

Press Release

Pallazzio Hotels & Leisure Limited (PHLL)

21 January, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.650.00 Cr
Long Term Rating	SMERA BB+/Stable (Upgraded from SMERA B+/Stable)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the rating on the Rs.560.68 crore bank facilities to **'SMERA BB+' (read as SMERA double B Plus)** from **'SMERA B+' (read as SMERA B Plus)** and assigned rating of **'SMERA BB+' (read as SMERA double B Plus)** on the Rs.89.32 crore bank facilities of Pallazzio Hotels & Leisure Limited (PHLL). The outlook is **'Stable'**.

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

List of key rating drivers and their detailed description

Strengths:

Experienced management and ongoing financial support from key promoters: PHLL is a wholly owned subsidiary of TPML (The Phoenix Mills Limited). The company has supported Pallazzio Hotels and Leisure Limited (PHLL) by way of unsecured loans and Compulsorily Convertible Debentures (CCD) in the past years to fund its repayment obligations. The rating draws comfort from the ongoing financial support from TPML and the benefits derived from the marketing-cum-management tie-up with Starwood Hotels and Resorts Worldwide, Inc (recently acquired by Marriott International) to run a five star property under the brand name 'St. Regis' (an established international hotel brand) in India. SMERA expects the financial support from TPML to continue.

Significant improvement in business risk profile: The rating upgrade factors in the significant improvement in PHLL's business risk profile. The company has registered improvement in its occupancy levels and operating (EBITDA) margins which are expected to be sustained over the near to medium term. PHLL reported higher revenue of Rs.218.17 crore in FY2016 as compared to Rs.171.79 crore in FY2015 primarily driven by higher occupancy levels. The operating margin however decreased to 21.36 per cent in FY2016 compared to 25.01 per cent in FY2015 due to higher overheads. However, in FY2016-17 the average occupancy rate and Average Room Rate (ARR) improved, translating into higher operating margins (around 30 per cent from April to August 2016). The same is expected to be maintained in a similar range going forward. Further improvement in ARR and average occupancy rate would remain the key rating sensitivity factors.

Improvement in financial risk profile: The upgrade also factors in the lengthening of PHLL's debt maturity profile which has resulted in significantly lower debt servicing pressures over the near to medium term. PHLL has realigned its term debt obligations to operational cash flows by availing of fresh term loans of longer maturity to retire its earlier term loans. The principal repayments for the current term debt obligations are expected to commence from June 2019. The gearing of the company continued to remain at a high level of 11.14 times (including unsecured loans or otherwise) in FY2016. However, it is expected to improve significantly in FY2017, after treating the CCD's and OFCD's as quasi

equity, though it will still be at aggressive levels. The rating also considers the availability of liquidity cushion in the form of Debt Service Reserve Account (DSRA) with the bank.

Weaknesses:

Intense competition from existing hotels in the vicinity: PHLL faces competition from other five star hotels nearby like ITC Grand Central, Mumbai and Four Seasons Hotel, Mumbai.

Inherent cyclical in the hotel industry: The hospitality sector is sensitive to business cycles and level of discretionary spending in the economy.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria:

- Service sector criteria: <https://www.smera.in/criteria-services.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the company will maintain a stable outlook and continue to benefit over the medium term from the established brand and funding support from its parent company. The rating outlook may be revised to 'Positive' if the company sustains its operating margins while maintaining its revenue growth which will further translate into improved business profile and debt protection metrics. Conversely the rating outlook may be revised to 'Negative' if it fails to sustain its operating margins and the financial risk profile deteriorates.

About the rated entity

PHLL is a 100 per cent subsidiary of PML. PHLL has developed a five star property at Phoenix Mills Compound, Mumbai. The hotel is equipped with deluxe rooms, office suites, service apartments, restaurants, spa, business centre and banqueting facilities.

Since September 2015, the erstwhile 'Palladium Hotel' of PHLL is being managed by Starwood Hotels and Resorts Worldwide, Inc. under the 'St. Regis' brand name.

For FY2015-16, the company reported net loss of Rs.139.70 crore on total operating income of Rs.218.17 crore as compared to net loss of Rs.110.15 crore on total operating income of Rs.171.79 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: PHLL is a wholly owned subsidiary of TPML (The Phoenix Mills Limited). The company has supported Pallazzio Hotels and Leisure Limited (PHLL) by way of Compulsorily Convertible Debentures (CCDs) and unsecured loans in the past. SMERA has treated these CCDs as quasi equity which would be converted into equity shares over the medium term starting from April 2017. Also, they have been able to attract investors such as Avinash Bhosale Infrastructure Pvt Ltd (ABIPL) that has invested in this company in the form of CCDs and subsequently OFCDs. The conversion of the CCDs into equity shares is expected to commence from April 2017. Post conversion, the revised shareholding in PHLL would be 73 per cent of TPML and the balance 27 per cent with ABIPL.

PHLL had unsecured loans of Rs.246.37 crore as on 31 March, 2016. In Oct 2017 the company converted unsecured loan of Rs.220 crore to TPML and Avinash Bhosale Infrastructure Pvt Ltd (ABIPL) in the ratio of 73:27. SMERA has treated the OFCDs as quasi equity from FY2017 based on comfort from the company regarding the conversion of the same into equity. The stake of TPML and ABIPL would remain unchanged (73:27) after conversion of the OFCDs.

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Term Loan	LT	560.68	SMERA BB+/Stable (Upgraded)	29 Sep, 2016	SMERA B+/Stable (Assigned)	-	-	-	-
Additional Term Loan	LT	64.32	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-
Cash Credit	LT	25.00	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-

*Annexure – Details of instruments rated:

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Term loan	N.A	N.A	March, 2031	560.68	SMERA BB+/Stable (Upgraded)
Additional Term Loan	N.A	N.A	March, 2031	64.32	SMERA BB+/Stable (Assigned)
Cash Credit	N.A	N.A	N.A	25.00	SMERA BB+/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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