June 11, 2024 (Revised)

MPG Hotels and Infrastructure Ventures Private Limited: Ratings Upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	238.62	107.13	[ICRA]BBB- (Stable); upgraded from [ICRA]BB (Stable)
Long Term – Term Loan (LRD)	89.78	81.58	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Short Term - Fund Based	6.75	6.75	[ICRA]A3; Upgraded from [ICRA]A4+
Short Term - Non-Fund Based	3.50	-	-
Long Term / Short Term-Unallocated	65.75	208.94	[ICRA]BBB- (Stable)/ [ICRA]A3; upgraded from [ICRA]BB (Stable)/ [ICRA]A4+
Total	**404.40**	**404.40**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view on MPG Hotels and Infrastructure Ventures Private Limited (MPGHIVPL) and its subsidiary Muthoot Hotels Private Limited (MHPL) together, jointly referred to as "MPG Hotels and Infrastructure Ventures Private Limited and subsidiary (MPG/the group)".

The upgrade in the ratings factors in the improvement in MPG's credit profile following the fund infusion of Rs. 190.0 crore by the promoters in H2 FY2024, and ICRA's expectation of a sustained performance in the near to medium term, aided by favourable demand for domestic hospitality industry, MPG's diversified business mix, management tie-ups with established international and domestic hospitality brands and continued need-based funding support from promoters.

MPG is part of the larger Muthoot Pappachan Group, a Kerala-based conglomerate with diverse business interests in non-banking financial services, hospitality, infrastructure development and automobile dealership to name a few. MPG has received periodic financial support from the promoters in the past, in the form of unsecured loans and equity capital. During FY2024, the promoters infused Rs. 190 crore in MPGHIVPL (Rs. 80 crore in the form of equity and Rs. 110 crore in the form of unsecured loans, resulting in equity share capital and promoter unsecured loans of Rs. 245.0 crore and Rs. 256.5 crore respectively as on March 31, 2024[1]) and these were partly utilised to reduce bank borrowings to the extent of Rs. 163.1 crore (thus reducing it to Rs. 201.4 crore as on March 31, 2024 from Rs. 364.5 crore as on March 31, 2023). The balance Rs. 26.9 crore was utilised for operational purposes, including those for the ongoing residential real estate project. While the capital structure and coverage metrics remain subdued (despite the fund infusion) on the back of relatively high debt levels and past accumulated losses, an improvement in accruals is expected going forward supported by improved operating leverage, likely sustenance of cost-optimisation measures undertaken in the last two years and lower interest expenses with reduction in external debt. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, to ensure timely debt servicing.

MPG has a commercial real estate asset – Technopolis IT park in Kakkanad, Kochi, with 3.55 lakh square feet of office space which houses several IT/ITeS majors as tenants. While the occupancy was over 90% in FY2022, it dropped to 60% in FY2023 and 50% in FY2024 due to competition from neighbouring office assets. The net rental from the IT park fell by 23% on YoY basis in FY2024, impacted by higher vacancy. The occupancy is expected to remain sub-optimal in FY2025 as well, although an improvement is expected from current levels. The group has an LRD loan of Rs 81.6 crore as on March 31, 2024 against lease rentals from this property, and the debt obligations (Principal+ interest (P+I)) are likely to be over Rs. 17.0 crore per year for

[1] *Unaudited financials*

FY2025-FY2027. Any shortfall in lease rentals for meeting the P+I commitments of the LRD loan, is expected to be funded by the promoters, to ensure timely debt servicing.

Key rating drivers and their description

Credit strengths

Strong parentage – MPG is part of the larger Muthoot Pappachan Group, a Kerala-based conglomerate with diverse business interests in non-banking financial services, hospitality, infrastructure development and automobile dealership to name a few. MPG has received periodic financial support from the promoters in the past, in the form of unsecured loans and equity capital. During FY2024, the promoters infused Rs. 190 crore in MPGHIVPL (Rs. 80 crore in the form of equity and Rs. 110 crore in the form of unsecured loans, resulting in equity share capital and promoter unsecured loans of Rs. 245.0 crore and Rs. 256.5 crore respectively as on March 31, 2024). The promoters have committed to extend adequate and timely financial support going forward as well, as and when required.

