

December 05, 2019

## Belaire Hotels Private Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                       | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                  |
|-----------------------------------|-----------------------------------|----------------------------------|--------------------------------|
| Term loans                        | 162.6                             | 162.6                            | [ICRA]BB+ (Stable); reaffirmed |
| Short-term, non-fund based limits | 46.0                              | 46.0                             | [ICRA]A4+; reaffirmed          |
| <b>Total</b>                      | <b>208.6</b>                      | <b>208.6</b>                     |                                |

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings factors in the experience of the Belaire Hotels Private Limited's (BHPL) promoters in the hospitality industry, with AccorHotels, the co-owner of the hotel, being one of the leading hotel operators in the world. The management tie up with AccorHotels for its midscale Novotel brand provides access to Accor's global marketing network. Further the large catchment of the hotel with its location being close to the airport and corporate parks in Pune supports demand prospects. Diversified revenue streams –large banqueting/ conference facilities with well-positioned restaurants and bars lend some stability to revenues. The ratings also positively factor in the equity infusion of Rs. 108.75 crore by the promoters<sup>1</sup> during FY2015-FY2019. ICRA expects BHPL's promoters to continue providing timely financial support to the company to regularly service its debt obligations.

The ratings, however, are constrained by the small scale of operations with concentration on a single property in Pune (Maharashtra). The pressure on average room rates (ARR) due to intense competition from other established hotels in the vicinity has impacted the ability of the hotel to increase rates, despite the fairly healthy occupancy. However, ICRA notes that due to the slowdown in supply additions over the past few years, the Pune hospitality market has been witnessing above average occupancy levels with gradual improvement in ARR expected going forward. The ratings factor in the exposure to foreign exchange fluctuations on account of funding the hotel construction through external commercial borrowings (ECB) and the stretched financial position owing to erosion of net worth by losses since inception. The debt coverage indicators remain stretched, as reflected by Total Debt/OPBDITA of 21.4 times and interest coverage of 0.7 times in FY2019. The net worth erosion has, however, been partially compensated by equity infusion by the promoters.

Due to subdued operating performance (low revenue per available room), the company is yet to generate adequate cash flows to support debt servicing. The timely infusion of funds by the promoters to support servicing of bank debt obligations remains a key rating sensitivity.

The Stable outlook factors in the benefit accruing from the co-owner/management's tie-up with AccorHotels for the Novotel brand and the favourable location of the hotel property. It also notes the timely infusion of funds by the promoters to support debt servicing.

<sup>1</sup> India Blue Mountains (InBM; 74% stake), through its step-down subsidiary in Mauritius, Belaire Holdings Limited, and AccorHotels, through AAPC India Hotel Management Private Limited (26% stake)

## Key rating drivers and their description

### Credit strengths

**Favourable location of the hotel property close to the airport and corporate parks in Pune ensuring large catchment –** The hotel is situated in Weikfield IT Park on Pune-Nagar Road. It enjoys the advantages of being close to the Pune airport and business establishments such as EON IT Park Kharadi, Business Bay, and IT offices in Viman Nagar. Additionally, the hotel is in proximity to retail and entertainment hubs such as Phoenix Marketcity, Inorbit Mall, Amanora Town Centre and Koregaon Park.

**Experience of promoters in the hospitality industry; AccorHotels, manages one of the largest hotel chains across the globe-** AccorHotels, France, is among the world's largest groups involved in tourism and hospitality with presence in 100 countries across the world. The co-owner and hotel operator, AccorHotels has over 40 years of experience in the hospitality industry and has a network of 4,892 hotels and 7,17,314 rooms (as of June 2019) across the globe. This vast experience and reach of AccorHotels, and strong brand image of Novotel, benefits BHPL in marketing its room inventory to a wide customer base.

**Large banquet hall and conference rooms along with food and beverage outlets offers diversified revenue streams –** Food and beverages (F&B) and meeting, incentives, conferences and exhibitions (MICE) businesses are at present providing good support to its overall revenue growth. The F&B segment accounted for ~34% of the total revenues (~52% of room revenues) in FY2019. The hotel has five F&B outlets, which include two multi-cuisine restaurants, a bar, a snack bar and a bakery. MICE (including social events) traffic is driven by indoor and outdoor banqueting space of up to 11,000 sq. ft. for up to 400 guests.

**Regular equity infusion by the promoters to support the debt servicing of the company –** Since the commencement of commercial operations in December 2013, the company has been reporting cash shortfalls to meet its debt obligations. However, the same has been met through regular fresh equity infusion by the promoters. The promoters infused Rs. 17.25 crore in FY2015, Rs. 15.00 crore in FY2016, Rs. 22.50 crore in FY2017, Rs. 26.00 crore in FY2018 and Rs. 28 crore in FY2019 (cumulatively Rs. 108.75 crore during FY2015-FY2019). This demonstrates the commitment of the promoters to the company. ICRA expects BHPL's promoters to continue providing timely financial support to regularly service its debt obligations.

