December 11, 2020

Chalet Hotels Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	1,088.4	1,985.0	[ICRA]BBB+(Negative); Reaffirmed
Long-term Fund-based Limits	135.0	135.0	[ICRA]BBB+(Negative); Reaffirmed
Short-term Non-fund based- Limits	75.0	75.0	[ICRA]A2; Reaffirmed
Long-term/short-term Unallocated Limits	462.4	-	-
Total	**1,760.8**	**2,195.0**	

**Instrument details are provided in Annexure-1*

Rationale

The Negative outlook on the long-term rating of Chalet Hotels Limited (CHL) continues to reflect the likelihood of extensive and extended impact of the Covid-19 pandemic on the global travel and hospitality industry and is in line with ICRA's Negative outlook for the sector. The nationwide lockdowns in April and May 2020, to contain the spread of the virus, were followed by sporadic localised lockdowns, which caused hotels to either remain shut or operated at minimal occupancies in Q1 FY2021 and part of Q2 FY2021. While the easing of restrictions has led to some improvement in Q2 FY2021 and Q3 FY2021, travel is expected to remain muted for few more quarters. Impact of a second wave and local lockdowns, apart from the ongoing economic recession could also hamper recovery prospects. Consequently, ICRA expects CHL to witness a significant fall in the revenues and profits in FY2021. As a result, the company's cash accruals are likely to weaken in the near to medium term.

Nonetheless, the reaffirmation of the ratings takes into consideration the strong promoter group (K Raheja Corp Group/ 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 ratings also favourably factor in CHL's management tie-up with 'Marriott International Inc.' and Accor Group, the well-known international hospitality groups, and the associated benefits from its global branding, marketing and advertising networks. Further, the mixed-use model of hotel development and the company's investments in commercial real estate and retail have supported revenues and profits during the current pandemic, when rentals from the commercial portfolio continued to remain largely unaffected. In H1 FY2021, despite these assured cash flows, the tough operating environment due to the restrictions placed to prevent the spread of Covid-19 impacted the hospitality segment significantly. The company reported a marginal operating loss of Rs. 8.3 crore in H1 FY2021 (Q1: operating loss of Rs. 6.0 crore. Q2: operating loss of Rs. 2.3 crore). While the pandemic situation continues to evolve, the extent of recovery in operations in H2 FY2021, will be a key monitorable.

The rating also takes into consideration the adequate liquidity profile of the company supported by cash and liquid investments of Rs. 44.8 crore as on September 30, 2020 and undrawn line of credit of Rs. 105 crore as on October 31, 2020. The company has raised Rs 250 crore of incremental debt during H1FY2021 and is in talks for a further sizable fund raise in H2FY2021. This will help shore up liquidity. The company has not availed of the RBI provided moratorium during H1 FY2021 and has repayment of Rs. 223 crore for FY2021 (Rs. 76 crore for H2 FY2021). While the company has sharply scaled downed its capex to Rs. 149 crore for FY2021 (from earlier planned Rs. 560 crore), with almost all the hotel projects going on hold. The company has however continued with the two commercial real estate projects in Powai, Mumbai and Bengaluru. Consequently, capex for FY2022 and FY2023 stands at Rs. 660 crore which also includes some capex related to hospitality projects i.e. Hyderabad Project and rebranding of Renaissance hotel.

The ratings also factor in the agreement by CHL's promoters to provide funds to the company upto Rs. 200 crore[1], to meet the cash flow requirements of the stalled Koramangala, Bengaluru residential project.

The ratings, however, remain constrained by CHL's moderate debt coverage indictors (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 at Renaissance Complex, Powai, Mumbai and Marriott Complex, Whitefield, Bengaluru which would moderate its debt coverage indicators going forward in near to medium term. ICRA draws comfort from the company's financial flexibility emanating from its healthy asset base, support from the K Raheja Corp Group and the management's demonstrated track record of raising timely debt against projects and debt refinancing.

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 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 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.

[1] In the form of subscription to '0.001'% Non-Cumulative Redeemable Preference Shares of the company

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, 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 company's debt levels are expected to increase from the current levels, which could lead to moderation in credit metrics. CHL had moderate debt coverage indictors 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

The company'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 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 – Company's inability to improve its liquidity and debt coverage metrics would put negative pressure on CHL's rating. Further, any large acquisition resulting in deterioration of debt metrics will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry
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 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.

As per the provisional financials for H1 FY2021 (consolidated), the company reported a net loss of Rs. 82.1 crore on an operating income (OI) of Rs.111.5 crore.

Key financial indicators (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

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*?	Current Rating	Earlier Rating	FY2020	FY2019	FY2018
					Dec 11,2020	April 13, 2020	May 24, 2019	March 16, 2018	Jan 18, 2017
1	Term Loans	Long Term	1,985.00	1,567.03	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
2	Fund-based Limits	Long Term	135.00	-	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)
3	Non-fund based-Limits	Short Term	75.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+
4	Unallocated Limits	Long-term/short-term	-	-	-	[ICRA]BBB+ (Negative)/ [ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-

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
NA	Term Loan-1	FY2014	NA	FY2026	151.0	[ICRA]BBB+(Negative)
NA	Term Loan -2	Fy2016	NA	FY 2026	99.0	[ICRA]BBB+(Negative)
NA	Term Loan-3	FY2014	NA	FY2027	75.0	[ICRA]BBB+(Negative)
NA	Term Loan-4	FY2016	NA	FY2023	145.0	[ICRA]BBB+(Negative)
NA	Term Loan-5	FY2019	NA	FY2030	69.0	[ICRA]BBB+(Negative)
NA	Term Loan-6	FY2019	NA	CY2028	284.0	[ICRA]BBB+(Negative)
NA	Term Loan-7	FY2019	NA	CY2028	50.0	[ICRA]BBB+(Negative)
NA	Term Loan-8	FY2020	NA	FY2029	250.0	[ICRA]BBB+(Negative)
NA	Term Loan-9	FY2020	NA	FY2030	112.0	[ICRA]BBB+(Negative)
NA	Term Loan-10	FY2021	NA	FY2031	250.0	[ICRA]BBB+(Negative)
NA	Term Loan-11	FY 2016	NA	FY2026	224.0	[ICRA]BBB+(Negative)
NA	Term Loan-12	FY2015	NA	FY2024	63.0	[ICRA]BBB+(Negative)
NA	Term Loan-13	FY2014	NA	FY2026	213.0	[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

Source: Chalet Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

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

Analyst Contacts

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah
+91 4445964314
pavethrap@icraindia.com

Abhilash Mishra
+91 22 6114 3421
abhilash.mishra@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999