February 18, 2022

SRP Prosperita Hotel Ventures Limited: [ICRA]BBB(Stable) reaffirmed; rated amounts enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	89.40	109.40	[ICRA]BBB(Stable) reaffirmed/ assigned
Long-term Fund-based – Cash Credit	8.00	8.00	[ICRA]BBB(Stable) reaffirmed
Total	**97.40**	**117.40**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation draws comfort from the strong parentage of SRP Prosperita Hotel Ventures Limited (SPHVL) and ICRA's expectation that the company will receive funding support, if required, from its parent company, Brigade Hotel Ventures Limited (BHVL, rated [ICRA]A-(Stable)/A2+), to meet any operational and financing cash flow deficits. The Brigade Group has an established presence in the hospitality segment with 1474 operational keys spread across 8 hotels and another 151 keys in an under-development hotel. The rating is supported by the established operational profile of SPHVL's sole asset, Holiday Inn Chennai OMR IT Expressway, located in proximity to numerous IT companies, with occupancy levels of more than 70% prior to the outbreak of Covid-19 pandemic. The rating also positively factors in the favourable location of the hotel and the management contract with the InterContinental Hotels Group (IHG) for operating the hotel under the Holiday Inn brand. The rating also takes note of the recent improvement in the occupancy level to pre-covid level of 70% in Q3FY2022. The average occupancy for FY2022 is estimated to be around 60% as compared to 33% in FY2021.

The rating, however, factors in the continued extensive impact of the Covid-19 pandemic on the global travel and hospitality industry which continues to put pressure on the average room rent (ARR), thereby affecting the revenues and profitability of the company in the near term. Though the operating profitability is expected to increase in FY2022 with improved occupancy level and adequate cost control measures, the company's credit metrics are estimated to remain weak in the near term with high leverage and weak debt-service coverage ratio. Nevertheless, the ratings take note of the availability of loan sanctioned under the Emergency Credit Line Guarantee Scheme (ECLGS). SPHVL was sanctioned Rs 36.0 crore of term loan under ECLGS scheme till December 2021 of which Rs 18.0 crore was undrawn as on December 31, 2021, which supports the liquidity profile of the company.

The stable outlook represents ICRA's expectation that SPHVL's credit profile will continue to benefit from BHVL's support as well as the Group's track record in the sector.

Key rating drivers and their description

Credit strengths

Strong promoter profile with long track record in real estate business: SPHVL is a subsidiary of BHVL and is a part of the Brigade Group which is one of the leading real estate players in Bangalore. Also, hospitality is one of the key strategic operating divisions of the Brigade Group. SPHVL operates 1 hotel in Chennai and BHVL operates 7 hotels, with 1272 keys with 4 located in Bangalore, one each in Mysore, Kochi and Gujarat. SPHVL's Holiday Inn had stabile operations pre-covid with an occupancy level of over 70% and gross operating profit (GOP) margin of 36% in FY2020.With the recent improvement in the occupancy level in Q2 and Q3FY2022 post the second-wave of the Covid-19 pandemic in Q1FY2022, the occupancy level revived back to 70% during Q3FY2022.

Track record of financial support extended by both BHVL and BEL in the past– BEL, the ultimate parent company has extended financial support in the form of compulsorily convertible preference shares (CCPS) and inter-corporate deposits in the past and BHVL has demonstrated funding support to SPHVL in FY2020 and FY2021 in the form of non-convertible debentures. The funding support from the parent has been minimal in FY2021 and 9MFY2022 since the company had been sanctioned term loan under ECLGS scheme. Nevertheless, ICRA expects the company to continue to receive operational and financial support from its parent and ultimate parent, if need be.

Attractive location and tie-up with established hotel operator – The hotel has been developed on Old Mahabalipuram Road (OMR) in Chennai. Given its proximity to various office parks and corporate offices on the OMR, the hotel's long-term demand prospects are favourable. SPHVL has signed a management contract with the InterContinental Hotels Group (IHG) for operating the hotel under the Holiday Inn brand.

Credit challenges

Continued negative impact of Covid-19 pandemic: The Covid-19 pandemic continues to have negative impact on the demand in hospitality sector. Though there has been quick revival in the occupancy level back to pre-covid levels in Q3FY2022, the ARR continues to remain under pressure and is estimated to reach pre-covid level only on normalisation of the pandemic situation. This is expected to affect the company's revenue and profitability in the near term.

Financial profile characterised by high leverage and modest debt coverage indicators: SPHVL's credit metrics were adverse in FY2021 and estimated to remain adverse in FY2022 owing to lower operating profit estimated for FY2022. The company's cash flows were supported by the sanction of ECLGS loan in FY2021 and FY2022. The company has an undrawn ECLGS limit of Rs 18.0 crore available for draw-down in FY2023 which will bridge the estimated shortfall in the cashflows.

Liquidity position: Adequate

The company's liquidity position is adequate aided by the undrawn limit of ECLGS loan to an extent of Rs 18.0 crore as on December 31, 2021. The company's total debt repayment obligation is Rs 11.2 crore in FY22 and Rs 19.6 crore in FY23 and is expected to be funded partly by cashflow from operations and partly by ECLGS loan, thus reducing the dependence on promoter support in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade SRP's rating if the company demonstrates a sustained improvement in its occupancy level and ARR over the medium term, leading to improvement in leverage and debt-coverage ratios and/or if the rating of parent, BHVL gets upgraded

Negative factors – Negative pressure on SRP's rating could arise if there is continued pressure on the operational and credit metrics of SRP as a result of Covid-19 pandemic or if there is any weakening in the credit profile, financial support or linkages with its parent, BHVL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Hotel Methodology Rating approach - Implicit parent or group support
Parent/Group Support	Parent Company: Brigade Hotel Ventures Limited (BHVL). ICRA expects BHVL to be willing to extend financial support, should there be a need. There also exists a consistent track record of BHVL and BEL, the ultimate parent company having extended timely financial support directly to SPHVL in the past to meet its operational and financial deficits.
Consolidation/Standalone	Standalone

About the company

SRP Prosperita Hotel Ventures Limited (SPHVL) is a subsidiary of Brigade Hotel Ventures Limited (BHVL), which holds an equity stake of 50.01% in SPHVL. BHVL in turn is a wholly owned subsidiary of Brigade Enterprises Limited (BEL, rated [ICRA]A+ (Stable)/A1), which has diversified real estate operations spanning residential, commercial and retail real estate, in addition to hospitality. The remaining stake is held by the promoters of Subramanian Engineering Ltd (SEL). SPHVL has developed a hotel in Chennai under the brand Holiday Inn on Old Mahabalipuram Road which became operational in June 2017.

Key financial indicators

Standalone	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)*	41.5	13.4
PAT (Rs. crore)	-13.6	-17.6
OPBDIT/OI (%)	30.4	3.5
PAT/OI (%)	-32.8	-131.6
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.9
Total Debt/OPBDIT (times)	7.4	211.9
Interest Coverage (times)	1.3	0.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; note – Company reported figures does not include debt of associates and joint venture companies

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 18, 2022	Jan 6, 2021	May 18, 2020	-	Mar 15, 2019
1	Term loan	LT	109.40	91.0	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
2	Overdraft	LT	8.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)

**outstanding as on Sep 30, 2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long term fund based – Overdraft	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Term loan	FY2017-18	-	FY2025-28	109.40	[ICRA]BBB(Stable)
-	Overdraft	-	-	-	8.0	[ICRA]BBB(Stable)

Source: *Company;*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: Details of entities consolidated

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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