Significant reduction in external debt in FY2024 - During FY2024, the promoters infused Rs. 190 crore in MPGHIVPL (Rs. 80 crore in the form of equity and Rs. 110 crore in the form of unsecured loans, resulting in equity share capital and promoter unsecured loans of Rs. 245.0 crore and Rs. 256.5 crore respectively as on March 31, 2024) and these were partly utilised to reduce bank borrowings to the extent of Rs. 163.1 crore (thus reducing it to Rs. 201.4 crore as on March 31, 2024 from Rs. 364.5 crore as on March 31, 2023). The remaining Rs. 26.9 crore from the fund infusion was utilised for operation purposes including those for the ongoing residential real estate project. The reduction in external debt has improved leverage and coverage metrics vis-à-vis earlier levels.

Diversified business mix with portfolio comprising hospitality, commercial and residential assets – MPG has a diversified business mix with presence across hotels (60% of revenues in FY2024), residential real estate business (25%), commercial real estate (7%), restaurant (6%) and other revenues (2%)**.** The commercial and residential real estate assets have supported the group cash flows during the downcycles in the hospitality industry. When the hospitality segment witnessed lower than pre-pandemic revenues and cash flows in FY2021 and FY2022, lease rentals from the commercial real estate segment supported the group cash flows to an extent.

Management tie-up with well-known international and Indian hospitality operators – MPG has management tie-ups with established international hotels operators such as Hilton and Accor, and Indian operators such as The Indian Hotels Company Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+) for operating its three hotels under brands such as Hilton Garden Inn, Novotel and Taj. The hotels benefit from the branding, marketing and advertising networks of the operators.

Credit challenges

Stretched capital structure and coverage metrics – MPG has relatively high debt levels for its scale of operations, despite sizeable reduction. The group's adjusted debt (Debt excluding unsecured loans from promoters) was Rs. 256.5 crore as on March 31, 2024 and its capital structure is stretched because of past accumulated losses. The group's adjusted debt/ OPBDITA remained stretched at 5.5 times, as on March 31, 2024 (PY: 11.1 times) while its debt service coverage ratio was 0.4 times for FY2024 (PY: 0.4 times). While the capital structure and coverage metrics remain subdued (despite the fund infusion) on the back of relatively high debt levels and past accumulated losses, an improvement in accruals is expected going forward supported by improved operating leverage, likely sustenance of cost-optimisation measures undertaken in the last two years and lower interest expenses with reduction in external debt. ICRA expects the promoters to extend adequate and timely financial support going forward, as and when required, to ensure timely debt servicing.

Low occupancy in the commercial real estate asset – MPG has a commercial real estate asset – Technopolis IT park in Kakkanad, Kochi, with 3.55 lakh square feet of office space which houses several IT/ITeS majors as tenants. While the occupancy was over 90% in FY2022, it dropped to 60% in FY2023 and 50% in FY2024 due to competition from neighbouring office assets. The net rental from the IT park fell by 23% on YoY basis in FY2024, impacted by higher vacancy. The occupancy is expected to remain sub-optimal in FY2025 as well, although an improvement is expected from current levels. The group has an LRD loan of Rs 81.6 crore as on March 31, 2024 against lease rentals from this property, and the debt obligations (Principal+ interest (P+I)) are likely to be over Rs. 17.0 crore per year for FY2025-FY2027. Any shortfall in lease rentals for meeting the P+I commitments of the LRD loan, are expected to be funded by the promoters, to ensure timely debt servicing.

Vulnerability of revenues inherent to hospitality industry cyclicality, economic cycles and exogenous events; nevertheless, diversification of revenues through real estate assets mitigates risk to an extent – The operating performance of hospitality segment remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk to revenues is partially mitigated by cash flows from the real estate portfolio, akin to what was witnessed during the pandemic. The group has a residential real asset under construction, the sale of which would add to the cash inflows over the medium term.

Relatively high geographic concentration – MPG has three hotel properties located in Trivandrum, Kovalam near Trivandrum and Kakkanad in Kochi. Its commercial real estate asset is located at Kakkanad, Kochi. Also, its two residential projects are located in Akkulam and Kowdiar in Trivandrum. With presence only in Kerala, MPG is exposed to region-specific risks. Moreover, MPG witnesses stiff competition from other premium hotels, resorts and IT parks in the region.

