

Press Release

Class Restaurant

July 15, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE B- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) on the Rs. 10.00 crore bank facilities of Class Restaurant (CR). The outlook is '**Stable**'.

Reason for Reaffirmation

The rating reaffirmation is on account of slight recovery witnessed in the business risk profile of the company in FY2022 after the outbreak of covid-19 which severely impacted the operations of the company. The rating continues to factor in the experienced management with long track record of operations. However, the rating is constrained by the negative profitability with modest scale of operations, weak financial risk profile, stretched liquidity position and highly competitive industry that the company operates in.

About the Company

The Class Restaurant was established in 1999 under the proprietorship of Mr. Surendra Surana. The firm runs a restaurant which provides Gujarati, Marwadi and Punjabi thali. The restaurant has total seating capacity of 120 people and is covered in 1800 sq. ft. carpet area. The restaurant is situated in Juhu, Mumbai.

About the Group

Incorporated in 1995, AGPL is an Aurangabad-based company which is promoted by Mr. Surendra Surana and family. AGPL started its operations from 2005 which is engaged running a club cum hotel. The hotel offers 110 rooms, four banquet halls, a club house and other amenities. The promoter also promotes the Surana Group which includes construction business namely Surana Constructions Chembur, Surana Constructions Wadala, Surana Infrastructure Private Limited among others and runs The Class Restaurant and Hotel Carnival to name a few. Further, AGPL has favourable location at Aurangabad which is located close to Aurangabad airport with easy access to railway and bus stations.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of CR to arrive at this rating

Key Rating Drivers

Strengths

>Experienced promoter and locational advantage

CR has its presence in this hospitality and construction industry for nearly two decades through Surana Group. The promoter, Mr. Surendra Surana, possesses vast experience of nearly two decades in this industry. Also, CR is located at Juhu, which is a prime location in Mumbai and caters to an upmarket audience.

Acuité believes that the firm will benefit from its experienced management, which helps to maintain long-standing relations with its suppliers and presence in the industry.

Weaknesses

>Small scale of operations with declining profitability margins

The company has recorded an operating income of Rs.1.16 crores in FY2022 (Prov) as against Rs.1.01 crores in FY2020. The revenue of the company has increased in FY2022 (Prov) on account of relaxation in lockdown restrictions. The operating margin of the company improved to 32.75 percent in FY2022 (Prov) as against 29.72 percent in FY2020. The reason of increasing margin is on account improvement in scale of operations. Also, PAT margin stood at (81.11) percent in FY2022 (Prov) as against 16.37 percent in FY2020.

Going forward, Acuité believes that the firm's ability to register growth in revenue, while maintaining adequate profitability, will be key rating sensitivity.

>Weak financial risk profile

The financial risk profile of the company is weak marked by negative net worth, gearing and stretched debt protection metrics. The tangible net worth stood at negative Rs.10.03 crore as on 31 March 2022 (Prov) as against negative Rs.8.50 crore as on 31 March 2021 and negative Rs.9.04 crore as on 31 March 2020. The total debt of the company stood at Rs.10.69 crore includes Rs.9.96 crore of short-term debt, Rs.0.73 crore of unsecured loans as on 31 March 2022 (Prov). The gearing (debt-equity) stood at negative 1.07 times as on 31 March 2022 and 2021 and negative 1.08 times as on 31 March 2020. Interest Coverage Ratio stood at 0.30 times for FY2022 (Prov) as against (0.02) times for FY2021 and 4.77 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 0.30 times in FY2022 (Prov) as against (0.02) times for FY2021 and 4.77 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood negative at 1.07 times as on 31 March 2022 (Prov) as against 1.08 times as on 31 March 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at (0.08) times for FY2022 (Prov).

Acuité believes that the firm's ability to improve its net worth along with debt protection metrics will remain key rating sensitivity.

Rating Sensitivities

- Improvement in scale of operations and margins
- Firm's ability to improve its net worth along with debt protection metrics
- Further deterioration in financial risk profile and coverage indicators

Material covenants

None.

Liquidity Position: Stretched

The company's liquidity position is stretched as the average bank limit utilization for the past 07 months March 2022 is ~ 99.24 percent. Further, they have insufficient net cash accruals. The company has net cash accruals in the range of Rs. (1.25)-Rs.0.24 Crore from FY 2020- 2022. In addition, the company will not be able to generate sufficient net cash accruals over the medium term. The working capital management of the company is efficient marked by GCA days of 30 days in FY2022 (Prov) as against 45 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2022 (Prov). The current ratio stands at 0.01 times as on March 31, 2022 (Prov).

Acuite expects that the liquidity of the company is likely to remain stretched over the medium term on account small scale of operations.

Outlook: Stable

Acuité believes that CR's outlook will remain 'Stable', owing to the promoter's extensive experience in the industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially along with increase in operating profitability and comfortable capital structure. Conversely, the outlook may be revised to 'Negative' in case of weakening of the operating margins or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1.16	0.00
PAT	Rs. Cr.	(0.94)	(1.32)
PAT Margin	(%)	(81.11)	102812.15
Total Debt/Tangible Net Worth	Times	(1.07)	(1.07)
PBDIT/Interest	Times	0.30	(0.02)

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

CRISIL Ratings, vide its press release dated February 24, 2022, has mentioned the rating of CR as 'CRISIL B-/Stable/Issuer Not Cooperating' as on February 24, 2022

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite of repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Apr 2022	Secured Overdraft	Long Term	9.00	ACUITE B- (Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	1.00	ACUITE B- (Issuer not co-operating*)
11 Jan 2021	Proposed Long Term Loan	Long Term	1.00	ACUITE B- (Issuer not co-operating*)
	Secured Overdraft	Long Term	9.00	ACUITE B- (Issuer not co-operating*)
10 Oct 2019	Secured Overdraft	Long Term	9.00	ACUITE B- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.00	ACUITE B- Stable (Reaffirmed)
05 Jan 2019	Secured Overdraft	Long Term	9.00	ACUITE B- Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	1.00	ACUITE B- Stable (Reaffirmed)
22 Dec 2017	Secured Overdraft	Long Term	9.00	ACUITE B- Stable (Assigned)
	Proposed Secured Overdraft	Long Term	1.00	ACUITE B- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE B- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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