### Credit challenges

**Stretched financial profile; timely infusion of funds by the promoters key for servicing bank debt obligations –** The company had availed ECB of US\$ 31.15 million (outstanding of Rs. 129.1 crore as on March 31, 2019, including exchange rate fluctuation related hit) and rupee term loan (outstanding of Rs. 1.3 crore as on March 31, 2019) for funding the hotel construction cost of ~Rs. 311 crore. The high debt levels and erosion of net worth on account of sizeable losses since inception has adversely impacted the capital structure and debt coverage indicators. BHPL reported a gearing of 1.7 times as on March 31, 2019 and stretched debt coverage indicators of TD/OPBITDA of 21.4 times, interest coverage ratio of 0.7 times in FY2019. At present, the annual cash generation from operations is inadequate to meet the debt obligations. The funding gap is being met by the promoters and their timely support is a key rating sensitivity.

**Muted operating performance in an intensely competitive Pune market –** Though the company has been posting occupancy of above 70% over the past three years, the ARR is low at ~Rs. 4,664 (Rs. 4,311 in FY2018) in FY2019, constrained by the competition.

**Small scale of operations** – The company has a small scale of operation with concentration on a single hotel property in Pune. Hence, the operating performance of the property remains vulnerable to the seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc).

### Liquidity position: Stretched

BHPL has an external debt outstanding of Rs. 130.4 crore as on March 31, 2019. The company’s liquidity profile remains stretched as it is unable to service its debt obligations from the cash flows of operation and requires constant financial support from its promoters. The promoters have supported with regular equity infusions over the years. ICRA expects the BHPL’s promoters to continue providing timely financial support to the company to regularly service its debt obligations.

### Rating sensitivities

**Positive triggers** – An upward movement in rating could happen if substantial growth in revenue and profitability strengthens the financial risk profile.

**Negative triggers** – Negative pressure on BHPL’s ratings could arise if there is decline in operational performance of the company, withdrawal/delay of financial support by the promoters, or if any debt-funded capital expenditure, further weakens liquidity.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology for Entities in the Hotel Industry</a>   |
| Parent/Group Support            | Parent Companies: AccorHotels, through AAPC India Hotel Management Private Limited (26% stake) and India Blue Mountains (InBM; 74% stake), through its step-down subsidiary in Mauritius, Belaire Holdings Limited.<br>ICRA expects the parent companies to continue providing timely financial support to the company to regularly service its debt obligations, like they have done in the past. |
| Consolidation/Standalone        | The rating is based on standalone financial statements of the rated entity.  |

### About the company

BHPL owns the 223-room, five-star hotel, Novotel, at Nagar Road in Pune. The hotel commenced operations from December 2013. The hotel building has been built with a ground+nine floors+two basement floors structure. Of this, two of the floors (the third and fourth; can accommodate 84 additional standard rooms) have been kept vacant at present. It is exploring various options to construct additional rooms/suites/serviced apartments or a combination of these on the vacant floors.

The company is a special purpose vehicle (SPV) floated for development of the Novotel hotel in Pune. It is jointly owned by India Blue Mountains (InBM; 74%), through its step-down subsidiary in Mauritius, Belaire Holdings Limited, and the international hotel operator, AccorHotels, through AAPC India Hotel Management Private Limited (26%). InBM, a fund incorporated in Jersey near UK, has currently invested in companies owning and developing hotel properties in Pune,

Mumbai and Goa, mainly in partnership with AccorHotels under its Novotel brand. AccorHotels, France, is one of the largest hotel operators in the world with presence across 100 countries.

The hotel has three multi-cuisine restaurants and two bars. The hotel is also equipped with a divisible ballroom (400 people in theatre style), six conference rooms (maximum of 80 people in board-room style) and a total of 11,000 sq. ft. of indoor and outdoor banqueting area for large events.

### Key financial indicators (audited)

|  | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore)                         | 41.5   | 43.0   |
| PAT (Rs. crore)                                      | -11.3  | -11.9  |
| OPBDIT/OI (%)  | 20.0%  | 20.5%  |
| RoCE (%)   | 0.2%   | 0.0%   |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.2    | 1.8    |
| Total Debt/OPBDIT (times)                            | 24.3   | 21.4   |
| Interest Coverage (times)                            | 0.7    | 0.7    |
| DSCR   | 0.3    | 0.3    |

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

**Any other information: None**

### Rating history for past three years

| Instrument              | Current Rating (FY2020) |              |   | Rating History for the Past 3 Years |                    |                    |                    |
|-------------------------|-------------------------|--------------|---|-------------------------------------|--------------------|--------------------|--------------------|
|                         | Type                    | Amount Rated | Amount Outstanding as on March 31, 2019 | Rating 5-Dec-19                     | FY2019 17-Sep-18   | FY2018 4-Aug-17    | FY2017 8-Sep-16    |
| 1 Term Loans            | Long Term               | 162.6        | 130.4                                   | [ICRA]BB+ (Stable)                  | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) |
| 2 Non-fund based limits | Short Term              | 46.0         | -                                       | [ICRA]A4+                           | [ICRA]A4+          | [ICRA]A4+          | [ICRA]A4+          |

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 [www.icra.in](http://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 (Rupee)    | Jun-12                      | 13.00%      | Jun-24        | 2.29                     | [ICRA]BB+ (Stable)         |
| -       | Term loan (ECB *)    | Feb-12                      | LIBOR+4.5%  | Feb-24        | 160.31                   | [ICRA]BB+ (Stable)         |
| -       | Bank Guarantee       | -                           | -           | -             | 12.00                    | [ICRA]A4+                  |
| -       | Loan Equivalent Risk | -                           | -           | -             | 34.00                    | [ICRA]A4+                  |

\*ECB - External Commercial Borrowings  
Source: Belaire Hotels Private Limited

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