

Catalyst Trusteeship Limited

**Revision in Credit Rating
As on February 11, 2019**

Name of the Issuer Company	Intrument	Amount Rs. in Crore	Previous Rating	Credit Rating as of 11.02.2019
			CARE	CARE
Essential Hospitality Private Limited	Secured NCDs	95.57	CARE AA (SO)	CARE AA-(SO) Credit watch with developing implications



Essential Hospitality Private Limited

February 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Non-Convertible Debentures (NCDs)*	95.57	CARE AA- (SO) [Double A Minus (Structured Obligation)] (Credit watch with developing implications)	Revised from CARE AA (SO); Stable (Double A; Outlook: Stable); placed on credit watch with developing implications
Total instruments	95.57 (Rupees Ninety five crore fifty seven lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the NCD issue of Essential Hospitality Private Limited factors in credit enhancement in the form of structured payment mechanism backed by Put Option which can be exercised on Dewan Housing Finance Corporation Limited (DHFL, rated CARE AA+; Credit watch with developing implications) requiring DHFL to purchase the NCDs under certain stipulated events from the Investor at a Put Option Amount (i.e. Principal + Accrued Interest+ All other dues) within seven days. The revision in the rating principally factors in recent rating revision of Dewan Housing Finance Corporation Limited. The ratings have also been put under credit watch with developing implications in line with the ratings of DHFL.

The ratings continue to draw strength from the well-established and experienced sponsor group (Wadhawan Group) rendering substantial financial flexibility, credit enhancement in the form of Trustee administered Structured Payment Mechanism (SPM) backed by Put Option which can be exercised on Dewan Housing Finance Corporation Limited (DHFL, rated CARE AA+; Credit watch with developing implications) requiring DHFL to purchase the NCDs under certain stipulated events from the Investor at a Put Option Amount (i.e. Principal + Accrued Interest+ All other dues) within seven days. The rating further gathers comfort from revenue stability attributable to the lease agreement with Licensee – DHFL.

However, the rating also takes into account the renewal risk of the lease agreement. The structure is Trustee monitored on behalf of NCD holders to oversee the entire transaction while ensuring that the redemption amount gets deposited in the redemption account on or before redemption date.

Non-adherence to the SPM and any variation of credit profile of Credit Enhancement Provider i.e. DHFL constitute key rating sensitivities.

For detailed rating rationale of DHFL, please refer to our website www.careratings.com.

Detailed description of the key rating drivers

Key Rating Strengths

Credit enhancement in the form of put option

The entire premises of the building are occupied by DHFL on lease basis. As per tripartite agreement, the payments of lease rentals are an absolute and irrevocable obligation of DHFL and do not depend on DHFL's usage of the Project Assets. The tripartite agreement has a put option as per which the investor can exercise the put option on DHFL upon breach of undertakings such as: non-renewal of Master Lease Agreement (MLA) at specified timelines, non-payment of lease rentals on due dates or upon termination of MLA requiring DHFL to purchase the NCDs from the Investor. The lease rentals obligation and put option as mentioned above provide recourse to the investors on DHFL. However, in case of EOD (Event of Default) and Force Majeure events, the put option cannot be exercised and therefore its scope is limited.

Maintenance of DSRA (Debt Service Reserve Account):

Throughout the tenure of the NCDs, EHPL is to maintain DSRA of Rs.4.36 crore, being three months peak interest and principal (excluding the bullet repayment amount of Rs. 30 crore on the last repayment date) in the funded form which can be deployed in permitted investments subject to the terms agreed upon with the Investor.

As per MLA, DHFL is required to maintain security deposit equivalent to license fee for nine months i.e Rs.12.15 crore. The security deposit money might be used to maintain DSRA.

Adequate Security Cover considering the DSRA

The Security Cover (the aggregate Valuations of the Land and Building) at all times should be at least 1.25 times the total outstanding NCDs. Annual valuation of the Project Asset shall be carried out by a consultant as approved by the Debenture Trustee. In case valuation drops below 1.25x cover and in the event the Issuer fails to cure the fall in the

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

agreed security cover to the satisfaction of Debenture Trustee within 90 days from date falling of such security cover, EOD will be triggered. Consequently the Issuer shall have to mandatorily prepay the entire outstanding (Principal + any other amount payable as the applicable interests, fee or charge) to the Debenture Holder. With strong parentage and credit profile of DHFL, it is relatively unlikely that the remedial measures will not be undertaken on time to prevent EOD.

Key Rating Weaknesses

Lease renewal risk

The lease agreement with DHFL is for a period of five years and thereafter it is to be renewed further for a period of five years covering the entire tenure of the NCD. As per the tripartite agreement between DHFL, EHPL and Debenture Trustee, DHFL has to renew the lease agreement such that it is co-terminus with NCD maturity. In case the renewal is not undertaken by DHFL, then investors will have the right to exercise Put Option on DHFL.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating methodology- Factoring Linkages](#)

About the Company

EHPL, promoted by RKW Developers Pvt. Ltd. (99.97% stake) and Wadhawan Holdings Pvt. Ltd. (0.03% stake) is an investment company of Wadhawan group. DHFL, the flagship company of the group, is the third largest housing finance company in India with total asset size of Rs. 107,436 crore as on Mar. 31, 2018 [P.Y.: Rs. 92,206 crore]. DHFL has a successful track record of over 30 years of lending in the low and middle income group in Tier II and Tier III cities, primarily to salaried individuals. EHPL owns commercial building known as Empressa (earlier known as Satnam House) with total saleable area of 93,424 sqft situated at Sahar Road, Andheri (East).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6.85	17.82
PBILDT	0.85	6.70
PAT	-8.64	-6.70
Overall gearing (times)	12.41%	37.60%
Interest coverage (times)	11.35	85.25

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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

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service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	October 10, 2016	-	October 2026	95.57	CARE AA- (SO) (Under Credit watch with Developing Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	95.57	CARE AA- (SO) (Under Credit watch with Developing Implications)	-	1)CARE AA (SO); Stable (29-Mar-18)	1)CARE AA (SO) (30-Dec-16) 2)Provisional CARE AA (SO) (18-Oct-16)	-

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