

Press Release

Ina Elite Hospitality Private Limited

May 25, 2018



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 50.00 Cr. |
| Long Term Rating | SMERA B+ / Outlook: Stable |

** Refer Annexure for details*

Rating Rationale

SMERA has assigned the long term rating of **'SMERA B+' (read as SMERA B plus)** on the Rs. 50.00 cr. bank facilities of Ina Elite Hospitality Private Limited. The outlook is **'Stable'**.

The Bangalore-based Ina Elite Hospitality Private Limited (IEHPL) was incorporated in 2005 by Mr. Neeraj Chhabra. The company is engaged in running of budget hotels. IEHPL has a hotel at HSR layout (Bangalore) and is currently constructing a four star hotel in Narsapura (Karnataka).

Key rating drivers

Strengths

Experienced Management

The Promoters, Mr. Neeraj Chhabra and Mrs. Ina Chhabra have experience of more than two decades in the hospitality industry. The company is supported by a second line of management comprising Mr. Aseem Chhabra and Ms. Arushi Chhabra.

Location advantage for upcoming hotel

IEHPL is constructing a new four star hotel in Narsapura (Karnataka) which will have 200 rooms. The hotel is strategically placed with a close proximity to an industrial area with no major competition in close vicinity.

Weaknesses

Moderate financial risk profile

IEHPL has moderate financial risk profile marked by low tangible net worth of Rs.12.99 crore as on 31 March, 2017 as against Rs.10.36 crore as on 31 March, 2016. It includes unsecured loan of Rs.10.61 crore as on 31 March, 2017 which is considered as quasi-equity as same is subordinated to bank debt. The adjusted gearing deteriorated marginally which stood at 1.32 times as on 31 March, 2017 as against 1.18 times as on 31 March, 2016. The debt mainly comprises of term loans of Rs.17.17 crore as on 31 March, 2017. Interest Coverage Ratio (ICR) stood at 2.99 times for FY2017 as against 2.79 times in FY2016. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.68 times as on 31 March, 2017 as against 1.44 times as on 31 March, 2016.

Going forward, SMERA expects the financial risk profile to deteriorate in the near to medium term on account of the debt funded capex plan for the new hotel.

Small Scale of operations marked by uneven profitability

IEHPL has small scale of operations marked by the operating income of Rs.6.10 crore in FY2017 as against Rs.7.60 crore in FY2016. The PAT margins have declined to 8.13 percent in FY2017 from 9.60 percent in FY2016.

Debt-funded capex plan

The total cost of upcoming hotel in Narsapura (Karnataka) is ~Rs.55.00 crore which will be funded by Rs.35.00 crore of term loans and rest from internal accruals. The project is expected to get completed by July, 2018. Notwithstanding the benefits of the debt funded capex, timely completion & stabilisation and timely servicing of debt obligations will remain key rating sensitivities.

Competitive and fragmented hospitality industry

IEHPL faces tough competition from other hotels in Bangalore which can have impact on its occupancy levels.

Analytical approach:

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

Outlook – Stable

SMERA believes that IEHPL will maintain a 'Stable' business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 6.10 | 7.60 | 7.75 |
| EBITDA | Rs. Cr. | 1.37 | 2.09 | 2.15 |
| PAT | Rs. Cr. | 0.50 | 0.73 | 0.63 |
| EBITDA Margin | (%) | 22.46 | 27.47 | 27.78 |
| PAT Margin | (%) | 8.13 | 9.60 | 8.13 |
| ROCE | (%) | 4.22 | 10.46 | 32.95 |
| Total Debt/Tangible Net Worth | Times | 1.32 | 1.18 | 0.88 |
| PBDIT/Interest | Times | 2.99 | 2.79 | 1.87 |
| Total Debt/PBDIT | Times | 12.52 | 5.87 | 2.54 |
| Gross Current Assets (Days) | Days | 43 | 31 | 16 |

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

Not Available

Any other information:

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities in Service Sector - <https://www.smera.in/criteria-services.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 (Upto last three years)

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 loans | Not Applicable | Not Applicable | Not Applicable | 23.75 | SMERA B+/Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA B+/Stable |
| Term loans | Not Applicable | Not Applicable | Not Applicable | 6.00 | SMERA B+/Stable |
| Proposed Bank Facilities | Not Applicable | Not Applicable | Not Applicable | 10.25 | SMERA B+/Stable |

Contacts:

| Analytical | Rating Desk |
|--|---|
| Suman Chowdhury President - SMERA Bond Ratings Tel: +91-22-6714 1107 suman.chowdhury@smera.in Avadhoot Mane, Analyst - Rating Operations Tel: +91-22-6714 1138 avadhoot.mane@smera.in | Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in |

ABOUT SMERA

SMERA Ratings Limited

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.