

Rating Rationale for Golden Jubilee Hotels Limited

Golden Jubilee Hotels Limited

Long/Medium Term: BWR A+

Short Term: BWR P1

Brickwork Ratings has assigned BWR A+ (Pronounced BWR A Plus) for Long term and BWR P1 for short term to Golden Jubilee Hotels Ltd. for Secured Redeemable Non-Convertible Debentures/Commercial Paper of INR 3.5 Billion or Rs.350 Crores with additional green shoe option of INR 0.5 billion or Rs. 50 Crores.

The rating is based on several comforting factors - the brand name of “The Oberoi” and “Trident”, equity participation by EIH Ltd, investment by JP Morgan India Property Mauritius company in Core Hotels Ventures P Ltd., ideal location of the hotel, well experienced Promoters and team, public-private partnership nature of project, covenants imposed by the Government of Andhra Pradesh and growth of Hyderabad as an attractive business and tourist destination.

The rating is however, constrained by risk associated with the project implementation, cyclical nature of the hotel industry, existing down-turn in the Indian economy and global meltdown, new additional capacity coming up in Hyderabad.

Analysts

Rajesh Pai

rajesh.pai@brickworkratings.com

Praveen Prakash

Praveen.prakash@brickworkratings.com

Relationship

Ramaswamy Annam

ramaswamy@brickworkratings.com

Media

Anitha G

media@brickworkratings.com

Brickwork Ratings

55,1st Main, 3rd Phase JP Nagar
Bangalore- 560078

1-860-425-BRIC

Phone: +91 80 40409940

Fax: +91 80 26593673

www.BrickworkRatings.com

www.Financial-Literacy.in

Company Profile:

Golden Jubilee Hotels Limited (GJHL) was incorporated under the Companies Act, 1956 on December 18, 1996 under the name of “Golden Jubilee Estates Limited”. The name of the company was changed to its present name on December 5, 2006.

The company did not carry on any business until July, 2005. It currently acts as a special purpose vehicle (SPV) for the construction and management of two Five star hotels at Shilpakalavedika, Madhapur, Hyderabad. The SPV is a consortium between Maha Hotel Projects P Ltd, & Basil Infrastructure Projects Ltd (both investing through Core Hotels Ventures Private Limited); and EIH Ltd pursuant to a memorandum of understanding dated 23rd July, 2005 as amended from time to time.

The company has, vide a letter of intent (LOI) dated 20th March, 2006 issued by Department of Youth Advancement, Tourism and culture, Government of Andhra Pradesh (YATC), been awarded the construction and development of the hotel project on a plot of land measuring 4.337 acres situated at Survey No 64, Shilpakalavedika, Madhapur Hyderabad on a Build, Operate and Transfer (BOT) basis under Public Private Partnership (PPP) mode.

As per the LOI the company has been leased out the project land for 33 years vide a lease agreement dated 9th May, 2007 executed between the company and the YATC. Further, the company has also executed a development and management agreement dated 9th May, 2007 with YATC for the construction and management of the hotel project for a period of 33 years.

The proposed development will have hotels to be co-branded as “*The Oberoi*” and “*Trident*”.

The major shareholders of the company are Core Hotels Ventures P Ltd and EIH Ltd. Core Hotels Ventures P Ltd is a joint venture company formed by Maha Hotel Projects P Ltd, Basil Infrastructure Projects Ltd along with the foreign body corporate namely Indus Hotel Reality Mauritius Ltd and JP Morgan India Property Mauritius Company II.

