April 13, 2020

Chalet Hotels Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	1,088.4	1,088.4	[ICRA]BBB+; Reaffirmed, Outlook revised to Negative from Stable
Long-term Fund-based Limits	135.0	135.0	[ICRA]BBB+; Reaffirmed, Outlook revised to Negative from Stable
Short-term Non-fund based-Limits	75.0	75.0	[ICRA]A2; Reaffirmed
Long-term/short-term Unallocated Limits	462.4	462.4	[ICRA]BBB+/[ICRA]A2; Reaffirmed, Outlook revised to Negative from Stable
Total	**1,760.8**	**1,760.8**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action follows the impact of the novel coronavirus (Covid-19) outbreak on the global travel and tourism industry and is in line with ICRA's Negative outlook for the sector. Since India reported its first coronavirus patient towards the end of January 2020, the impact on the Indian travel and tourism industry has been severe, more so since March 2020, as corporate action on localised containment was followed by pan-India Government clampdowns. Occupancies across most hotels, barring those corralled into supporting the Government's isolation and containment measure, and those being used for work-from-alternative office spaces, have crashed across the country, following the weeks long pan-India lockdown announced by the Government of India (GoI) on March 24, 2020. This is in line with the situation of the hospitality industry globally.

Given the discretionary nature of spend (especially leisure travel), the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases and meltdowns. The impact of Covid-19 is expected to be far more severe and broad-based than during the previous instances. ICRA expects significant pressure on the revenue-per-available room (RevPARs), initially through occupancies, over the next two quarters. While some deferred travel, particularly for business, will eventually re-flow in following some semblance of normalcy, room nights are essentially perishable commodities. Business on the books for hotels, going into the summer months is low. This will severely hamper the industry's ability to support its rates. ICRA expects the hospitality industry to have one of the longest periods of recovery, contributed by widespread business slowdown over the next couple of quarters.

Hotels have high operating and financial leverage, making the same highly susceptible to any reduction in revenues. With sizeable leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on the industry's ability to service its debt. ICRA will continue to monitor the situation as it evolves in India and globally over the coming weeks and take appropriate rating action wherever required.

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 the commercial real estate development with developed area of over 28.2 million square feet (sq. ft.). CHL is the hospitality arm of the group and benefits from the vast experience of the group in real estate development, while also enjoying the financial flexibility in funding its projects.

Management tie-up with well-known international hospitality group; CHL benefits from Marriott's global branding, marketing and advertising network–CHL derives hotel management support from Marriott, an international hospitality chain with well-established global brands. All the five hotels, including a hotel with a co-located serviced residence, owned by the company belong to the premium brands of Marriott, thus benefiting from Marriott's global branding, marketing and advertising network. This has been demonstrated by the continued robust performance of the hotel portfolio over the past several years. During Q3FY2020, CHL's portfolio of hotels reported a blended occupancy of 74.6% (vs. 73.9% in Q3FY2019) and ARR of Rs. 9,201 (8.9% YoY growth), resulting 9.9% YoY growth in RevPAR to Rs. 6,863. Overall, for 9MFY2020, the RevPAR grew by 4.9% YoY to Rs.6, 245. The operating margins from hospitality business continue to remain healthy at 39.8% in 9MFY2020 aided by RevPAR growth.

Successful completion and lease tie-ups for Sahar, Mumbai, retail and commercial properties to significantly contribute to profitability, going forward– For the Office Tower Sahar commercial property in Mumbai with a leasable area of 374,358 square feet, CHL entered into an agreement with WPP Marketing Communications India Private Limited and its group companies to use and occupy the office tower for a period of 10 years (fromQ3FY2020). Further, The Orb, Sahar, retail property, with a leasable area of 123,082 square feet, commenced its operations from April 2019, wherein CHL has leased out space to various retail brands including food and beverage chains. Both the retail and commercial properties near CHL's JW Marriott Mumbai, Sahar, hotel property are expected to contribute significantly to profitability, going forward.

CHL's large asset base and financial flexibility with its lenders supports refinancing options and liquidity profile–The healthy operational hotel, retail and commercial asset base of CHL provides considerable financial flexibility to its lenders in raising funds for any project, and also supports its liquidity profile. 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 cyclicality. Due to the ongoing outbreak of Covid-19, it is expected that the operational metrics of the company would be impacted over the next few quarters.

