August 13, 2019

IREO Hospitality Company Private Limited (IHCPL): Rating revised to [ICRA]BB-(Negative)

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based limits	863.30	863.30	[ICRA]BB- (Negative); revised from [ICRA]BB+ (Stable)
Long-term non-fund based limits	60.00	60.00	[ICRA]BB- (Negative); revised from [ICRA]BB+ (Stable)
Total	**923.30**	**923.30**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action reflects the significant delay in the execution of the mixed-use hospitality project, comprising of a 460-key hotel, high street retail and a commercial block, being undertaken by IREO Hospitality Company Private Limited (IHCPL), with the scheduled commercial operations date (SCOD) having been revised for the second time, from September 30, 2018 to September 30, 2019. The primary reasons behind the delay include GST related disruptions and lack of clarity on certain import benefits, which led to delayed imports of certain project items. The extended execution period, together with some enhancement in project scope, has led to a significant cost over-run, with the total project cost having been revised from Rs. 1301 crore to Rs. 1481 crore. The incremental cost of Rs. 180 crore is expected to be funded through Rs. 120 crore of debt and Rs. 60 crore of equity. While ICRA notes that around Rs. 35 crore has been infused by way of equity in FY2020 towards the incremental project cost, infusion of the balance equity and timely tie-up of the budgeted debt would remain key in ensuring execution of the project within the revised timelines. ICRA also notes that the achievement of the extended SCOD would remain critical given that the one-year extension for non-infrastructure projects as per RBI guidelines has now been exhausted. Further, considering that the scheduled repayments are to commence from December, 2019 onwards, there is very limited cushion available for the stabilization of the hotel segment. ICRA has noted that IHCPL has been holding discussions with various interested parties for leasing of the retail and commercial space. However, while the company has been able to tie-up 39% of the retail space, leasing for commercial block has been slower than expected, which accentuates the leasing risk. Also, the tenants are generally provided a rent-free period ranging from 3-6 months for fit-outs which would further delay the cash flows. Therefore, timely receipt of occupation certificate (OC) will be essential to ensure that rental inflows commence in a timely manner. Build-up of rental deposits, which may be utilized for debt servicing obligations during the stabilization period, would also remain important. In case of inadequate cash flow generation during the stabilization period, incremental funding may be required for working capital requirements and other operating expenses as well, thus resulting in IHCPL being dependent on timely support from the promoters to fund operational and financial obligations.

The rating continues to draw strength from the favourable location of the project at the junction of Golf Course Road and Golf Course Extension Road, Gurgaon with good accessibility and adequate catchment areas. The rating also factors in IHCPL's operating and management agreement with Hyatt for the hotel property under the "Grand Hyatt" brand, which while providing brand recognition, will also provide access to Hyatt's global reservation system.

IHCPL's ability to fund the cost over-run, achieve the SCOD, stablize hotel operations, and tie-up adequate rental inflow will remain amongst the key rating sensitivity factors. Funding of operational and financial obligations during the stabilization period will also remain a critical determinant of the company's credit profile.

Outlook: Negative

The Negative outlook reflects the possibility of a cash flow mis-match going forward, given the deferment of commercial operations, and the consequently reduced time-cushion available between generation of operational cash flows and commencement of debt repayment obligations. The outlook may be revised to Stable and/or rating may be upgraded if the company is able to achieve the revised SCOD, stabilize hotel operations and tie-up adequate leases for the retail and commercial space in a timely manner, leading to generation of adequate cash flows to support operational and financial obligations.

Key rating drivers

Credit strengths

Established Brand Name for Hotel Operations – Grand Hyatt: IHCPL has tied up with Hyatt for management of its hotel operations. The tie-up will lend strong brand recognition, given the established position of the brand in the hospitality industry and will allow for access to superior management expertise and processes, apart from access to Hyatt's global reservation systems.

Favourable location of the project: The favorable location of the project at the junction of Golf Course Road and Golf Course Extension Road, Gurgaon provides good accessibility and adequate catchment areas. Increased commercial activity and residential development in and around the area is expected to act as a demand generator for the project. Moreover, supply of hospitality and retail facilities in the immediate vicinity is limited, which supports the market position of the project.