Golden Jubilee Hotels Ltd.								
Existing Shareholding Pattern					Proposed Final Shareholding Pattern			
SI No	Name of the Shareholder	No. of shares	Total Paid-up Value	%	No. of shares	Total Paid-up Value	%	
1	Basil Infrastructure Ltd	50,000	500,000	0.12%	50,000	500,000	0.02%	
2	Maha Hotel Projects P Ltd	87,000	870,000	0.20%	87,000	870,000	0.04%	
3	EIH Limited	4,800,000	48,000,000	11.09%	35,200,000	352,000,000	16.00%	
4	Core Hotels Ventures P Ltd	38,330,000	383,300,000	88.59%	184,662,300	1,846,623,000	83.94%	
	Others	700	7,000	0.00%	700	7,000	0.00%	
TOTAL		43,267,700	432,677,000	100%	220,000,000	2,200,000,000	100.00%	

Brickwork Ratings Rationale:

Location Advantage:

The location of the site is excellent

- The site is located opposite the first tower of Hitec City (called Cyber Tower) next to the site are the Cyber Gateway and Cyber Pearl, TCS and Mindspace development on large APIIC area. The site is part of Shilparamam, a 65 acres green development promoting arts and crafts.
- The site is conveniently accessible from Hyderabad city and is about 38 km's from the new GMR international airport at Shamshabad.
- It is also about 3 Km's from the new international convention centre (ICC) and from the HITEC exhibition grounds.
- The development site has excellent frontage on the road leading into the

- HITEC city area, since the site is located near the entrance point to HITEC city, it has an excellent vantage point in terms of office and IT complexes in the Hitec city area.

Long term Lease :

The lease is for a period of 33 years from the appointed date. The appointed date is considered 1st August, 2008. At the expiry of the initial lease tenure of 33 years, the lease may be renewed at the absolute discretion of YAT&C (PMU) D with the company having the first right of refusal.

The company has the following financial obligation under the lease deed and development and management agreement. The financial obligations are:

- Payment of annual lease fee – Rs. 41,91,440 in the first year and increase of 5% every year. The due date for the

- payment of 50% on 10th May and the balance 50% on 10th November of every year until the year 2039.
- Payment of annual additional Development Premium: the amount payable after commencement of operations is the higher of the minimum amount committed by the company and 3% of the revenue (as defined in the management development agreement).
 - Submission of Bank Guarantee for INR 53.5 million to YATC towards Development and construction guarantee @ 2.5% of the project cost.
 - Payment of One Time non-refundable Project Development Fee of INR 21.4 million to YATC
 - Upfront payment of One time ADP of INR 140 million

As on the date, the company has paid all the financial obligations due as per the lease deed.

Covenants in shareholding

As per the stipulation by YATC and Detailed Project Report (DPR) approved by the GoAP approved vide letter no. 29591/PMU/EO/2005 dated 8TH December, 2008, the following shareholding should be maintained in the company till the completion of the construction of the project and 5 years thereafter.

- Lead Developer (Maha Hotel Projects P Ltd)– 26%

- Financial Significant consortium member (Basil Infrastructure Projects Ltd) – 26%
- Technical Member (EIH Ltd – 16%

The lead developer (26%), Financial Significant Consortium Member (26%) are holding the equity through Core Hotels ventures Pvt Ltd (together with other investors) all totaling to approx. 84%; and EIH the technical member directly into the developer company to the extent of 16%.

Unless, approved by the YATC, the combined shareholding cannot be less than 68% from the date of commencement of operations until the termination of the development agreement.

Equity Participation by EIH Ltd:

We see the equity participation of EIH Ltd as a substantial comforting factor

EIH Ltd is the technical member and is responsible for:

- Providing inputs on the conceptualization of the design and development of the project to match world-class standards.
- Providing various technical inputs on the project from “Concept to Completion” and providing the requisite pre-opening services; these may of course be provided by independent experts engaged by the company under the overall direction and co-ordination of EIH Ltd

- Day to day management and providing the sale and marketing functions for the hotel.
- Sign and execute all the documents, undertakings and letters as may be required by the developer consortium for complying with the bid provisions and requirements.

The company has also entered into a separate agreement with Oberoi Hotels P Ltd for the use of the name “The Oberoi” in addition to “Trident” for a period of 20 years plus extendable to 10 years for 3 successive terms.

