May 30, 2023

Brigade Hotel Ventures Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	508.0	475.0	[ICRA]A-(Stable) reaffirmed
Long-term fund-based – Cash credit/overdraft	30.00	35.00	[ICRA]A-(Stable) reaffirmed
Long-term – Unallocated	12.0	40.0	[ICRA]A-(Stable) reaffirmed
Short-term – Non fund based	10.0	10.0	[ICRA]A2+ reaffirmed
Total	**560.00**	**560.00**	

**Instrument details are provided in Annexure-I*

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]AA- (Stable)/A1+), and the Group's track record in the hospitality sector. The ratings continue to positively factor in the company' sizeable scale of operations with eight hotels operated by global brands in geographically diversified locations across Bengaluru, Chennai, Mysore, Kochi and Gujarat, and one under-construction hotel in Mysore. The ratings factor in the improvement in operational performance of hotels in FY2023, with demand stemming from pick up in business travel and MICE (Meeting, Incentives, Conferences and Exhibitions), resulting in an increase in estimated consolidated occupancy at ~70% in FY2023 (44% in FY2022) and Average Rental Rates (ARRs) by ~60% to around Rs. 5,500-5,600. Consequently, the company's consolidated operating income has increased by 30% to Rs. 350 crore in FY2023 in comparison to pre-Covid levels in FY2020. ICRA expects operating income to remain healthy in FY2024 with occupancy levels maintained in the range of 70-75%.

The ratings are, however, constrained by the high leverage and moderate debt coverage metrics. The company's total debt outstanding is Rs. 522 crore as of March 2023 (Rs. 618 crore as of March 2022) and the debt levels are likely to remain elevated in the near term, given the company is constructing a hotel, Ibis Mysore, which is expected to be operational in FY2025. The Total Debt/OPBDITA, at a consolidated level, is around 7 times as of March 2023 and estimated at around 5 times as of March 2024. Despite the improvement in operating performance, the company's debt coverage indicators remain moderate with DSCR below 1 times in FY2024 due to high leverage and significant scheduled repayments. ICRA expects the parent, BEL, to provide timely financial support to BHVL, for funding shortfall, if any, given their substantial financial linkages, BHVL's strategic importance for the parent and parent's reputation sensitivity to default. Further, given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions and several exogenous factors, which leads to its inherent cyclicality in the sector.

The Stable outlook represents ICRA's expectations 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 (rated [ICRA]AA- (Stable)/A1+), which is one of the leading real-estate players in South India. BEL has established itself as one of the major diversified real-estate developers in Bengaluru, generating revenue from three segments - sale of residential and commercial real-estate projects, lease income from the owned commercial property (office and retail) and income from hospitality projects. The hospitality segment remains one of the key strategic operating divisions of the Brigade Group. BHVL has seven operational hotels, with 1,272 keys and one under-construction hotel with 138 keys. BHVL has four hotels in Bengaluru, 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 – The Brigade Group's 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. Around five out of eight operational hotels have achieved pre-Covid occupancy levels in 9M FY2023 with Adjusted Gross Operating (AGOP) margin of 40%.

Improvement in operational metrics resulting in an increase in revenues in FY2023; to remain healthy in FY2024 – The overall occupancy levels for the entire hotel portfolio improved to 69% in 9M FY2023 from 44% in FY2022. The occupancy for FY2023 is estimated at ~70%, while ARRs and RevPar are expected to remain around Rs 5,550 and Rs 3,890 crore, respectively. The company's consolidated operating income has increased by 30% to Rs. 350 crore in FY2023 in comparison to pre-Covid levels in FY2020. ICRA expects operating income to remain healthy in FY2024 with occupancy levels maintained in the range of 70-75%. Also, gradual ramp up of corporate MICE activities have supported recovery for the company's operating metrices over the last few quarters.

Credit challenges

Cyclical industry – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movements and several exogenous factors, leading to inherent cyclicality. As such, global and domestic economic conditions will remain key monitorable for BHVL, as part of the industry.

