

Press Release for Golden Jubilee Hotels Limited

Brickwork Ratings has assigned BWR A+/BWR P1 for Long/Short term Debentures of Golden Jubilee Hotels Limited.

Instrument: Secured Redeemable Non-Convertible Debentures of INR 3.5 Billion

Golden Jubilee Hotels Limited

**Long /Medium Term Rating: BWR A+
Short Term Rating: BWR P1**

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

The rating considers favorably 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 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.

Company Profile

Golden Jubilee Hotels Limited (GJHL) was incorporated under companies act, 1956 on December 18th, 1996 under the name of “Golden Jubilee Estates Limited”. The name of the company was changed to its present name on December 5th, 2006. It currently acts as a special purpose vehicle (SPV) for the construction and management of two Five star hotels namely The Oberoi, Hyderabad and Trident, Hyderabad, at Shilpakalavedika, Madhapur, Hyderabad. The SPV is a consortium between Maha Hotel Projects P Ltd), Basil Infrastructure Projects Ltd and EIH Ltd. 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, Shilpakalavedika, Madhapur Hyderabad on a Build, Operate and Transfer (BOT) basis.

Business Prospects:

The proposed hotel site is located opposite the first tower of Hitec City (called Cyber Tower). It is conveniently accessible from Hyderabad city and is about 38 km's from the new international airport at Shamshabad. The new international convention centre (ICC) and from the HITEX exhibition grounds are located nearby.

Several commercial developments like 28 notified Special Economic Zones catering to the IT, biotechnology and manufacturing sectors, Hyderabad Financial District, Hyderabad International Convention Centre and HITEX Exhibition centre are some of the demand inducing factors. In addition, Hyderabad is already a well known tourist destination.

The Public Private Partnership project has the land lease from the YATC, a government body which is a comforting factor. Trident is expected to be operational by March, 2011 and “The Oberoi” by July, 2011. Oberoi and Trident will add 221 and 324 rooms to the existing capacity in Hyderabad. These additions compare favorably to the present demand and supply situation particularly in the hi-tech city area. We believe the site location, proximity to key demand areas and the brand are critical success factors in the project.

Project Team:

The management team for the project is highly experienced. The team consists of professionals with rich experience in handling hotel projects across the country including Park Hyatt Goa and Grand Hyatt, New Delhi. The civil construction team has experience working with The Park Hyatt Resorts and SPA, Goa, Calcutta Metro Rail, Nagarjuna Construction, JMC Projects (India) Ltd. Shapoorji Pallonji & Co Ltd, Indu Projects Ltd.

Financials:

The authorised capital of the company is Rs. 2500 Million and the Paid-Up capital is Rs. 432.70 million. Golden Jubilee hotels projected capital expenditure (Capex) of INR 5834.9 Million, is reasonable for 545 rooms. Capex per room for the Golden Jubilee comes at INR 10.7 Million per room. The company has already incurred INR 721.80 Million on the project as at 20th December 2008. The fact that equity funds were brought in for this expenditure is a comforting factor.

Projections for both the hotels were undertaken from its operational year 2011 to FY 2021. FY 2015 will be the stabilisation year for both the hotels. Both the hotels together are projected to generate revenue of INR 2084 Million in FY-2012 and subsequently grow at an average rate 6%. Operating profit for the FY-2009 is expected to be INR 420.10 Million and reach INR 874.70 Million in the stabilization year of 2015. Profit after Tax for both the hotels has been projected INR 82.7 Million initially and INR 358.00 Million in FY 2015.

EIH Ltd:

We see the equity participation of EIH Ltd as a 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. 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 from the start of the project plus extendable to 10 years each subsequent three times.

Project Completion:

The rating is constrained with the risks associated with the timely completion of the project. Risk associated with the fluctuation in the foreign exchange rate is also taken negatively.

As on 20th Dec, 2008, the company has spent INR 721.80 million on the project. The company expects to complete the project 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. 6 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.

Rating Outlook:

The participation of Oberoi group, experienced management, Public-Private Partnership nature of project, the Government of Andhra Pradesh covenants for early completion of project, substantial commitment of equity funds on the ground are comforting factors responsible for stable rating outlook. The continuing financial crisis that can affect both tourist and IT growth are concerns. The detailed rationale is enclosed as Annexure A.

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