

Press Release

Classical Paradise Hotels And Resort Limited

October 13, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.70.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 70.00 Cr bank facilities of Classical Paradise Hotels and Resorts Limited (CPHRL). The outlook is '**Stable**'.

The ratings assigned to CPHRL takes into account the long experience of the Ambuja-Neotia group in the hospitality segment, favourable location of the proposed project and the tie-up with Indian Hotels Company Ltd (IHCL) to operate under the brand of 'Taj'. These strengths are however, partly offset by the significant project implementation risk, below average financial risk profile of the company and cyclical hotel industry.

About the company

Incorporated in 2007, Classical Paradise Hotels & Resort Limited (CPHRL) is a hospitality development project located at Pangthang, Sikkim. The management control of the company is with Ambuja-Neotia Group. The project is spread across a land parcel admeasuring 15 acres and out of which the first phase of development is a luxury resort comprising 72 room keys along with other facilities. The present development is spread across a total land area of 4 acres and is christened as "Guras Kutir". Moreover, CPHRL has entered into a hotel operating agreement with India Hotel Company Limited (IHCL) for the management of the luxury resort under the brand "Taj".

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of CPHRL to arrive at the rating. While arriving at the rating of CPHRL, Acuité has taken into account a strong level of support from the Ambuja-Neotia group given that Ambuja Neotia Holdings Pvt Ltd (ANHPL) has a significant stake in CPHRL, directly and indirectly.

Key Rating Drivers

Strengths

• Experienced management

The Ambuja-Neotia group has a long operational track record in the hospitality industry of around four decades. In addition to this, the promoter is highly experienced and actively involved in the operations of the company. Acuité believes that the long operational track record of the group and promoters' extensive understanding and expertise will support the company's growth plans going forward.

• Financial flexibility of the Ambuja-Neotia group

The Ambuja-Neotia Group has been promoted by the Neotia Family, which has been an integral part of the business community in Kolkata for nearly 125 years. The group through its various Joint Venture Companies and Special Purpose Vehicles (SPVs) has been engaged in development of Real Estate properties, both housing and commercial complexes and in the Hospitality business. The group has executed more than 22 million square feet of development comprising of residential, commercial and hospitality projects through its various joint ventures and subsidiary companies over a period of the last 20 years and has established its brand which is widely recognized in the region. The group has also ventured into the states of Sikkim, Bihar, Punjab, Chhattisgarh and Maharashtra for undertaking various types of real estate and hospitality projects.

The group has strong financial risk profile with a willingness to support their businesses, demonstrated from the continuous infusion of unsecured loans and equity funds into CPHRL.

Acuite believes that CPHRL, being a strategically important entity for the group shall continue to benefit from the financial, operational and management support from the Ambuja-Neotia Group as and when required. The parent company Ambuja Neotia Holdings Pvt Ltd (ANHPL) holds around 63 per cent, directly and indirectly, in CPHRL which imparts further comfort to the rating. Any changes in the ownership pattern of CPHRL or any event that impinges the group's overall credit profile shall remain a key rating sensitivity.

- **Locational advantage along with tie-up with "Taj"**

"Guras Kutir" has a locational advantage as it is situated around 15 km from Gangtok, a well-known tourist destination in the country. It is also well connected to the other popular destinations in Sikkim. Further, the newly built airport is only 45 km away from the project. In addition to this, to operate the resort the company has a 30 year arrangement with Indian Hotels Company Limited (IHCL). The "Taj" brand of The Indian Hotels Company Limited, is one of the most popular domestic brand. As per the agreement, IHCL will be receiving a fixed percentage of the revenue generated by CPHRL.

Weakness

- **Significant project implementation risk coupled with time overrun due to pandemic**

The recent project by CPHRL has an estimated fund outlay of Rs.142.78 Cr to be funded from Rs.73 Cr of bank loans and the balance from promoter's contribution. As on 30th June 2021, the bank and the management have spent around Rs. 38.24 Cr and Rs.30.74 Cr respectively in the project. However, the operations have been severely impacted by the pandemic. The construction activity was completely suspended since March, 2020 due to lockdown and strict guidelines of Sikkim Government. Earlier, the project completion date was 31st December, 2021; which has now been extended to 31st December, 2022. Acuite believes that the timely completion of the project at the envisaged cost would be a key monitorable.

- **Constrained financial risk profile**

The company's financial risk profile is marked by modest networth and high gearing over the medium term. The tangible net worth of the company stood low at Rs.34.47 Cr as on 31st March, 2021 but it is expected to improve going forward after the completion of the project. Further, Acuite has considered compulsory convertible debentures of Rs.12.00 Cr as on March 31, 2021, as a portion of equity. The group over the years has infused Rs.3 Cr of unsecured loan as on March 31, 2021. Gearing of the company stood high at 1.46 as on 31st March, 2021. Gearing is expected to increase and is expected to remain at high levels in FY2022-23 as additional bank debt will be contracted during this period. Acuite believes that the financial risk profile of the company is expected to be below average due to leveraged capital structure over the medium term.

- **Cyclical nature of the hotel industry**

The company is exposed to inherent cyclical nature of the hotel industry. Acuite believes the success of the company will be dependent upon its ability to excel 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 after the completion of the project.

Rating Sensitivity

- Any deterioration of its financial risk profile and liquidity position
- Timely completion of the project within the stipulated cost

Material Covenant

None

Liquidity Profile: Stretched

The net cash accruals is expected to be Rs. 5-8 Cr in FY2024-25 against yearly debt obligation of Rs. 3-5 Cr, over the medium term. The cash and bank balances of the company stood at Rs.0.45 crores in FY2021 and are expected to increase gradually as the business commences operations in the medium term. The current ratio stood low at 0.83 as on 31st March, 2021. Acuite believes that going forward the liquidity position of the company will remain moderate and hence a key monitorable over the medium term due to leveraged capital structure and in presence of implementation risk.

Outlook: Stable

Acuite believes that the outlook on CPHRL will remain 'Stable' over the medium term on account of the long track record of operations of the group, experienced management, and financial flexibility of the Ambuja-Neotia group. The outlook may be revised to 'Positive' in case the company is able to increase its occupancy levels while maintaining a stable credit risk profile. Conversely, the outlook may be revised to 'Negative' in case there is significant drop in occupancy levels or any deterioration of financial risk profile leading to pressure on liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	0.02	0.10
PAT	Rs. Cr.	(0.41)	(0.45)
PAT Margin	(%)	(2,089.23)	(456.26)
Total Debt/Tangible Net Worth	Times	1.46	2.08
PBDIT/Interest	Times	(4.21)	(3.87)

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

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>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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
Yes Bank	Term Loan	17-08-2016	Not Available	31-12-2032	60.00	ACUITE BBB-/Stable (Assigned)
Yes Bank	ECLGS	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-6620 1203 pooja.ghosh@acuite.in</p> <p>Kaustav Saha Assistant Manager- Rating Operations Tel: 033-6620-1211 kaustav.saha@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research

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