

Press Release

12 December, 2017

PATEL INN AND TRAVELS PRIVATE LIMITED (PITPL)

Rating Assigned

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|--------------------------------------|---------------------------|
| Total Bank Facilities Rated * | Rs. 35.00 cr |
| Long Term Rating | SMERA BB/ Outlook: Stable |

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs.35.00 crore bank facilities of Patel Inn and Travels Private Limited (PITPL). The outlook is '**Stable**'.

The Gujarat-based PITPL, a tour and travel company, was incorporated in 2006. The company, promoted by Ms. Hiruben Khetani, Mr. Meghijibhai Khetani and Mr. Gaurang Khetani has a fleet of 215 buses including Volvo, Scania, Tata and Ashok Leyland. Out of these ~40.00 percent are booked on contractual basis by corporate clients (Adani, Welspun, Kohler, ABG Cement Ltd., GRG Cotspin etc to name a few) while the rest are used for travellers.

The company covers more than 15 routes in major cities including Saurashtra, Mumbai, Pune and Shirdi.

About the Project

With an aim to expand further, PITPL plans to set up 'Patel Travel Hub', at a cost of Rs.50.63 crore to be financed through promoter's contribution of Rs.28.73 crore and bank funding of Rs.21.90 crore. The project, a ten storeyed building aims at providing multiple facilities such as vehicle parking, hotel booking, restaurants, parking among others.

The project is expected to be completed by December 2018 after which the company will sign an operating agreement with well-known operators of budget hotels.

Key Rating Drivers

Strengths

Experienced management

PITPL is an Ahmedabad-based company incorporated in 2006. The promoters, Ms. Hiruben Khetani, Mr. Meghijibhai Khetani and Mr. Gaurang Khetani have more than three decades of experience in the tours and travel industry.

Reputed clientele

The company caters to a reputed client based such as Adani, Welspun, Kohler, ABG Cement Ltd., GRG Cotspin, RMG Alloys Steel Ltd etc. PITPL has established long term relations with clients over the past 10 years.

Moderate scale of operations

The operating income stood at Rs.88.24 crore for FY2017 (Provisional), Rs.83.30 crore for FY2016 and Rs.77.64 crore for FY2015. The cash accruals stood at Rs.12.02 crore for FY2017 (Provisionals) against Rs.14.04 crore a year earlier. The moderate scale of operations and cash accruals position will help fund the ongoing project and help repay long term debt obligations.

Favourable location of the new project - Travel Hub

Travel Hub is located on the outskirts of Ahmedabad, one of the prominent cities of Gujarat, adjacent to S G Highway, around 1.5 km from the main road. Further, it is well connected to railway stations, airports, and other means of transport.

Weaknesses

Risks associated with the project

The commercial operations are expected to commence from April 2020. The company is exposed to project implementation risk. Construction work is yet to begin and hence PITPL faces offtake risk mainly associated with timely completion of its project under the said cost structure. Further, the company has not yet signed an MOU with hotel operators for food court facilities.

Uneven operating margins

During the period FY2015 to FY2017, the operating margins have been uneven on account of variation in fuel prices, employee costs and maintenance. For FY2016-17, PITPL registered operating margin of 18.05 per cent (Provisional) compared to 19.96 per cent in FY2015-16 and 16.09 per cent in FY2014-15.

Average financial risk profile

PITPL has networth of Rs.5.69 crore as on 31 March, 2017 against Rs.3.47 crore for FY2016. The gearing (debt-to-equity) stood at 5.36 times as on 31 March, 2017 against 7.79 times as on 31 March, 2016. The total debt of Rs.30.48 crore mainly comprises Rs.19.17 crore of term loan and Rs.11.31 crore of working capital borrowings. The coverage indicators stood healthy with interest coverage ratio (ICR) of 4.52 times for FY2017 (Provisional) and 5.53 times for FY2016. The Debt service coverage ratio (DSCR) stood at 1.36 times for FY2017 (Provisional) against 1.72 times for FY2016. Further, the NCA/TD stood at 0.39 times for FY2017 against 0.52 times a year earlier. Further, the 'Travel Hub' project is expected to be funded by bank's borrowing of Rs.21.90 and promoters fund of Rs.28.72 crore. Furthermore, the operations will require timely capex to add to the fleet. Hence, high dependency on debt funded capital structure will keep gearing deteriorated over the medium term.

Intense competition

The operations of PITPL are concentrated in Gujarat. The company faces significant geographic concentration risk and intense competition from small and medium operators, government buses, railways and upcoming metro projects. However, as per the management, the company plans to diversify operations by constructing 'Patel Travel Hub' to provide food, Wi-Fi, waiting lodge, hotel room and others facilities to travellers.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of PITPL to arrive at the rating.

Outlook: Stable

SMERA believes that PITPL will maintain a stable outlook in the medium term owing to the experienced management. The outlook may be revised to 'Positive' in case the company generates healthy cash flows

from operations while achieving a comfortable financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of delays in project implementation.

About the Rated Entity - Key Financials

For FY2016-17, PITPL reported Profit after Tax (PAT) of Rs.1.01 crore on total operating income of Rs.88.24 crore compared with PAT of Rs.3.87 crore on total operating income of Rs.83.30 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entity in Service Sector - <https://www.smera.in/criteria-service.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History

Not Applicable

*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 | Not Applicable | Not Applicable | Not Applicable | 12.00 | SMERA BB / Stable |
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA BB/ Stable |
| Proposed Fund Based | Not Applicable | Not Applicable | Not Applicable | 13.00 | SMERA BB / Stable |

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ABOUT SMERA

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