The company will pay 1% of the total revenue for Trident Brand. The company has to pay 1% of the total revenue for the first 2 years and thereafter 1.5% of revenues.

Business Risk

Hyderabad, the capital city of Andhra Pradesh, comprises of the tri-cities of old Hyderabad, Cyberabad (HITEC, Madhapur and Gachibowli) and Secunderabad.

There are 28 notified Special Economic Zones in and around Hyderabad, catering to the IT, biotechnology and manufacturing sectors. The recently opened international airport along with the proposed Outer Ring Road (ORR) will provide the necessary infrastructure going into the future. Hyderabad is expected to

have metro Rail by 2012 though the date is now somewhat uncertain.

The Oberoi & Trident will be operational from 2011 onwards and following are some of its business prospects:

- Primary competition for The Oberoi, Hyderabad will be from Taj Krishna & ITC Kakatiya, which together has 450 rooms compared to 221 of The Oberoi.
- Primary Competitors of Trident, Hyderabad will be from Novotel HITEC City, Taj Banjara, Taj Deccan and Marriot, which has 857 rooms in total compared to 324 of Trident.
- The hotel will have induced demand due to commercial developments coming up in Hyderabad like financial districts, IT Parks and notified Special Economic Zones(SEZ)
- Induced demand will also come from Hyderabad International Convention Centre and HITEX Exhibition centre which is 3 Km away from the hotel location.

Within the next 5 years, major International Hotel chains including Radisson, Holiday Inn, Hilton, Hyatt, Marriot, and Four Seasons are expected to have their hotels. We expect that the increased supply will lead to rate correction in the market.

Industry Risk

Indian Hospitality sector is witnessing fall in Occupancy rates, Average Room Rates and Arrivals to India due to terrorists attack in the two prestigious hotels in Mumbai on 26th November 2008. On the positive side however, the National Tourism Advisory Council (NTAC) has decided to announce 'Year 2009' as 'Visit India Year'. To make it success the Ministry of tourism (MoT) in partnership with the stakeholders is working out a special incentive for those who visit India in year 2009. Further the MoT is also expected to encourage the private tourism trade to organize annual travel mart wherein all the travel agents, operators, journalists would participate to promote tourism in India. But the short term outlook for the Indian hospitality sector remains negative. However long Outlook term is stable.

Financials:

Golden Jubilee hotels have projected a capital expenditure (Capex) of INR 5834 million, which is reasonable for 545 rooms. Capex per room for the Golden Jubilee comes at INR 10.7 million per room, which is better than the current industry Capex of INR 13.1 million per room. The authorized capital of the company is INR 2500 Million and the Paid-Up capital is INR 432.70 million.

Brickwork's 10-year projections show the hotel's ability to generate sufficient

revenue to meet not only its expenses but also debt raised by the Golden Jubilee Hotels to complete the project. The hotel is expected to function from 2011 and projections are from FY- 2011-12 to FY- 2020-21.

Some of the assumptions taken for the projections are:

- Occupancy of rooms have been taken as 55% for both The Oberoi, Hyderabad & Trident, Hyderabad.
- Average Room Rent (ARR) has been taken as Rs.13,800 per day for The Oberoi for the year 2011 and an average of Rs.15,000 for next 9 years.
- ARR for Trident is coming to be Rs.9214 for the year 2011 and on average of Rs.10474 for the next 9 years.
- Once The Oberoi and Trident become operational, total revenue generated by both the hotels together is given in Annexure II.

Following are some of the highlights of its financials.

- Both the hotels together are expected to generate revenue of INR 2084 Million in FY-2011 and subsequently grow at an average rate 6% for the next 9 years.
- FY 2015 will be the stabilization year for both the hotels.
- Operating profit for the FY-2009 is projected at INR 420.10 Million and

expected to be INR 874.70 Million in the stabilization year of 2015.

