

December 30, 2022

## Prestige Hospitality Ventures Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	350.0	350.0	[ICRA]A+(CE) (Stable); reaffirmed
<b>Total</b>	<b>350.0</b>	<b>350.0</b>	

**Rating without Explicit Credit Enhancement**

**[ICRA]BBB+**

\*Instrument details are provided in Annexure-I

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

The rating of [ICRA]A+ (CE) for the term loan of Prestige Hospitality Ventures Limited (PHVL) is based on the strength of an unconditional and irrevocable corporate guarantee provided by Prestige Estates Projects Limited (PEPL/the guarantor, rated [ICRA]A+ (Stable)), the parent of PHVL. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, PEPL.

### Adequacy of credit enhancement

ICRA's rating on PHVL notes the corporate guarantee provided by PEPL for its borrowing programme. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by PEPL results in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor or the Unsupported Rating of PHVL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

### Salient covenants of the rated facility

- Financial covenants include debt service coverage ratio (DSCR) equal to or greater than 1.20 times till FY2022 and greater than or equal to 1.25 times thereafter in PHVL and the asset coverage ratio to be greater than or equal to 1.67 times for the project.

### Key rating drivers and their description

#### Credit strengths

**Corporate guarantee provided by PEPL towards the rated bank facilities of PHVL** – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by PEPL. The rated instrument does not involve a structured payment mechanism.

**Established track record of Prestige Group in real estate and hospitality sectors** – The Prestige Group has over 35 years of experience in real estate development and is one of the leading real estate developers in South India. It has developed a diversified portfolio of real estate projects, which include residential, commercial, hospitality and retail segments. Under the

hospitality segment, the Group has nine operational properties with 1,368 keys in total, four under-construction hotel properties in Delhi and Bengaluru with 1,009 keys and four upcoming projects with 558 keys across Bengaluru and Mumbai.

**Presence of DSRA and escrow mechanism** – PHVL maintains a debt service reserve account (DSRA) covering three months of debt service obligations (principal + interest) with the lender, which provides cushion against any temporary cash flow mismatches. The receivables are routed through an escrow account maintained with the lender.

### Credit challenges

**High leverage and moderate debt coverage metrics** – The company’s operations were impacted in FY2021 and FY2022 by the pandemic. Additionally, the leverage and coverage metrics were poor on account of high costs in the hospitality segment, along with depreciation and interest cost. With improvement in occupancy levels to 66% in H1 FY2023, the revenues are expected to improve in FY2023 to Rs. 105 – Rs. 110 crore and with EBITDA margins of 35%-38%. With healthy revenues and profitability, the debt coverage and leverage metrics are likely to improve in the medium term.

**Cyclical industry, vulnerable to general economic slowdown and external threats** – The hospitality industry is exposed to economic cycles, given that a significant part of demand arises from business travellers, which impact the revenue and profitability of the players. Akin to its counterparts, the company’s revenue remains susceptible to exogenous shocks such as natural calamities and economic/political instability. Further, the recent increase in the Covid-19 cases in China and other countries will remain a monitorable.

### Liquidity of the Guarantor– Adequate

At the guarantor level, PEPL’s liquidity profile is adequate, supported by cash balances of around Rs. 1,312.5 crore as on September 30, 2022 and sufficient cash flow from operations. The company has Rs. 645.0 crore and Rs. 959.0 crore of scheduled debt repayment at the Group level in FY2023 and FY2024, respectively. The repayment of the lease rental discounting (LRD) loans and residential project loans are expected to be adequately covered by the associated operational cash flows.

### Liquidity position: Stretched

The company’s liquidity position is stretched on account of the lower accruals from the hotel operations in relation to the debt servicing obligations. To the extent of such shortfalls, the company will be dependent on funding support from its parent entity.

### Rating sensitivities

**Positive factors** – The rating may be upgraded if there is any material improvement in the credit profile of the guarantor.

**Negative factors** – The rating could be downgraded if there is a material decline in PHVL’s occupancy levels on a sustained basis. Additionally, deterioration in the credit profile of the guarantor or weakening of linkages with the parent company may impact the rating.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Hotel Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a>
Parent/Group support	Parent Company: Prestige Estates Projects Limited. The assigned rating draws comfort from the unconditional and irrevocable guarantee extended by the parent company, Prestige Estates Projects Limited. <a href="#">Click here</a> for the rating of the parent
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

## About the company

Incorporated in December 2017, PHVL is the holding company for the Prestige Group's hospitality business. On a standalone basis, it owns two assets - Conrad hotel in Ulsoor and Oakwood Premier Prestige service apartments in UB City. PHVL has two subsidiaries - one owning an operational hotel at Sheraton, Whitefield, and the other developing an under-construction Marriott hotel in Devanahalli. Apart from that, the company has joint venture (JV) investments in Bamboo Hotel and Global Centre (Delhi) Private Limited, for developing a mixed-use project at Hospitality District of Indira Gandhi International Airport, New Delhi.

## Key financial indicators (audited)

	FY2021	FY2022
<b>Operating income</b>	82.2	79.4
<b>PAT</b>	-67.9	-47.0
<b>OPBDIT/OI</b>	25%	37%
<b>PAT/OI</b>	-61%	-48%
<b>Total outside liabilities/Tangible net worth (times)</b>	-7.9	-7.1
<b>Total debt/OPBDIT (times)</b>	47.3	39.0
<b>Interest coverage (times)</b>	0.7	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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

Any other information: None

## Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Dec 30, 2022	Sep 30, 2021	Apr 24, 2020	-	
1	Term loans	Long term	350.0	321.0	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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 analysing 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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Dec 2019	-	Sep 2031	350.0	[ICRA]A+(CE)(Stable)

Source: Company

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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