Press Release

Jaksons Developers Private Limited

October 22, 2021

Rating Downgraded

Total Bank Facilities Rated*	Rs.100.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB- /Stable)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long-term rating to **'ACUITE BB+' (read as ACUITE double B plus)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.100.00 Cr. bank facilities of Jaksons Developers Private Limited (JDPL). The outlook is **'Stable'**.

Rationale for downward revision of ratings

The downward revision in ratings takes into account the impact on the business risk profile of the covid-19 pandemic, which has resulted in deterioration in operating income by ~75 percent and operating (EBITDA) margins by ~85 percent. The deterioration in the business risk profile has spilled over by significantly impact the working capital management of JDPL, marked by increase in GCA to 2219 days in FY2021 (Estimated) as against 437 days in FY2020. Further, JDPL has high inventory load of unleased commercial spaces, the delay in sales has further been accentuated by the impact of covid-19. While there has been no delays in servicing of maturities as informed by the banker, the same has been done from sources such has realisation of deposits held earlier. The withdrawal of capital in the form of USL has further created additional stress on the liquidity position.

About the Entity

New Delhi-based Jaksons Developers Private Limited (JDPL) was incorporated in 2006 by Mr. Arun Kumar Gupta and Mr. Virender Gupta. JDPL was originally engaged in real estate development and developed a mall, City Centre, and later the company entered into its maiden hospitality venture, after developing and now operating a hotel-cum-commercial project in the Northern part of Delhi. The hotel is branded as 'Crown Plaza' (brand owned by InterContinental Group) and commenced its operations in May 2011. Crown Plaza has a total of 183 rooms divided into three categories – Standard Rooms (161 rooms), Deluxe Rooms (18 rooms) and Executive Suites (4 rooms). Further, the company is also engaged in the real-estate segment.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations visible in the brand reputation**

Jaksons Developers Private Limited (JDPL) is engaged in real estate business i.e., construction and management of Shopping Mall (City Centre Mall, Rohini) & Commercial Complexes including the hotel (Crown Plaza). JDPL is promoted by Mr. Arun Gupta and Mr. Virender Gupta who have more than two decades of experience in the real estate and the hospitality industry. The promoters backed by their experience have been able to create a market for the hotel in Rohini located in the Northern part of Delhi.

Weaknesses

- **Constrained financial risk profile**

The financial risk profile of stands moderate while being constrained on Y-O-Y basis on account of the deterioration in its coverage indicators while witnessing stable net worth and gearing in FY2021 (Estimated).

JDPL's coverage indicators have witnessed significant deterioration in Y-O-Y basis on the back of significant deterioration in its profitability indicators as reflected in the Net Cash Accruals/CPLTD of 0.02 times in FY2021

(Estimated) as against 2.07 times in FY2020.

The shortfall in the Net Cash Accruals (NCA) to service its current maturities (CPLTD) in FY2021 (Estimated) were addressed through realisations of FD, while for FY2022 the NCA are expected to be adequate to satisfy the arising maturities.

The Interest Coverage Ratio (ICR) deteriorated to 1.03 times in FY2021 (Estimated) as against 3.59 times in FY2020, while the Debt Service Coverage Ratio (DSCR) has also deteriorated to 0.49 times in FY2021 (Estimated) as against 1.57 times in FY2020.

The tangible net worth of JDPL stood stable at Rs.235.52 Cr. as on March 31, 2021 (Estimated) as against Rs.235.08 Cr. as on March 31, 2020. OCPL follows a conservative financial policy as reflected by its peak Gearing (Debt to Equity) of 0.46 times as on March 31, 2021 (Estimated) as against 0.44 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.58 times as on March 31, 2021 (Estimated) and 0.57 times as on March 31, 2020.

The marginal increase in gearing is on account increase in bank funded debt capex availed by JDPL. Nonetheless, withdrawal of the intercorporate loans in the form of USL have also resulted in stable gearing. Further, JDPL also avails short-term bank lines for its working capital needs.

Acuité believes that the financial risk profile of JDPL is expected to improve in the near to medium term on the back of expected improvement in the coverage indicators going forward on the back of improvement in the business risk profile of JDPL.

- **Deterioration in Working capital management**

JDPL's working capital management has deteriorated on Y-O-Y basis marked by deterioration in Gross Current Asset (GCA) of 2219 days in FY2021 (Estimated) as against 437 days in FY2020.