Considerable capex planned over medium term may lead to moderation in credit metrics –CHL is setting up three new hotels, totaling ~580 keys and additional ~80 keys under an expansion plan. Apart from hotel properties, CHL is also setting up two commercial projects with a total leasable area (excluding car parking/utilities) of 1.1 million square feet. These new hotels and commercial properties were expected to be operational in a staggered manner by FY2023. Given the significant capital expenditure plans, the debt levels are expected to increase from the current levels, which may lead to moderation in credit metrics. However, due to the ongoing outbreak of Covid-19, the pace of the capital outflows would be aligned to the operational cashflows.

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. Of these, 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 company's acquisition of Belaire Hotels Private Limited which owns the 223-key Novotel Pune Nagar Road Hotel in Q4 FY2020, thereby diversifying its geographical presence.

Any large acquisition resulting in higher than expected debt addition will be a credit negative– The company is open to hotel room additions through acquisition, depending on viability and turnaround possibility. However, any large inorganic investments resulting in moderation of the financial risk profile will be a credit negative.

Liquidity position: Adequate

The company's cashflow from hotel operations will be impacted during H1 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 and thereby support the company's operating cashflows. The company has an average utilization of 18% of its working capital limit of Rs. 135 crore for the 2-month period ending March 2020. Further it has a cash and cash equivalent of Rs. 69.7 crore as on September 30, 2019. Additionally, the company has undrawn term loans to support any liquidity requirement. The company has no plans to avail the moratorium facility on its bank loans during the RBI forbearance period. Further, CHL derives financial flexibility as part of K Raheja Corp.

Rating sensitivities

Positive triggers –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 triggers–Negative pressure on CHL's rating if there is a further decline in operational performance of the company triggered by the novel coronavirus outbreak, weakening its liquidity and debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Textiles Industry - Apparels
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. The list of companies consolidated is given in Annexure-2.

About the company

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 propertiesof 2,554 keys (as on February 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 2020.

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.

As per the provisional financials for 9MFY2020 (consolidated), the company reported a profit after tax (PAT) of Rs. 57.4 crore on an operating income (OI) of Rs.753.8 crore.

Key financial indicators (audited)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	815.6	1,002.7
PAT (Rs. crore)	-92.9	-7.6
OPBDIT/OI (%)	32.5%	35.4%
RoCE (%)	2.7%	9.9%
Total Outside Liabilities/Tangible Net Worth (times)	25.1	2.0
Total Debt/OPBDIT (times)	10.3	4.4
Interest Coverage (times)	1.2	1.3
DSCR	0.4[1]	0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1]*For the DSCR of FY18, the non-cash extraordinary loss item of Rs. 121 crore pertaining to provisions on residential project in Bangalore has not been adjusted. The adjusted DSCR considering the exceptional item would be 0.6 time.*

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
					13-Apr-2020	24-May-2019	16-Mar-2018	18-Jan-2017
1	Term Loans	Long Term	1,088.4	1,088.4	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
2	Fund-based Limits	Long Term	135.0	-	[ICRA]BBB+(Negative)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
3	Non-fund based-Limits	Short Term	75.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	Long-term/short-term	462.4	-	[ICRA]BBB+(Negative)/[ICRA]A2	[ICRA]BBB+(Stable)/[ICRA]A2	-	-

Amount in Rs. crore
**As of April 2019*

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	FY2014	NA	September 2026	184.6	[ICRA]BBB+(Negative)
NA	Term Loan-2	FY2014	NA	June 2025	129.3	[ICRA]BBB+(Negative)
NA	Term Loan-3	FY2014	NA	March 2027	86.0	[ICRA]BBB+(Negative)
NA	Term Loan-4	FY2016	NA	November 2026	85.8	[ICRA]BBB+(Negative)
NA	Term Loan-5	FY2016	NA	FY2023	174.7	[ICRA]BBB+(Negative)
NA	Term Loan-6	July 2017	NA	July 2029	73.0	[ICRA]BBB+(Negative)
NA	Term Loan-7	FY2019	NA	CY2028	305.0	[ICRA]BBB+(Negative)
NA	Term Loan-8	FY2019	NA	CY2028	50.0	[ICRA]BBB+(Negative)
NA	Long-term Fund-based Limits	NA	NA	NA	135.0	[ICRA]BBB+(Negative)
NA	Short-term Non-fund based- Limits	NA	NA	NA	75.0	[ICRA]A2
NA	Long-term/short-term Unallocated Limits	NA	NA	NA	462.4	[ICRA]BBB+(Negative)/ [ICRA]A2

Source: Chalet Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Chalet Hotels & Properties (Kerala) Private Limited	90%	Full Consolidation

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About ICRA Limited:

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