Credit challenges

Significant cost over-run in the project; tie up of incremental funding and achievement of revised SCOD remains critical: The total project cost has been revised from Rs. 1301 crore to Rs. 1481 crore due to a one-year extension in the SCOD as well as enhanced FAR received under the Green Rating for Integrated Habitat Assessment (GRIHA) programme. The incremental cost of Rs. 180 crore is expected to be funded through Rs. 120 crore of debt and Rs. 60 crore of equity. While the enhanced project scope is expected to add long-term value, 2timely tie-up of debt and infusion of requisite equity will remain critical for the execution of the project within the revised timelines, notwithstanding the advanced stage of project construction at present. ICRA notes that the achievement of the extended SCOD would remain critical given the one-year extension for non-infra projects as per RBI guidelines has been exhausted now.

Low leasing progress: IHCPL has been holding discussions with various interested parties for leasing of the retail and commercial space. However, while the company has been able to tie-up 39% of the retail space, leasing for commercial block has been slower than expected, which accentuates the leasing risk. Also, the tenants are generally provided a rent-free period ranging from 3-6 months for fit-outs which would further delay the cash flows. Build-up of rental deposits, which may be utilized for debt servicing obligations during the stabilization period, would also remain important.

Stabilization of hotel operations and adequate absorption of leasable area would be a key determinant of ability to service debt from operational cash flows, given commencement of repayment obligations from December, 2019: ICRA notes that the timely receipt of occupation certificate (OC) will be essential to ensure that rental inflows commence in a timely manner. In case of inadequate cash flow generation during the stabilization period, funding would be required for working capital requirements and other operating expenses as well, thus resulting in IHCPL being dependent on timely support from the promoters to fund operational and financial obligations.

Cyclical hotel industry vulnerable to general economic slowdown and exogenous factors: Due to its presence in the hotel industry, the company is susceptible to risks arising from the cyclicality therein. The hotel revenues are also vulnerable to general economic slowdown and exogenous shocks (such as geopolitical crisis, terrorist attacks, disease outbreaks, natural calamities etc).

Liquidity position

IHCPL has sanctioned debt of Rs. 863 crore, which has almost been drawn down completely as on July 25, 2019. Repayment on the same is scheduled to commence from December, 2019. Moreover, debt of Rs. 120 crore required to partly fund the project cost over-run is yet to be tied up. Given the limited time-cushion available between commencement of commercial operations and start of debt repayments, timely tie-up of the required incremental debt and infusion of requisite equity to ensure achievement of the revised SCOD and generation of adequate cash flows from operations will remain critical to avoid a cash flow mis-match. In case of inadequate cash flow generation during the stabilization period, IHCPL would be dependent on timely support from the promoters to fund operational and financial obligations.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Debt Backed by Lease Rentals Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements

About the company

IREO Hospitality Company Private Limited (IHCPL) is a subsidiary of IXO Limited (IXO). IXO, a Mauritius based company, is owned by the IREO Group. IHCPL is undertaking the development of a mixed used hospitality project located at Sector 58, Gurgaon, spread across a land parcel with gross area of 13.95 acres. The project, with a revised SCOD of September 30, 2019, is proposed to have a 5-star deluxe hotel with 400 rooms, 60 service apartments and around 7.5 lakh sq.ft of leasable high-street retails space and Grade-A office space. The revised project cost stands at Rs. 1481 crore, with a debt funding of Rs. 983 crore of which Rs. 863 crore has been already tied-up. As on March 31, 2019, the sponsor had infused Rs. 463 crore and incurred approximately 84% of the project cost.

In FY2019, the company, on a provisional basis, reported a net loss of Rs. 3.4 crore compared with a net loss of Rs. 1.8 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-1.8	-3.4
OPBDIT/OI (%)	-	-
RoCE (%)		-
Total Debt/TNW (times)	1.01	1.84
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	-	-

Note: Audited financial statements for FY2019 are not available as yet

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug-19	Date & Rating in FY2019 Aug-18	Date & Rating in FY2018 Jul-17	Date & Rating in FY2017 Sep-16
1	Fund-based Limits	Long Term	863.3	861	[ICRA]BB- (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)
2	Non-fund based Limits	Long Term	60	-	[ICRA]BB- (Negative)	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (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
NA	Term Loan	April 2016	-	FY2029	863.30	[ICRA]BB- (Negative)
NA	Non-fund based limits	-	-	-	60	[ICRA]BB- (Negative)
					923.3	

Source: IHCPL

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

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