

January 23, 2024

## Brigade Hotel Ventures Limited: Long-term rating upgraded and short -term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	475.00	445.25	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Long-term fund-based – Cash credit/overdraft	35.00	30.00	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Long-term – Unallocated	40.00	74.75	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Short-term – Non fund based	10.00	10.00	[ICRA]A2+ reaffirmed
<b>Total</b>	<b>560.00</b>	<b>560.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The upgrade in the long-term rating factors in the improvement in Brigade Hotel Ventures Limited's (BHVL's) operating performance along with debt coverage metrics, driven by refinancing of its debt with a longer tenure. The operating performance of hotels witnessed an improvement in H1 FY2024, backed by the improved demand with pick up in business travel and MICE (Meeting, Incentives, Conferences and Exhibitions). The consolidated RevPAR increased by 5.8% to Rs. 4,269 in H1FY2024 from Rs. 4,035 in FY2023, while the occupancy remained steady at 70% in H1 FY2024 against 69% in FY2023 (61% in FY2020). Post refinancing, the debt tenure increased by four years. Consequently, BHVL's annual DSCR levels are estimated to improve to 1.15-1.20 times and 1.25-1.30 times in FY2024 and FY2025, respectively, against pre-refinancing level of below 1 times. ICRA expects the consolidated revenues to grow by 9-11% in FY2024 (PY: Rs. 350 crore, higher by 34% compared to pre-Covid levels in FY2020) with the estimated occupancy levels at 70-75%.

The ratings continue to draw comfort from the strong parentage of Brigade Hotel Ventures Limited (BHVL), which is a wholly-owned subsidiary of Brigade Enterprises Limited (BEL; rated [ICRA]AA- (Stable)/A1+), and the Group's track record in the hospitality sector. The ratings continue to positively factor in the company's healthy scale of operations with 1,474 keys across eight hotels operated by global brands in geographically diversified locations across Bengaluru, Chennai, Mysore, Kochi and Ahmedabad, and one under-construction hotel in Mysore. ICRA expects the parent, BEL, to provide timely financial support to BHVL, for funding shortfall, if any, given their substantial financial linkages, BHVL's strategic importance for the parent and parent's reputation sensitivity to default.

The ratings are, however, constrained by the high leverage of the company with estimated Total Debt/OPBDITA of 5.0-5.5 times as of March 2024 and 5 times as of March 2025. The company's debt levels are likely to remain elevated in the near term, given the company is constructing a new hotel, Ibis Mysore, which is expected to be operational in FY2025. The ratings are also constrained by the vulnerability of debt coverage indicators to any changes in occupancy and interest rates. Further, given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions and several exogenous factors, which leads to its inherent cyclicity in the sector.

The Stable outlook represents ICRA's expectations that BHVL's earnings will increase supported by likely improvement in its operating performance. Further, the outlook reflects adequate debt coverage metrics and that the company will continue to benefit from the strong parentage.

## 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 (rated [ICRA]AA- (Stable)/A1+), which is one of the leading real-estate players in South India. BEL has established itself as one of the major diversified real-estate developers in Bengaluru, generating revenue from three segments - sale of residential and commercial real-estate projects, lease income from the owned commercial property (office and retail) and income from hospitality projects. The hospitality segment remains one of the key strategic operating divisions of the Brigade Group.

**Healthy operating performance** - BHVL has seven operational hotels, with 1,272 keys and one under-construction hotel with 138 keys. BHVL has four hotels in Bengaluru, one each in Mysore, Kochi and Ahmedabad. Its subsidiary, SRP Prosperita Hotel Ventures Limited, also operates a hotel in Chennai with 202 keys. The operating performance of hotels witnessed an improvement in H1 FY2024 backed by the improved demand with pick up in business travel and MICE (Meeting, Incentives, Conferences and Exhibitions). The consolidated RevPAR increased by 5.8% to Rs. 4,269 in H1 FY2024 from Rs. 4,035 in FY2023, while the occupancy remained stable at 70% in H1 FY2024 compared to 69% in FY2023 (61% in FY2020). ICRA expects the consolidated revenues to grow by 9-11% in FY2024 (PY: Rs. 350 crore, higher by 34% compared to pre-Covid levels in FY2020) with the estimated occupancy levels in at 70-75%.

**Improvement in debt coverage metrics** – On a consolidated basis, BHVL refinanced Rs. 384-crore debt at favourable terms such as a lower interest rate and longer tenure, along with improved operating performance of the company's hotel portfolio. BHVL's annual DSCR levels are estimated to improve to 1.15-1.20 times and 1.25-1.30 times in FY2024 and FY2025, respectively, against pre-refinancing level of below 1 times for these years. This, coupled with improved operating performance of the company's hotel portfolio, resulted in an improvement in the company's debt coverage metrics.

