

Press Release

Kadodara Hotels

October 01, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 10.00 crore bank facilities of KADODARA HOTELS (KH). The outlook is '**Stable**'.

Surat-based, KH was established in 2016 and it has set up a two-star hotel consisting of 27 rooms, 12 service apartments, a restaurant, banquet and other facilities at Surat (Gujarat). The hotel premises is given on rent to '1589 Hotels Private Limited'. The partners of the firm are Mr. Shaileshbhai Dahyabhai Patel (Key Promoter) and Mr. Atulbhai Mangubhai Patel. The commercial operations of the entity commenced from October, 2018.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of KH to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The Partners have more than two decades of experience in the hospitality and real estate sectors. Further, the aforementioned are also co-founders of the 'Chatrala Group', engaged in the hospitality and real estate businesses, since 1980 in USA. Acuité believes that the firm will sustain its existing business profile on the back of experienced management.

- **Management agreement/tie-up**

The management has entered into an agreement with the '1589 Hotels Private Limited' for managing the day-to-day operations of the hotel.

Weaknesses

- **Weak financial risk profile**

The financial risk profile of the firm stood weak marked by low networth of Rs. 4.56 crore as on 31 March, 2019 (Provisional) as against Rs. 3.63 crore as on 31 March, 2018. The gearing (debt-equity) stood at 1.42 times as on 31 March, 2019 (Provisional) as compared to 1.79 times in the previous year. Further, the coverage indicators stood below average marked by low Interest Coverage Ratio (ICR) of 0.17 times in FY2019 (Provisional). DSCR stood low at 0.40 times in FY2019 (Provisional). This is mainly due to early stage of operations of the firm (i.e. 6 months of operations in FY2019). Whereas, the term loan obligations commenced as per schedule. Acuité believes that the ability of the firm to generate adequate cash flows to support its debt obligations is a key rating sensitivity.

- **Intense competition**

The hotel industry faces intense competition from a large number of organised and unorganised players.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs.0.50-0.60 crore) along with profitability margin of around 60-70 per cent over the medium term.

Material Covenants

- Maintain Current Ratio at a minimum level of 1.20 times.
- Bringing additional long-term funds to meet with the repayment obligation of the bank in time, if there is negative cash profit or positive cash profit is not adequate to service repayment obligations of bank.
- Raise and maintain capital as estimated/ projected by the firm.
- Raise and maintain unsecured loans as estimated/ projected by the firm.

Liquidity Position: Stretched

The firm has stretched liquidity marked by negative net cash accruals to its maturing debt obligations. The firm generated negative cash accruals of Rs. 0.36 crore for FY2019 (Provisional), while its maturing debt obligations were Rs. 0.45 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around negative of Rs. 0.25 crore to positive of Rs. 0.25 crore during 2020-22 against repayment obligation of around Rs. 1.00 crore to Rs. 1.25 crore during the same period. The firm maintains unencumbered cash and bank balances of Rs. 0.01 crore as on 31 March, 2019 (Provisional). The current ratio stood low at 0.50 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of negative cash accrual against moderate debt repayments over the medium term.

Outlook: Stable

Acuite believes that KH will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook maybe revised to 'Positive' in case the firm registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	0.22	NA	NA
EBITDA	Rs. Cr.	0.11	NA	NA
PAT	Rs. Cr.	(0.36)	NA	NA
EBITDA Margin	(%)	47.71	NA	NA
PAT Margin	(%)	(162.94)	NA	NA
ROCE	(%)	2.40	NA	NA
Total Debt/Tangible Net Worth	Times	1.42	1.79	2.21
PBDIT/Interest	Times	0.17	NA	NA
Total Debt/PBDIT	Times	25.54	NA	NA
Gross Current Assets (Days)	Days	189	NA	NA

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in service sector- <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Feb-2019	Term loan	Long Term	6.76	ACUITE B / Stable (Downgraded from ACUITE B+/ Stable)
	Proposed Bank Facility	Long Term	3.24	ACUITE B / Stable (Downgraded from ACUITE B+/ Stable)
18-Dec-2017	Term loan	Long Term	6.76	ACUITE B+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	3.24	ACUITE B+ / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan	Not Applicable	Not Applicable	Not Applicable	6.76	ACUITE B / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.24	ACUITE B / Stable (Reaffirmed)

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About Acuite Ratings & Research:

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