

Bestech Hospitalities Private Limited

December 05, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	50.28	50.28	[ICRA]BBB+ (stable); reaffirmed
Total	50.28	50.28	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus¹) for the Rs. 50.28-crore² term loans of Bestech Hospitalities Private Limited (BHPL). The long-term rating carries a stable outlook.

Rationale

The rating reaffirmation factors in healthy accruals from BHPL's two operational hotels {Radisson Blu Nagpur (Maharashtra) & Radisson Blu Indore (Madhya Pradesh)}, which coupled with low leverage, have led to comfortable debt protection indicators- Total Debt/OPBIDTA stood at 2.6x, and interest cover stood at 4.5 times in FY2018. Since the company has repaid loan taken against its under-construction hotel in Dharuhera in FY2019YTD, the leverage has reduced by half and the debt protection indicators have improved substantially. Additionally, low debt against two mature operational hotels provides significant financial flexibility. The rating continues to derive comfort from long and established track record of BHPL in the hospitality sector and the financial flexibility on account of being part of the Bestech group, which is an established real estate player in the National Capital Region (NCR). The reaffirmation also factors in favourable maturity profile of company's two operational hotels and its association with Carlsons Rezidor Hotel Group (Carlsons Group) for its hotel properties which besides brand recognition provides access to RHI's global reservation systems.

The rating is, however, constrained by slippages in execution of BHPL's hospitality project at Dharuhera (Haryana), resulting in significant time and cost overruns. The company proposes to change the scope of the project but the same is currently under planning; nonetheless, the debt availed for this project has been entirely repaid in FY2019. The rating is also constrained by capex plans of the company, including two Park Inn hotels in Indore (135 keys) and Nagpur (140 keys), one wellness resort in Dharuhera (235 keys; this project is currently on hold) and one five star hotel in Gurgaon (250 keys; planning for this hotel has not started and development is likely to take place at a later stage). Additionally, BHPL has entered into a 74:26 joint venture (JV) with Carlsons Group to establish multiple hotels under its Radisson Red brand. The total outlay on these projects is likely to be Rs. ~313 crore (excluding proposed five star hotel in Gurgaon and under-construction hotel in Dharuhera), against current gross block of Rs. ~320 crore and balance sheet size of Rs. ~280 crore. The capex of Rs. 300 crore is expected to be funded with debt of Rs. ~186 crore against current debt of Rs. ~25 crore. The capex is likely to be completed over a period of four-to-five years. The debt protection indicators are likely to weaken from current levels on account of the leverage proposed to be taken for the expansion. The large expansion plans also expose the company to significant project, financing and market risks. Nonetheless, the financial policy is not expected to be overly aggressive based on past track record of regular infusion of funds by the promoters which has supported the credit risk profile of the entity. Execution of the projects in a timely manner and within budgeted costs

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

and operate all the hotels at healthy occupancies would be key rating sensitivities. The rating continues to be constrained by inherently high operating leverage of the hospitality industry which increases the reliance on remunerative Revpars to sustain profitability and cyclical nature of revenue generation owing to economic or seasonal cycles.

Outlook: Stable

ICRA expects the revenues to grow at a healthy pace over medium term driven by improvement in performance of the two operational hotels. Along with the revenues, margins are also likely to improve gradually, due to high operating leverage of the business. However, the company will remain exposed to execution, funding and marketing risks due to multiple under-development hotels (including the ones in the JV with Carlsons). This will also result in increased leverage levels and weaker debt protection indicators. Rating can be upgraded in case of better-than-expected performance of the operational properties. In addition, a more staggered capex plan and lower-than-expected leverage to fund the expansion plans will be credit positive. Rating can be downgraded in case performance of the properties is below ICRA's expectations and/or there is bunching of the capex over a short time period. Further, higher-than-expected leverage will be credit negative.

Key rating drivers

Credit strengths

Long and established track record: BHPL has a demonstrated track record of successful operations at five hotel properties (including those in subsidiaries)— Park Plaza in Gurgaon (Haryana)- 45 keys, Radisson Suites in Gurgaon-35 keys, Radisson Blu Suites in Indore (Madhya Pradesh)-201 keys, Radisson Blu Hotel in Nagpur (Maharashtra)-214 keys and Radisson (erstwhile Park Plaza) in Noida (Ghaziabad) -88 keys. Park Plaza Gurgaon and Radisson Suites Gurgaon have been divested by the group

Comfortable debt protection indicators: Comfortable debt protection indicators- Total Debt/OPBIDTA stood at 2.6x, interest cover stood at 4.5 times and DSCR stood at 4.9x in FY2018. Since the company has repaid loan taken against its under-construction hotel in Dharuhera in FY2019YTD, the leverage has reduced by half and debt protection indicators have improved substantially. Additionally, low debt against two mature operational hotels and association with Bestech group provides significant financial flexibility.

