

February 18, 2022

Brigade Hotel Ventures Limited: [ICRA]A- (Stable) and [ICRA]A2+ 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	400.63	508.00	[ICRA]A-(Stable) reaffirmed/assigned
Long-term Fund-based – Cash Credit	30.00	30.00	[ICRA]A-(Stable) reaffirmed
Long term – Unallocated	49.37	12.00	[ICRA]A-(Stable) reaffirmed
Short term – Non fund based	20.00	10.00	[ICRA]A2+ reaffirmed
Total	500.00	560.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings draws comfort from the strong parentage of Brigade Hotel Ventures Limited (BHVL), which is a wholly-owned subsidiary of Brigade Enterprises Limited (BEL; rated [ICRA]A+(Stable)/[ICRA]A1), and the Group's track record in the hospitality sector. The ratings continue to positively factor in the company's sizeable scale of operations with 8 hotels operated by global brands in geographically diversified locations across Bangalore, Chennai, Mysore, Kochi and Gujarat, with one under construction hotel in Mysore. The ratings take note of the improvement in the occupancy level in Q2 and Q3FY2022 across hotels post the second-wave of the Covid-19 pandemic in Q1FY2022. The overall occupancy level had reached the pre-covid level of 61% in December 2021. Despite temporary disruptions caused by the third wave of the Covid-19 pandemic in January 2022, the overall occupancy level for FY2022 is estimated to be around 45% as compared to 23% in FY2021, which is expected to result in healthy revenue growth in FY2022.

The ratings, however, factor 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. Though the company is estimated to report operating profits in FY2022 with improved occupancy level and adequate cost control measures, the company's credit metrics are estimated to remain weak in the medium term with high leverage and weak debt coverage ratios. Nevertheless, the ratings take note of the availability of loan sanctioned under the Emergency Credit Line Guarantee Scheme (ECLGS). BHVL was sanctioned Rs 164.0 crore of term loan under ECLGS scheme till December 2021 of which Rs 59.0 crore was undrawn as on December 31, 2021. While any shortfall in the cash flow is likely to be funded by the ECLGS line till FY2023, BHVL will be dependent on support from BEL or debt refinancing to fund the deficit expected in FY2024.

The stable outlook represents ICRA's expectation that BHVL's credit profile will continue to benefit from BEL'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: BHVL is a wholly-owned subsidiary of BEL, 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. On a standalone basis, BHVL has 7 operational hotels, with 1272 keys. BHVL has 4 hotels in Bangalore, one each in Mysore, Kochi and Gujarat. Through its subsidiary, SRP Prosperita Hotel Ventures Limited, BHVL also operates a hotel in Chennai with 202 keys.

Established profile of BHVL's operational assets: All the hotels are operated by global brands namely Sheraton, Grand Mercure, Holiday Inn and Four Points Sheraton and are favourably located near the respective city's business districts. Of these, Sheraton and the Grand Mercure hotels in Bangalore have stabilised operations where the pre-covid level of occupancy were around 80% and 75% respectively with GOP margin of around 35%. After the adverse impact of the pandemic on the company's hotel operations in FY2021, the company witnessed improvement in the occupancy level in Q2 and Q3FY2022 across all properties and the overall occupancy level reached the pre-covid level of 61% in Dec 2021.

Limited scale of projects under development: With majority of its projects being already operational, BHVL has low execution risk associated with its under-construction projects. Currently BHVL has a single under-construction hotel in Mysore. Nonetheless, majority of the capex is expected to be deferred until the pandemic situation normalises.

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 take longer to reach the earlier levels. This is expected to affect the company's revenue and profitability in the medium term.

Financial profile characterised by high leverage and modest debt coverage indicators: BHVL's credit metrics were adverse with operating loss of Rs. 21.6 crore in FY2021. Though the company is estimated to report operating profits in FY2022 with improved occupancy level and adequate cost control measures, the company's credit metrics are estimated to remain weak in the medium term with high leverage and weak debt coverage ratios.

Dependence on promoters for funding support: While the company was able to largely support its own cashflow requirements through loan under ECLGS scheme in FY22, dependence on promoter funding is still expected to continue in the medium term to bridge any shortfall in cashflow.

Liquidity position: Adequate

The company's liquidity position is adequate aided by undrawn ECLGS loan limit of Rs 59.0 crore as on December 31, 2021. The company's total debt repayment obligation is Rs 48.5 crore in FY22 and Rs 75.3 crore in FY23 which will be funded partly by cashflow from operations and partly by ECLGS loan, thus reducing the dependence on promoter support in the immediate term. The company's cash and bank balances stood at Rs 46.8 crore as on September 30, 2021.

Rating sensitivities

Positive factors – ICRA could upgrade BHVL'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 coverage indicators and/or if the rating of the parent company (BEL) gets upgraded.

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

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 Enterprises Limited (BEL). ICRA expects BEL to be willing to extend financial support, should there be a need. There also exists a consistent track record of BEL having extended timely financial support to BHVL in the past to meet its operational and financial deficits. BEL has also extended Corporate Guarantee for part of the debt availed by BHVL.
Consolidation/Standalone	Based on consolidated financial profile of BHVL with its subsidiary, SRP Prosperita Hotel Ventures Limited, since there has been a track record of BHVL having extended timely financial support to this subsidiary in the past and its willingness to extent such support in the future, should there be a need.

About the company

Brigade Hotel Ventures Limited (BHVL) is a 100% subsidiary of Brigade Enterprises Limited (BEL). BHVL was incorporated in August 2016 to bring in all the hotel operations of Brigade Group under one entity. Currently, BHVL operates 7 hotels located across Bangalore, Kochi, Mysore and Gujarat and operates 1 hotel in Chennai through its subsidiary, SRP Prosperita Hotel Ventures Limited.

Key financial indicators

Consolidated	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)*	227.5	62.9
PAT (Rs. crore)	-32.4	-126.8
OPBDIT/OI (%)	25.6	-34.4
PAT/OI (%)	-14.3	-201.6
Total Outside Liabilities/Tangible Net Worth (times)	3.0	3.9
Total Debt/OPBDIT (times)	8.64	-23.39
Interest Coverage (times)	1.3	-0.5

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	Dec 18, 2020	Oct 4, 2019	Sep 20, 2019	Jun 1, 2018	
1	Term loan	LT	508.00	464.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	
2	Overdraft	LT	30.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-	
3	Non fund based	ST	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-	-	
4	Unallocated	LT	12.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	

* as of 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
Short term non fund based	Simple
Unallocated	Not applicable

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	FY2016-22	-	FY2025-30	508.00	[ICRA]A-(Stable)
-	Overdraft	-	-	-	30.00	[ICRA]A-(Stable)
-	Non fund based	-	-	-	10.00	[ICRA]A2+
-	Unallocated	-	-	-	12.00	[ICRA]A-(Stable)

Source: Company; Term loan comprises many loans have different issue and maturity dates

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: Details of entities consolidated

Company Name	Ownership	Consolidation Approach
SRP Prosperita Hotel Ventures Limited	50.01%	Limited consolidation

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