### Credit challenges

**High leverage** - The company's consolidated debt levels continue to be on a higher side with estimated Total Debt/OPBDITA of 5.0-5.5 times as of March 2024 and 5 times as of March 2025. As of September 2023, the company's total debt outstanding was Rs. 689 crore (Rs. 711.7 crore as of March 2023) and the debt levels are likely to remain elevated in the near term, given the company is constructing a hotel, Ibis Mysore, which is expected to be operational in FY2025.

**Cyclical industry, vulnerable to general economic slowdown and external threats** - Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movements and several exogenous factors, leading to inherent cyclical nature. As such, global and domestic economic conditions will remain the key monitorable for BHVL, as part of the industry.

**Vulnerability of debt coverage indicators to changes in occupancy and interest rates** - The company's debt coverage indicators remain exposed to any decline in occupancy levels or increase in interest rates.

### Liquidity position: Adequate

The company's liquidity position is adequate. BHVL had free cash and liquid investments of ~Rs. 29 crore and undrawn working capital limits of Rs 8.9 crore as on September 30, 2023. The pending cost for ongoing hotel capex is Rs. 58.5 crore, which is expected to be met from Rs. 45 crore of undrawn term loan and remaining from internal accruals. The company's term loan repayments stand at Rs 22.2 crore and Rs 47.5 crore in H2 FY2024 and FY2025, respectively, which are expected to be met comfortably from the cash flows from operations.

## Rating sensitivities

**Positive factors** – A sustained improvement in RevPAR along with a material reduction in debt levels resulting in significant improvement in leverage and coverage metrics, could trigger a ratings upgrade. Ratings will be sensitive to the credit profile of the parent company (BEL)

**Negative factors** – A sustained reduction in earnings and/or significant increase in indebtedness impacting the company's liquidity and debt protection metrics could result in a rating downgrade. Deterioration in the credit profile of the parent (BEL) or weakening of business linkages or strategic importance of the company for the parent could also put pressure on the ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Hotel Methodology</a>
Parent/Group support	Parent Company: Brigade Enterprises Limited (BEL). ICRA expects the parent, BEL, to provide timely financial support to BHVL, for funding any shortfall, given their substantial financial linkages, BHVL's strategic importance for the parent and parent's reputation sensitivity to default. BEL has also extended corporate guarantee for part of the debt availed by BHVL.
Consolidation/Standalone	ICRA has considered the consolidated financials of BHVL and its subsidiary, SRP Prosperita Hotel Ventures Limited (SPHVL), as there has been a track record of BHVL having extended timely financial support to this subsidiary in the past and its willingness to extend such support in the future, should there be a need.

## About the company

Brigade Hotel Ventures Limited (BHVL) is a 100% subsidiary of Brigade Enterprises Limited (BEL). BHVL was incorporated in August 2016 to bring in all the hotel operations of the Brigade Group under one entity.

BHVL has a 50.01% stake in a subsidiary, SRP Prosperita Hotel Ventures Limited (SPHVL), that has one operational hotel in Chennai. At present, the company has eight operational hotels (including one hotel operating in SPHVL) and one under-construction hotel (Ibis Mysore). Eight operational hotels with 1,474 rooms are spread across five cities- Bengaluru, Mysore, Ahmedabad, Kochi and Chennai with Bengaluru consisting 51% of the total keys.

## Key financial indicators

BHVL and SPHVL -Consolidated	FY2022 (Audited)	FY2023 (Audited)	6MFY2024 (Provisional)
Operating income	146.1	349.7	185.4
PAT	-82.7	-3.1	8.1
OPBDIT/OI	2.4%	25.6%	33.6%
PAT/OI	-56.6%	-0.9%	4.4%
Total outside liabilities/Tangible net worth (times)	6.0	5.7	5.2
Total debt/OPBDITA (times)	212.39	7.96	5.53
Interest coverage (times)	0.1	1.4	2.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 23, 2024	May 30, 2023			
1 Term loans	Long-term	445.25	445.25	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2 Cash Credit/Overdraft	Long-term	30.00	21.10	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3 Non fund based	Short-term	10.0	--	[ICRA]A2+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4 Unallocated	Long-term	74.75	--	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit/Overdraft	Simple
Short term non fund based	Simple
Unallocated	Not Applicable

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 I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	<b>Term Loan</b>	FY2018-23	-	FY2027-34	445.25	[ICRA]A(Stable)
-	<b>Overdraft limit</b>	-	-	-	30.00	[ICRA]A(Stable)
-	<b>Non Fund based</b>	-	-	-	10.00	[ICRA]A2+
-	<b>Unallocated</b>	-	-	-	74.75	[ICRA]A(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
<b>SRP Prosperita Hotel Ventures Limited</b>	50.01%	Full consolidation

Source: company data

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