- Profit after Tax will be INR 82.7 Million initially and INR 358.00 Million in 2015
- Debt to Service coverage ratio (DSCR) is an important parameter to check firm's ability to pay its debt. DSCR for the hotel comes to 1.82 for FY-2011 and will reduce further to 1.44 in the stabilization year 2015.
- On the other hand, Interest Coverage ratio is 2.02 in FY-2011 and shows a continuous improvement in the next 10 years, which is a good sign for the hotels ability to pay interest. When compared with industry average Interest coverage is 4.84 for FY-2008. the ratio is low primarily due to initial stage of operation. When compared to stabilization year FY-2015, Golden Jubilee's Interest coverage comes to 3.99 which is comparable to industry and in 2016 the company DSCR surpasses industry average.
- Profitability margin for Golden Jubilee comes to be 3.97% in FY-2011 but will improve significantly to 13.45% in stabilization year of 2015. When compared with industry average profit margin for the same is 16.19% for FY-2009. Profit margin for golden jubilee will surpass industrial average in FY-2016 and is projected to reach 21.37% in 2021. On the other hand operating profit margin has been

projected to be stable at 44% for the next 10 years.

- Debt-Equity ratio for Golden jubilee is 1.37 in FY-2011, which is high compared to industry, average of 0.88; the ratio will improve to 0.66 in stabilization year FY-2015.
- Golden Jubilee Hotel has high Return over Capital Employed (ROCE) compared to industry average. Its ROCE is 14.03% for FY-2011 while industry stands at 9.03% for FY-2008. Brickwork Rating has developed a well-researched quantitative model for predicting soundness of the firm; the model uses certain key ratio to predict the rating of the firm, our rating to Golden Jubilee Hotel is a reflection of the model's prediction of the firm.

Board of Directors

The company has highly experienced board of directors

- The lead developer, Maha Hotels Project P Ltd is represented by Mr. LN Sharma and Mr. J Jagapathi Rao
 - Financial significant consortium Member, VBC group is represented by Mrs. M Srimani and Mr MSP Rama Rao
- Mr. PRS Oberoi and Mr. SS Mukherjee represent the technical member, EIH Ltd.
- For further details refer to Annexure III.

Project Team:

The management team for the project is highly experienced. The team consists of professionals with rich experience in

handling hotel projects. The team consists of

1. Mr. LN Sharma – Director & CEO

Over 25 years experience in Finance, Project Management and HR & Admin, policy making and overall management including hotel specific experience includes project Grand Hyatt in Delhi (1996-2000) and project Park Hyatt, Goa (2001-2004) right from concept to commissioning. Mr. Sharma is B.Com, FCA and FCS.

2. Mr. Anil Gupta – Chief Project Advisor

He has more than 36 years of diversified experience in Hotel industry mainly in the design, planning and project management. Some of the projects include Park Hyatt Goa, Grand Hayatt, New Delhi. He has also been associated with development of ITDC Hotels, Bharat Hotels and Aman Resorts in India.

3. Mr. Sanjeev Garg – Director-Project Development

He is responsible for overall project development and coordination work and leading the project team and completing the project within the stipulated time meeting high quality standards. He has experience working on major hotel projects including Grand Hyatt Delhi and Park Hyatt Goa.

The total team strength is over 30 people, having experience in hotel project management. who have worked with promoters of International chain hotels such as Hyatt, Westin, Intercontinental, the Oberois, Four Seasons and formerly ITDC chain The entire civil eng. Team has worked for Park Hyatt Resorts and SPA, Goa and share vast experience among themselves. In addition to it finance team has an experience of handling finances of The Grand New Delhi and Park Hyatt Project, Goa.

Project Progress

As per the progress report up to 19th December 2008, the following are some of the major updates on the project progress:

- Civil construction work (Laying of PCC and preparing footing/foundation) has commenced on 11th December 2008 at Trident site. The Oberoi is still under excavation and schedule to commence civil work by April 2009.
- The civil construction work has been awarded to M/s. Nagarjuna Construction Co. Ltd., Hyderabad.

