

FEBRUARY 10, 2015

CARE REAFFIRMS THE RATING ASSIGNED TO THE BANK FACILITIES OF BERGGRUEN HOTELS PVT. LTD.

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	188.58	CARE BBB- (SO) (Triple B Minus (Structured Obligation))	Reaffirmed
Total Facilities	188.58		

@ backed by 'Letter of Comfort' issued by Berggruen Investments Mauritius, to the lenders of Berggruen Hotels Pvt. Ltd. (BHPL) for timely servicing of the above-rated facilities

Rationale

The rating factors in credit enhancement in the form of "Letter of Comfort" provided by Berggruen Investments, Mauritius to the lenders of BHPL. The rating favorably factors the company's strong and resourceful parentage, demonstrated funding support in the form of frequent equity infusion by the promoters resulting in a moderate capital structure, geographically diversified hotel portfolio of the company and growing recognition of its brand- "KEYS" across the country. The rating also factors in the company's thrust on increasing revenue contribution from other segments such as management & technical fee revenues.

The rating is however constrained by the fact that the operations of the company are yet to turn profitable, presence of sizeable portion of the group's room inventory in nascent to growth stage, moderate cash flows vis-a-vis scheduled debt repayments, economic slowdown or specific market related over-supply situation which has abated the pace of revenue growth to an extent, and relatively lower entry barrier in budget hotel segment - threat of competition from standalone budget hotels.

The company's ability to report an improvement in the operating performance of its nascent- and growth-staged properties amidst competitive markets thereby attaining improved profitability and debt-coverage metrics and ensure timely infusion of funds by the promoter will be critical for cash flow of the company and hence are key rating sensitivities.

Background

Incorporated in 2006, BHPL was promoted by Berggruen Holdings Inc. (BHI), USA. BHPL operates a chain of economy segment hotels across the country with the brand 'Keys Hotels and Resorts'. At present, the company has six owned operational hotels assets (three are in Bangalore and one each in Trivandrum, Ludhiana and Pune) and two project-stage properties (Vizag and Cochin) in its portfolio. Construction of Cochin property is complete and is awaiting OC (Occupation certificate). Property at Vizag is under construction. The total operating room inventory across the owned operational hotel properties stood at 678 as on September 30, 2014. Further, to facilitate rapid expansion of physical footprint of the company's brands across the country, the company has started entering into management contracts with other asset owners with its own economy brand. As on October 31, 2014 the company had an inventory of 937 rooms spread across eleven properties across the nation which BHPL is operating as per management contracts.

BHPL reported a net loss of Rs.36.19 crore on a total income of Rs.41.97 crore in FY14 (refers to the period April 1 to March 31).

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¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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