

Press Release

Raffles Square Development Private Limited

October 23, 2020

**Rating Downgraded & Withdrawn;
Outlook Revised**



Total Facilities Rated*	Rs.64.00 crore
Long Term Rating	ACUITE BBB-/Outlook: Negative (Downgraded from ACUITE BBB; Outlook revised from Stable)
Short Term Rating	ACUITE A3 (Downgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.64.00 crore bank facilities of Raffles Square Development Private Limited (RSDPL). The outlook has been revised to '**Negative**' from '**Stable**'.

Further, Acuite has also withdrawn the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.1.15 crore bank facilities of RSDPL.

The downgrade and revision in outlook is on account of sustained pressures on the business risk profile of the company, significant deterioration in the scale of operations and reduction in profitability levels amidst COVID-19 pandemic. The outbreak of COVID-19 and related lockdowns have severely impacted the operations of the company marked by close down of both its hotels from last week of March, 2020. The operations of Goa hotel resumed from October, 2020 and the Pune hotel is expected to resume from November, 2020. However, the occupancy levels and average rate per room after opening up the hotels will remain key monitorables going ahead. Acuite believes that the pressure on the business of the company will continue over the medium term and the revenues along with profitability levels are expected to decline for FY2021 on account of covid-19 disruptions.

Raffles Square Development Private Limited (RSDPL) was incorporated in 2005 and is primarily involved in the hospitality business. The company currently owns two properties, i.e. a five star hotel in Pune located at Koregaon Park area started in 2008 and a five star resort in Candolim, Goa started in 2009. Both the properties are under "O" hotel brand. RSDPL belongs to the Oxford Group which has successfully developed about 3 million square feet of commercial and residential developments in Pune.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of operations along with experienced management**

RSDPL was established in 2005 by Mr. Anirudha Seolekar, Mr. Ashok Kothari and Mr. Pramod Dhadiwal. The company owns two five star hotels located in Pune and Goa under the brand name 'The O Hotel'. The promoters have more than a decades experience in the hospitality industry apart from the real estate industry. The company is a group company of the Oxford Group which is one of the leaders in the real estate sector in Pune. The group has successfully developed about 3 million square feet of commercial and residential developments in Pune.

Acuite believes that RSDPL will sustain its existing business profile on the back of an established track record of operations and experienced management.

• **Moderate financial risk profile**

The financial risk profile of the company stood moderate marked by moderate net worth, debt protection metrics and debt coverage indicators. The net worth of the company stood at Rs.30.76 crore as on 31 March, 2020 as against Rs.30.14 crore as on 31 March, 2019. This includes quasi equity of Rs.19.17 crore as on 31 March, 2020 as against Rs.18.45 crore as on 31 March, 2020. The total debt outstanding stood at Rs.57.83 crore as on 31 March, 2020 compared to Rs.55.04 crore same period last year. The gearing (debt-equity) stood at 1.88 times as on 31 March, 2020 as against 1.83 times as on 31 March, 2019. The Interest Coverage Ratio (ICR) have deteriorated to 1.43 times for FY2020 as against 1.99 times for FY2019. The Debt/EBITDA levels also deteriorated to 5.59 times for FY2020 as against 3.68 times for FY2019. The NCA/TD (Net Cash Accruals to Total Debt) stood at 0.05 times in FY2020 as against 0.13 times in FY2019.

Acuite believes that the financial risk profile of the company is expected to remain moderate in the absence of any major debt-funded capex in near to medium term.

Weaknesses

• **Decline in revenue from operations and profitability**

The revenue from operations of the company declined in FY2020 and stood at Rs.38.40 crore as against Rs.46.13 crore in FY2019. The decline was majorly on account of lower occupancy levels in Q2FY2020 for Goa hotel along with covid-19 disruptions in Q4FY2020. The profitability of the company also deteriorated in FY2020 marked by a decline in the operating margin, which stood at 25.43 per cent in FY2020 as against 30.21 per cent in FY2019 on account of high operating expenses. The Profit after Tax (PAT) margins also deteriorated to (0.28) per cent in FY2020 from 8.97 per cent in FY2019 on account low operating profit and high interest & depreciation expenses. Further, the covid-19 pandemic has severely impacted the revenues of the company during the current year FY2021 as both the hotels have been completely shut down from last week of March, 2020 on account of covid-19. The Goa hotel has resumed its operations from October, 2020 whereas the Pune hotel is expected to resume its operations from November, 2020.