Liquidity position: Stretched

MPG's liquidity position is stretched with debt repayment obligations expected to remain relatively high as a proportion of anticipated accruals in FY2025. The group has principal repayments of Rs. 28.6 crore for FY2025, Rs. 31.2 crore for FY2026 and Rs. 28.3 crore for FY2027, on its existing loans. As against this, the group had only minimal undrawn lines and cash and cash equivalents of Rs. 3.7 crore as on March 31, 2024. ICRA expects the promoters to extend adequate and timely financial support, as and when required, to meet MPG's operating and financial commitments going forward. Further, while it is looking at multiple avenues for debt reduction and liquidity support including monetisation of unused land banks, the timeline of materialisation and extent of debt reduction from the same, remains to be seen.

Rating sensitivities

Positive factors – Significant improvement in debt metrics and liquidity position, could be a trigger for improvement in the ratings. Specific credit metric for upgrade includes Adjusted debt (Debt excluding unsecured loans from promoters)/ OPBITDA lesser than 4.0 times on sustained basis.

Negative factors – Negative pressure on the ratings could arise from weakening of liquidity position arising from sharp deterioration in the MPG's operating performance. Moreover, absence of timely and adequate promoter support; or, significant net outflow/support extended to other Group companies may result in a rating downgrade. Further, weakening of credit profile or linkages of/with the Muthoot Pappachan Group would also be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Group: Muthoot Pappachan Group The ratings assigned are based on implicit support received from the Muthoot Pappachan Group. The promoters have extended timely and adequate financial support in the past, and this is expected to continue going forward, as and when required.
Consolidation/Standalone	The ratings are based on the consolidated financials of the MPG Hotels and Infrastructure Ventures Private Limited and its subsidiaries as mentioned in Annexure-2

About the company

MPG Hotels and Infrastructure Ventures Private Limited (MPGHIVPL), has two hotels, a 132-key Hilton Garden Inn at Trivandrum and a 128-key Novotel at Kakkanad, Kochi; IT Park in Kochi SEZ under the name 'Muthoot Technopolis'; and residential real estate assets in Kowdiar and Akkulam in Trivandrum. The group also operates speciality restaurants in Trivandrum under the names 'Villa Maya' and Baker's Arch Cafe. Through its subsidiary, Muthoot Hotels Private Limited (MHPL), it owns a 59-key villa luxury deluxe beach resort in Kovalam, Kerala named Taj Green Cove Resort and Spa. This resort is under management contract with Indian Hotels Company Limited.
MPG is part of the larger Muthoot Pappachan Group, a Kerala-based conglomerate with diverse business interests in non-banking financial services, hospitality, infrastructure development and automobile dealership to name a few. Muthoot Fincorp Limited is the flagship entity of the Muthoot Pappachan Group. The promoters hold 100% stake in MPG, partly in individual capacity and partly through other group entities.

Key financial indicators

Consolidated	FY2023 (Audited)	FY2024 (Unaudited)
Operating income	157.0	161.3
PAT	-27.7	-18.1
OPBDIT/OI	20.9%	22.6%
PAT/OI	-17.6%	-11.2%
Total outside liabilities/Tangible net worth (times)	-7.8	-28.1
Total debt/OPBDIT (times)	15.2	12.6
Interest coverage (times)	0.7	1.0

Source: Company, ICRA Research; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					June 11, 2024	Sep 28, 2023	Oct 07, 2022	Oct 12, 2021	Sep 27, 2021
1	**Term loan**	Long term	107.13	107.13	**[ICRA]BBB- (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**	**[ICRA]BB (Stable)**
2	**Term loan (LRD)**	Long term	81.58	81.58	**[ICRA]BBB- (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB + (Stable)**
3	**Fund based facilities**	Short term	6.75	-	**[ICRA]A3**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
4	**Non-fund based facilities**	Short term	-	-	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
5	**Unallocated**	Long term/Short term	208.94	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BB (Stable)/[ICRA]A4+**	**[ICRA]BB (Stable)/[ICRA]A4+**	**[ICRA]BB (Stable)/[ICRA]A4+**	**[ICRA]BB (Stable)/[ICRA] A4+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Term Loan (LRD)	Simple
Fund based – Working Capital Facilities	Simple
Unallocated Facilities	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
NA	**Term Loan (LRD)**	FY2017	8.75%	FY2029	81.58	[ICRA]BBB- (Stable)
NA	**Term Loan**	FY2015	9.00%-9.25%	FY2032	107.13	[ICRA]BBB- (Stable)
NA	**Overdraft**	NA	NA	NA	6.75	[ICRA]A3
NA	**Unallocated**	NA	NA	NA	208.94	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: Company