High leverage and modest debt coverage indicators – Despite improvement in operating performance in FY2023, high debt levels, have led to modest debt coverage ratios. The Total Debt/ OPBDITA at a consolidated level is 7.11 times in FY2023 and estimated to be 5.14 times in FY2024. The DSCR is expected to remain subdued below 1 times for FY2024 and FY2025, due to high scheduled repayments. ICRA expects the parent, BEL, to provide timely financial support to BHVL for funding any deficit, given their substantial financial linkages, strategic importance, and parent's reputation sensitivity to default.

Dependence on promoters for funding support – Despite the improvement in operational performance, the company's operating cash flows are expected to remain low in comparison to the sizeable debt servicing obligations over the next two fiscals. Consequently, it will continue to be dependent on the parent to bridge the shortfall.

Liquidity position: Adequate

The company's liquidity position is adequate. BHVL had free cash and liquid investments of ~Rs. 30 crore and undrawn working capital limits of 11.65 crore as on March 31, 2023. The pending cost for ongoing hotel capex is around Rs. 70 crore, which is to be met from Rs. 55 crore of undrawn term loan and remaining from promoter loans. The company's debt repayment obligations remain significant at ~Rs. 87 crore in FY2024 and Rs. 110 crore in FY2025, which will be funded partly by cash flows from operations and any shortfall is expected to be met from parent support.

Rating sensitivities

Positive factors – Any sustained improvement in operational metrices and profitability indicators leading to significant improvement in liquidity and coverage metrics, could be a trigger for improvement in ratings. Ratings will be sensitive to the credit profile of the parent company (BEL).

Negative factors – Pressure on BHVL's ratings could arise, if slower-than-anticipated improvement in operating and financial metrics leads to deterioration of debt servicing indicators and liquidity position, 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. ICRA expects the parent, BEL, to provide timely financial support to BHVL, for funding any shortfall, given their substantial financial linkages, BHVL's strategic importance for the parent and parent's reputation sensitivity to default. 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, as 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 the Brigade Group under one entity. At present, BHVL operates seven hotels across Bengaluru, Kochi, Mysore, and Gujarat and one hotel in Chennai through its subsidiary, SRP Prosperita Hotel Ventures Limited.

Key financial indicators (audited)

BHVL and SRP - Consolidated	FY2022	FY2023*
Operating income	146.1	349.7
PAT	-82.7	-3.1
OPBDIT/OI	2.4%	25.6%
PAT/OI	-56.6%	-0.9%
Total outside liabilities/Tangible net worth (times)	22.1	19.8
Total debt/OPBDIT (times)	193.72	7.11
Interest coverage (times)	0.1	1.4

**Provisional; Source: Company and ICRA analysis; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; all ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 30, 2023	-	Feb 18, 2022	Dec 18, 2020
1	**Term loans**	Long term	475.0	419.56	**[ICRA]A-(Stable)**	-	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**
2	**Cash Credit/ Overdraft**	Long term	35.0	18.35	**[ICRA]A-(Stable)**	-	**[ICRA]A-(Stable)-**	**[ICRA]A-(Stable)**
3	**Non fund based**	Short term	10.0	-	**[ICRA]A2+**	-	**[ICRA]A2+**	**[ICRA]A2+**
4	**Unallocated**	Long term	40.0	--	**[ICRA]A-(Stable)**	-	**[ICRA]A-(Stable)**	**[ICRA]A-(Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long term fund based – Cash Credit/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 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
-	**Term Loan**	FY2016-23	-	FY2025-30	475.0	[ICRA]A-(Stable)
-	**Overdraft limit**	-	-	-	35.0	[ICRA]A-(Stable)
-	**Non fund based**	-	-	-	10.0	[ICRA]A2+
-	**Unallocated**	-	-	-	40.0	[ICRA]A-(Stable)

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

Annexure II: List of entities considered for consolidated analysis

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

Source: company data

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4547 4829
anupama.reddy@icraindia.com

Tushar Bharambe
+91 22 6169 3347
tushar.bharambe@icraindia.com

Pulkit Varshney
+91 80 432 6427
pulkit.varshney@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches