB+ (Negative) |
| NA | Overdraft | NA | NA | NA | 155.00 | [ICRA]BBB+ (Negative) |
| NA | LC/BG | NA | NA | NA | 75.00 | [ICRA]A2 |
| NA | Unallocated | NA | NA | NA | 600.00 | [ICRA]BBB+ (Negative)/ [ICRA]A2 |

*Source: Chalet Hotels Limited*

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

| 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 |

*Source: Chalet Hotels Limited*

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