The company has incurred INR 721.80 Million on the project as at 20th December 2008

- INR 170 Million towards lease/ADP and up-front fee to the Govt. of AP.
- INR 204 Million towards site development work.

- INR 143 Million towards Civil work.
- INR 107.10 Million as fee to consultants and technical service fee.
- INR 97 Million towards preliminary expenses and lease rentals.

In addition the company has given a bank guarantee of INR 53.50 Million to the Govt. of AP.

Project completion:

The rating is constrained with the risks associated with the timely completion of the project, cyclical nature of industry, international financial crisis, and its possible effect on tourism and IT growth in India.

The project however offers many comforting factors. As on 20th Dec, 2008,

the company has spent INR 721.80 million on the project, from its equity funds. The Government of Andhra Pradesh covenants specify penalty for delay in commissioning of the project. As per the covenants, the company has guaranteed that the project shall be completed within 30 months. In case of delay the company shall be liable to pay a penalty of Rs.50,000 per day for every day of delay subject to maximum of Rs. Six million. Further, if the hotel project is not completed within 120 days from the scheduled project completion date, the government has the right to terminate the said development agreement with the company. Such covenants are expected to put pressure on the promoters to complete the project.

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Annexure I:

Consolidated Balance Sheet (Projected figures) for The Oberoi Hyderabad & Trident Hyderabad											
Year Ending	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Liabilities											
Total Equity Funds	39%	37%	36%	35%	34%	33%	32%	31%	31%	30%	28%
Reserves	0%	5%	12%	19%	26%	34%	42%	50%	57%	65%	70%
Net Worth	39%	42%	48%	54%	60%	67%	74%	81%	88%	95%	99%
Secured Loans											
Term Loans	59%	56%	51%	45%	38%	32%	25%	18%	10%	3%	0%
Unsecured Loans	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Working Capital Borrowings	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%
Total Liabilities	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Liabilities (INR Billion)	5.93	6.22	6.54	6.67	6.88	7.15	7.39	7.50	7.57	7.72	8.21
Assets											
Fixed Assets	97%	93%	88%	86%	84%	81%	78%	77%	76%	75%	70%
Less: Depreciation	0%	5%	9%	13%	17%	21%	24%	28%	31%	35%	36%
Net Fixed Assets	97%	88%	79%	73%	66%	60%	54%	49%	45%	40%	34%
Investments/Reserves	0%	0%	1%	2%	2%	3%	4%	4%	5%	5%	6%
Investments Others	0%	0%	1%	2%	1%	2%	3%	3%	3%	2%	2%
Current Assets	0%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Cash & Bank Balances	3%	9%	16%	21%	27%	33%	38%	42%	46%	50%	56%
Misc. Exp. Not written Off	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Total Assets (INR Billion)	5.93	6.22	6.54	6.67	6.88	7.15	7.39	7.50	7.57	7.72	8.21

Annexure II:

All Fig. in INR Billion										
Consolidated P&L (Projected figures) for The Oberoi Hyderabad & Trident Hyderabad										
Year Ending	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
RevPAR (in Rs.)	12700	13990	14342	16301	17525	18412	19333	20300	21315	22381
Occupancy rate	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
Gross Revenue	2.08	2.26	2.35	2.66	2.83	2.97	3.12	3.27	3.43	3.61
PBDIT	42%	45%	42%	44%	45%	44%	44%	44%	45%	45%
Debt Outstanding	173%	151%	131%	102%	84%	65%	45%	27%	11%	3%
Total Annual Interest	21%	16%	14%	11%	9%	7%	5%	4%	2%	1%
PBDT	20%	28%	28%	33%	36%	38%	40%	42%	44%	45%
PAT	4%	10%	9%	13%	16%	17%	18%	19%	20%	21%
PAT	0.08	0.23	0.22	0.35	0.45	0.50	0.56	0.63	0.70	0.77