Acuite believes that the revenue from operations and profitability will continue to decline in FY2021 on account of the shutdown of operations of both the hotels till Q2FY2021 due to covid19 pandemic.

• **Highly competitive Industry**

RSDPL faces competition from other upcoming and presently operating hotels in and around Pune and Goa. Further, in the hotel industry, the company is susceptible to risks arising from the cyclicity therein. Several of these hotels have established and others have their plans to establish hotels to take advantage of these opportunities. These entrants are expected to intensify the competitive environment. The hotel revenues are also vulnerable to the general economic slowdown and other factors such as terrorist attacks, disease outbreaks, geopolitical crisis, natural calamities etc.

Acuite believes the success of the company's hotels will be dependent upon its ability to compete in areas such as room rates, quality of accommodation, service level and convenience of location and also the quality and scope of other amenities, including food and beverage facilities.

Rating Sensitivities

- Growth in revenues with the sustainability of the profitability margins
- Sustaining healthy occupancy levels after the resumption of both the hotels

Material Covenants

None

Liquidity position: Stretched

RSDPL has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.90 crore for FY2020 while its maturing debt obligations were Rs.4.09 crore for the same period. The cash accruals of the company are expected to deteriorate further going forward on account of closedown of both its hotels during H1FY2021 due to covid-19 pandemic. However, the promoters have infused unsecured loans to the tune of Rs.7.29 crore in FY2021YTD (till August, 2020) which will partially offset the liquidity scenario of the company. Further, the bank limits of the company has been utilized around 50 percent over the last six months ended September, 2020. The current ratio stood at 0.73 times as on 31 March, 2020. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals to its maturing debt obligation.

Outlook: Negative

Acuite believes that the RSDPL credit profile will be impacted by a significant deterioration in revenues from operations along with a decline in profitability margins. The rating may be downgraded in case of continued decline in revenues and its profitability margins impacting the liquidity and debt protection indicators. The outlook may be revised to 'Stable' in case of improvement in the company's scale of operations and improvement in the margins.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	38.40	46.13
PAT	Rs. Cr.	(0.11)	4.14
PAT Margin	(%)	(0.28)	8.97
Total Debt/Tangible Net Worth	Times	1.88	1.83
PBDIT/Interest	Times	1.43	1.99

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
29-July-2019	Overdraft	Long Term	21.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	6.19	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	5.87	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	0.50	ACUITE BBB (Withdrawn)
	Term Loans	Long Term	9.88	ACUITE BBB/Stable (Reaffirmed)
	Term Loans	Long Term	20.00	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facilities	Long Term	0.06	ACUITE BBB/Stable (Reaffirmed)
03-May-2018	Overdraft	Long Term	21.00	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	7.72	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	7.52	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	0.50	ACUITE BBB/Stable (Assigned)
	Term Loans	Long Term	10.00	ACUITE BBB/Stable (Assigned)

	Bank Guarantee	Short Term	1.00	ACUITE A3+ (Assigned)
	Proposed bank Facilities	Long Term	2.26	ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable; Outlook revised from Stable)
Term Loans	June, 2010	10.00%	Mar, 2020	1.15	ACUITE BBB- (Withdrawn; Downgraded from ACUITE BBB/Stable)
Term Loans	June, 2010	10.00%	Sep, 2021	3.20	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable; Outlook revised from Stable)
Term Loans	Mar, 2017	10.00%	Aug, 2025	9.31	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable; Outlook revised from Stable)
Term Loans	Sep, 2018	10.00%	Feb, 2029	19.61	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable; Outlook revised from Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A3 (Downgraded from ACUITE A3+)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	8.73	ACUITE BBB-/Negative (Downgraded from ACUITE BBB/Stable; Outlook revised from Stable)

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