The deterioration in GCA can be attributed to significant increase in the Inventory holding period and other current assets in FY2021 (estimated). The Inventory holding period stood of 453 days in FY2021 (Estimated) as against 125 days in FY2020. Increase in inventory is on account of high inventory load of unleased commercial spaces & unutilised rooms in the Crown Plaza Hotel.

Nonetheless, the debtors' collection period remained stable at 16 days in FY2021 (Estimated) as against 13 days in FY2020.

The creditors' payment period have also witnessed elongation to 504 days in FY2021 (Estimated) as against 166 days in FY2020.

The deterioration in the working capital management has led to increased reliance on working capital borrowings; the overdraft limit remains utilized at an average of ~80 percent during the 6-month period ended September 2021 as informed by the banker.

- **Impact of Covid outbreak on hotel industry**

Occupancy growth for hotels in India decelerated by a staggering 60 percent in Covid hit 2020 and total room inventory occupancy for hotels in India stood at 29 percent and the RevPAR plummeted to Rs.1,423 down 62 percent when compared to 2019. Hospitality and Tourism roughly account for 10 percent of India's GDP and employ nearly 9 percent of India's working population and has found little space in the Union Budget. The tourism, travel and hospitality industry were looking for immediate and short-term measures for critical revival, which have not been highlighted in the recent budget announcements.

- **Highly competitive industry**

The Indian subcontinent with vast opportunities and potential for high growth has become the focus area of major international chains. Several of these chains 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. Acuité believes the success of the company 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.

Liquidity position: Stretched

JDPL has a severely stretched liquidity position marked by inadequate Net Cash Accruals (NCA) vis-à-vis its maturing debt obligations.

The Net Cash Accruals (NCA) of JDPL stood at Rs.0.21 Cr. in FY2021 (Estimated) as against Rs.17.40 Cr. in FY2020 while its maturing debt obligations (CPLTD) stood consistent at ~Rs.8.40 Cr. in FY2021 (Estimated) and FY2020. The shortfall in the Net Cash Accruals (NCA) to service its current maturities (CPLTD) in FY2021 (Estimated) were addressed through realisations of FD, while for FY2022 the NCA are expected to be adequate to satisfy the arising maturities. The NCA is expected to be in the range of Rs.10.00 Cr. – Rs.18.00 Cr. during the FY2022-24 period, while its repayment obligations are estimated to be less than Rs.10.00 Cr. during the same period.

The fund based bank lines remains utilized at an average of ~80 percent during the 6-month period ended September 2021 as informed by the banker.

The cash and bank balance stood at Rs.0.58 Cr. as on as on March 31, 2021 (Estimated) while the current ratio of the company stood healthy at 2.12 times as on March 31, 2021 (Estimated).

Acuite believes the liquidity position is expected to improve in the near to medium term on the back of expected improvement in the overall business risk profile

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the entity.

Material Covenants

None

Outlook: Stable

Acuité believes that JDPL will maintain a 'Stable' outlook in the near to medium term on account of its established track record of the entity supported by extensive experience of the promoters. The outlook may be revised to 'Positive' if the entity registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the entity registers substantial decline in revenues, or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity – Key Financials

	Unit	FY21 (Estimated)	FY20 (Actual)
Operating Income	Rs. Cr.	17.95	71.16
PAT	Rs. Cr.	(6.29)	10.25
PAT Margin	(%)	(35.08)	14.41
Total Debt/Tangible Net Worth	Times	0.46	0.44
PBDIT/Interest	Times	1.03	3.59

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
- Service Sector Entities – https://www.acuite.in/view-rating-criteria-50.htm
- Real Estate Entities – https://www.acuite.in/view-rating-criteria-63.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
03-Oct-2019	Term Loan	Long Term	35.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE BBB- / Stable (Assigned)

	Secured Overdraft	Long Term	15.00	ACUITE BBB- / Stable (Reaffirmed)
26-Sep-2019	Term Loan	Long Term	35.00	ACUITE BBB- / Stable (Assigned)
	Secured Overdraft	Long Term	15.00	ACUITE BBB- / Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Karnataka Bank	Term Loan	January, 2018	9.28	March, 2028	35.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)
Karnataka Bank	Term Loan	December, 2018	10.45	February, 2029	50.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)
Karnataka Bank	Secured Overdraft	Not Applicable	Not Available	Not Applicable	15.00	ACUITE BB+ / Stable (Downgraded from ACUITE BBB- / Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022 – 49294041 aditya.gupta@acuite.in Aditya Sahu Analyst – Rating Operations Tel: 022 – 49294055 aditya.sahu@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022 – 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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.