



SMERA RATINGS LIMITED

Pallazzio Hotels & Leisure Limited (PHLL)

*Rating
Rationale*

September 29, 2015

Facility	Amount (Rs. Crore)	Rating
Term Loans	560.68	SMERA B+/Stable (Assigned)

SMERA has assigned long-term rating of '**SMERA B+**' (read as **SMERA single B plus**) to the above mentioned bank facilities of Pallazzio Hotels & Leisure Limited (PHLL). The outlook is '**Stable**'.

The rating draws comfort from ongoing financial support extended by promoters to repay bank debt and their commitment to continue financially support in case of inadequate cash flows from the hotel project. The rating also draws comfort from the marketing-cum-management tie-up with Starwood Hotels and Resorts Worldwide, Inc. to operate a five star property under the brand name 'The St. Regis' (an established international hotel brand) in India. However, the rating is constrained by PHLL's inadequate cash accruals from its operations which is affecting its liquidity position. The rating also factors that the company's business is highly exposed to intense competition from existing hotels in the vicinity and inherent cyclicity in the hospitality industry.

Rating Sensitivity Factors

- Ability of the hotel to achieve envisaged sales and profitability
- Receipt of key money from the hotel operator as per schedule

Outlook: Stable

SMERA believes that despite expected cash flow mismatches from the hotel project in the medium term, PHLL will be able to maintain its credit risk profile given the ongoing financial support extended by promoters. The company is also expected to benefit from the ultra-luxury brand of 'The St. Regis' in the medium term. The outlook may be revised to 'Positive' if the company generates expected cash accruals from the hotel project coupled with timely funding support from promoters to repay bank debt. Conversely the outlook may be revised to 'Negative' in case of lower-than-expected cash accruals or delay in infusion of funds resulting into deterioration in the liquidity position of the company.

About the company

PHLL is a 100% subsidiary of Phoenix Mills Limited (PML). PHLL has developed a five star property at Phoenix Mills Compound in Lower Parel area of Mumbai. The hotel is equipped with deluxe rooms, office suites, service apartments, restaurants, spa, business centre and banqueting facilities.

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Earlier, PHLL was managing the hotel under the brand name “Palladium Hotel”. However from September 2015, the property is being managed by Starwood Hotels and Resorts Worldwide, Inc. under the brand name ‘The St. Regis’.

The initial project cost of the hotel was Rs.845.00 crore, however, due to change in scope of work and cost over-run the project cost was revised to Rs.995.00 crore, and was funded through promoter contribution of Rs.385.00 crore and term-loans of Rs. 610.00 crore, translating to a project gearing of 1.58 times.

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