Key Ratios (for projected figures) for The Oberoi Hyderabad & Trident Hyderabad										
Year Ending	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Debt-Equity	1.37	1.1	0.86	0.66	0.5	0.36	0.23	0.13	0.05	0.01
Interest Coverage ratio	2.02	2.86	3.02	3.99	4.98	6.04	8.18	12.45	23.71	64.18
Debt Service Coverage Ratio	1.82	1.62	1.21	1.44	1.62	1.52	1.45	1.59	1.76	3.71
Net Worth (INR Billion)	2.62	3.12	3.59	4.15	4.78	5.46	6.09	6.68	7.36	8.11
Profitability Margin	3.97%	10.23%	9.42%	13.45%	15.92%	16.89%	18.06%	19.27%	20.42%	21.37%
ROCE	14.03%	15.47%	14.83%	16.94%	17.91%	17.79%	18.49%	19.25%	19.84%	19.67%
Net Cash Accrual to Debt	0.11	0.23	0.33	0.5	0.71	0.96	1.37	2.13	3.81	10.31
Current ratio	7.36	12.18	15.73	20.47	25.41	29.61	32.92	36.36	40.36	47.51
Operating profit/Total revenue	41.91%	44.63%	41.97%	43.82%	45.21%	44.25%	44.39%	44.46%	44.54%	44.70%

**Annexure III
DETAILS OF BOARD OF DIRECTORS**

SI No	Name	Age	Date of Appointment	Designation	Qualification	Experience
1	Padma Vibhushan Mr. P. R. S. Oberoi	79 Years	24th March, 2008	Director	Hotel Management from Lausanne, Switzerland	Mr. Oberoi is chairman and Chief Executive Officer of EIH Ltd and he is also the Chairman of Oberoi Hotels Private Ltd and the major shareholder of EIH Ltd. Besides providing leadership for the management of oberoi hotels across six countries, Mr. Oberoi has been instrumental in pioneering the development of new Oberoi hotels and resorts. Mr. oberoi is credited with placing Indian on the international luxury traveler's map and redefining architectural and design standards in luxury hospitality.
2	Mr. S.S.Mukherjee	60 Years	24th March, 2008	Director	FCA, Management from Harvard Business School	Over 3 decades of experience in hotel industry, about 60 years, has been a Director of the Company since March 2008 He is a Chartered accountant and has also done Advanced Management Program, from Harvard Business School, has over 3 decades of experience. Presently he is also, the Vice Chairman of the EIH Limited.
3	Mr. L.N. Sharma	50 Years	1st June, 2006	Director & CEO	B.Com,FCA,FCI	Over 26 years of experience in project management, finance & co-ordination with all agencies involved in project implementation. Lat 15 years he has been associated with Hotel Projects like Grand Hyatt Delhi & Park Hyatt Goa.
4	Mr. Jupally Jagapathi Rao	46 Years	24th March, 2008	Director	Post Graduate	Over 22 years of experience in construction business with several prestigious developments to his credit including My Home Tycoon(Begumpet),My Home Rainbow (at Toli Chowki), My Home Navadweepa and My Home Hub (at Madhapur) and My Home Madhuban Apartments (all projects above 3.0 millions sq. feet and over 5.0 million sq. feet under condtruction.)
5	Mrs.M. Srimani	41 Years	30th June, 2005	Director	B.com	About 41 years, has been a Director of the Company since June 2005.She is a Commerce graduate and has over decade of experience. She is an active member of the -Regional Film Certification Board, Andhra Pradesh and also involved in various Social and Cultural Activities. She is also the Managing Director of Basil Infrastructure Projects Limited, a listed Company.
6	Mr. M.S.P. Rama Rao	47 Years	1st June, 2006	Director	MBA	About 47 years, has been a Director of the Company since June 2006.He is a Post graduate in management and has acquired the skill of business management by working at shop floor level in group companies,gained experience in cement industry and climbed up the ladder to manage VIC Ferro Alloys Ltd for a decade, up to 2000. A dynamic entrepreneur with a vision, he is also the Managing Director of Konaseema Gas Power Limited.