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
Muthoot Hotels Private Limited	98.60% by MPGHIVPL	Full Consolidation
Right Ambient Resorts Private Limited^	100% by MHPL	Full Consolidation

Source: Company; ^Step down subsidiary

Corrigendum

Document dated June 11, 2024, has been corrected with revision as detailed below:

- The interest rate for term loans in 'Annexure I – Instrument details' was erroneously mentioned as 9.25%-12.25%, and has now been corrected as 9.00%-9.25%.

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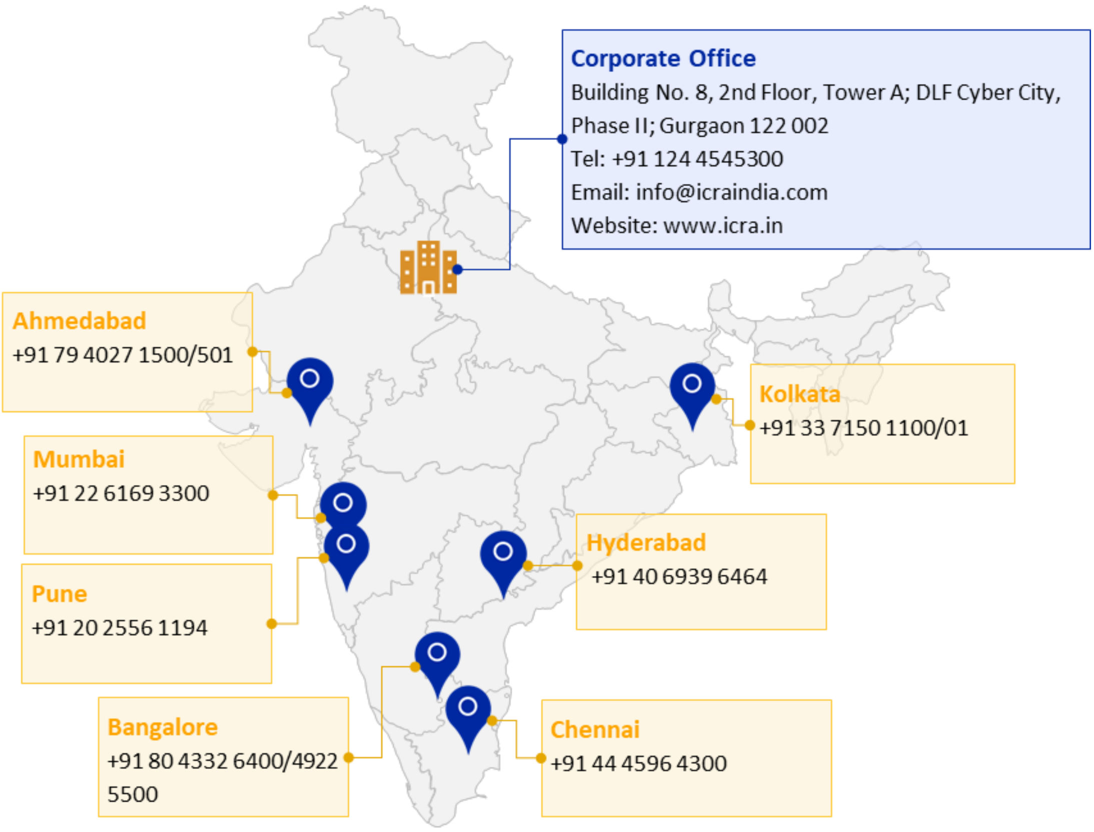

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