Favourable maturity profile of operational hotels: The two operational hotels in Indore (Madhya Pradesh) and Nagpur (Maharashtra) are now mature; both of them have been operational for more than six years and have stable operating metrics

Tie up with Carlsons Rezidor Hotel Group: The company has entered into agreement with Carlsons Rezidor Hotel Group for management and marketing of hotel properties, which imparts brand recognition, superior management expertise and access to global reservation system

Credit weaknesses

Aggressive Expansion Plans: Company plans to develop two Park Inn hotels in Indore and Nagpur, one wellness resort in Dharuhera and one five star hotel in Gurgaon and also has aggressive capex plans through its 74:26 JV with Carlsons group. The total outlay on these projects is likely to be Rs. ~313 crore (excluding five-star hotel in Gurgaon and under-construction hotel/resort in Dharuhera), against current gross block of Rs. ~320 crore and balance sheet size of Rs. ~280 crore. The capex of Rs. ~313 crore is expected to be funded with debt of Rs. ~186 crore against current debt of Rs. ~25 crore. The capex is likely to be completed over a period of four-to-five years. which expose it to project, funding and market risks. Additionally, the debt protection indicators are likely to weaken from current levels on account of the leverage taken for the proposed expansion. Nonetheless, the financial policy is not expected to be overly aggressive based on past track record of regular infusion of funds by the promoters which has supported the credit risk profile of the entity.

Slippages in development of Dharuhera property: The under-construction hospitality property on NH-8 in Dharuhera is facing significant time and cost overruns, impacting project feasibility. Company plans to reposition the entire project and develop it as a wellness resort which may lead to further delay in commencing operations

High operating leverage of the industry: High operating leverage and cyclicity inherent in the hospitality business may impact revenue generation and profitability

Cyclical Industry: Hospitality industry is cyclical and is also vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, terrorist attacks, disease outbreak etc)

Liquidity Position:

The current liquidity profile of BHPL is comfortable as the cash flows from operational hotels are more than sufficient to meet the operational and financial obligations with no reliance on external funding. Further, low debt against these operational hotels provides significant financial flexibility. However, the liquidity situation may get impacted going forward as the company embarks on its large capex plan. ICRA will continue to monitor the pace of capex and its funding.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hotel Industry
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company:

Bestech Hospitalities Private Limited (BHPL) is part of the Bestech Group which was founded by Mr. Dharmendra Bhandari and Mr. Sunil Satija in early 90s. The group started as a construction contractor and has been in the construction business for over two decades. It has constructed ~16 million sq. ft of space for various real estate projects including several residential and commercial projects in NCR for developers like Unitech, MGF etc. In 2001, the group diversified into real estate business and incorporated Bestech India Private Limited (BIPL). Over the years, the Bestech Group has developed residential and commercial projects in Gurgaon which include – Bestech Chambers, Bestech Parkview Spa, Bestech Parkview Spa Next, Bestech Central Square, Park View City – I & II. In 2002, the Bestech Group diversified into hospitality sector and incorporated BHPL. BHPL has completed four hotel properties - Park Plaza Gurgaon-45 rooms, Radisson Suites Gurgaon-35 rooms, Radisson Blu Indore-- 200 rooms and Radisson Blu Nagpur-214 rooms, Radisson (formerly Park Plaza) Noida – 88 rooms. The company has sold Radisson Suites Gurgaon and Park Plaza Gurgaon. The company has one under-construction hotel- Radisson Blu Dharuhera and plans to add three more properties over medium term. Company also has a JV with Carlsons group to develop a chain of Radisson Red hotels in India.

Key Financial Indicators (Audited)

	FY 2017	FY2018
Operating Income (Rs. crore)	96.86	110.99
PAT (Rs. crore)	4.26	8.62
OPBDIT/ OI (%)	23.97%	22.86%
RoCE (%)	3.42%	6.51%
Total Debt/ TNW (times)	0.35	0.40
Total Debt/ OPBDIT (times)	2.43	2.68
Interest coverage (times)	6.11	4.51
NWC/ OI (%)	18%	9%

Source: BHPL, ICRA estimates

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. Cr.)	Amount Outstanding (Rs. Cr.)	Date & Rating (FY2019)	Date & Rating (FY2018)	Date & Rating (FY2017)	Date & Rating (FY2016)	Date & Rating (FY2015)	
					Dec-18	Nov-17	Nov-16	Sep-15	Oct-14	
2	Term Loans	Long Term	50.28	50.28	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BB+ (stable)	

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
--	Term Loan	Jun-17	--	Jun-24	30.00	[ICRA]BBB+(stable)
--	Term Loan	Jun-24	--	Sep-24	20.28	[ICRA]BBB+(stable)

Source: Bestech Hospitalities Private Limited; Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	BHPL's Ownership	Consolidation Approach
JOP Hotels Limited	51%	Full Consolidation
Babylon Buildwell Private Limited	100%	Full Consolidation
Bestech Hotels and Resorts Private Limited	74%	Full Consolidation
Bestech Hotels Private Limited	74%	Full Consolidation

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