

## Press Release

### Classical Paradise Hotels And Resort Limited

February 07, 2023



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	70.00	ACUITE BBB-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	99.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 70.00 Cr bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 29.00 Cr bank facilities of Classical Paradise Hotels and Resort Limited (CPHRL). The outlook is '**Stable**'.

### Rationale for the rating

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 constrained 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".

### Standalone (Unsupported) Rating

BB-

### Analytical Approach

Acuite 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, Acuite 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.

Acuité 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 99 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.

### Weaknesses

#### Time overruns in the project

The ongoing project with an estimated cost of around Rs. 155.98 Cr is being funded through a mix of debt and equity. The project has been completed around 77 per cent with an expected completion timeline of 31<sup>st</sup> December, 2023. The extended project duration have resulted from the revised scope of the project with additional facilities proposed by Taj along with challenges faced due to a difficult terrain and labour concerns. Acuité 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 expected to remain below average marked by modest networth and high gearing over the medium term. The tangible net worth of the company moderate low at Rs.33.92 Cr as on 31<sup>st</sup> March, 2022 but it is expected to improve going forward after the completion of the project. Further, Acuité has considered compulsory convertible debentures of Rs.12.00 Cr as on March 31, 2022, as a portion of equity. Gearing of the company stood high at 2.03 as on 31<sup>st</sup> March, 2022. Gearing is expected to increase and

is expected to remain at high levels in FY2023-24 as additional bank debt will be infused in this time period. Acuité believes that going forward 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. Acuité 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.

### **ESG Factors Relevant for Rating**

Not applicable

### **Rating Sensitivities**

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

### **Material covenants**

None

### **Liquidity Position: Stretched**

The net cash accruals is expected to be Rs. 3-5 Cr in FY2025-26 against yearly debt obligation of Rs. 3-5 Cr, over the medium term. Moreover, 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. Acuité 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 project risk.

### **Outlook: Stable**

Acuité 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 AmbujaNeotia group. The outlook may be revised to 'Positive' in case the company is able to start with healthy 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.

### **Other Factors affecting Rating**

None

### **Key Financials**

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	0.02	0.02
PAT	Rs. Cr.	(0.55)	(0.41)
PAT Margin	(%)	(2638.46)	(2089.23)
Total Debt/Tangible Net Worth	Times	2.03	1.46
PBDIT/Interest	Times	(3.01)	(4.21)

### **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: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Dec 2022	Proposed Bank Facility	Long Term	70.00	ACUITE BBB-   Stable (Reaffirmed)
13 Oct 2021	Term Loan	Long Term	60.00	ACUITE BBB-   Stable (Assigned)
	Working Capital Term Loan	Long Term	10.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE BBB-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	28 Dec 2022	Not available	31 Dec 2036	Simple	70.00	ACUITE BBB-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	20.00	ACUITE BBB-   Stable   Assigned

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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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