

Press Release

Hotel Sukhamaya Private Limited

January 14, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.47	ACUITE A- Stable Assigned	
Total	35.47	-	-

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs 35.47 Cr bank facilities Hotel Sukhamaya Private Limited (HSPL). The outlook is '**Stable**'.

The rating derives comfort from the strong linkages with RKD Construction Private Limited (rated at Acuité A/Stable/A1) as RKD holds 86 percent stake and has extended corporate guarantee to HSPL apart from the presence of a common management. The rating also factors in the locational advantage as the hotel is strategically located near Bhubaneswar railway station and Airport. Further, HSPL has signed a formal agreement with Indian Hotels Company Ltd (IHCL) for branding and operating the hotel under IHCL's brand going forward. Moreover company has comfortable financial risk profile and adequate liquidity position. However these rating strengths are partially offset by the large ongoing capex plan which is expected to lead to moderation in their debt coverage and leverage indicators in the near term.

About the Company

Hotel Sukhamaya Private Limited was incorporated in 1998 by RKD Construction Pvt Ltd and Late Rohit Kumar Das. The company owns an 80 room hotel in Bhubaneswar, Odisha which currently operates under the brand name 'The Crown'. The company is headed by Mr Rohan Kumar Das.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of HSPL and notched up the standalone rating by factoring in the parentage and financial linkages with RKD.

Key Rating Drivers

Strengths

Strong parentage and support

HSPL is a subsidiary concern of RKD Construction Pvt Ltd. RKD is a reputed EPC player in Odisha and has almost four decades of experience in construction of roads and highways. The current order book of RKD comprises of orders related to construction, upgrading and widening of highways issued by NHAI. Moreover the company has strong financial flexibility as reflected from its healthy financial risk profile and adequate liquidity position. RKD has provided corporate guarantee to HSPL. In addition, RKD has extended unsecured loans to meet HSPL's working capital requirement.

Tie-up with Established Global brand

Indian Hotels Company Limited (IHCL), part of the Tata Group has a well-established franchise (Taj Group) which has presence in more than 20 nations and operates around 200 hotels in 100 locations. The company has signed a formal agreement with IHCL on September

2021 for branding, operating and marketing of the hotel under the SeleQtion brand. The hotel is expected to be operational with IHCL brand from Q1FY23. The hotel is located near the office hub in Bhubaneswar and is well connected with Bhubaneswar railway station and Airport which creates a locational advantage.

Average financial profile risk

The financial risk profile of the company is marked by moderate net worth, low gearing and strong debt protection metrics. The net worth of the company stood at Rs.17.56 Cr in FY2021 as against Rs 17.05 Cr in FY20. The gearing ratio stood comfortable at 0.09 times as on March 31, 2021 as against 0.10 times in FY20. The TOL/TNW stood at 0.42 times in FY21 as against 0.64 in FY20. This is because company has low reliance on external debt as reflected from its low working capital utilization. Interest coverage ratio (ICR) stood strong at 12.79 times in FY2021 as against 7.81 times in FY2020. The net cash accruals against total debt (NCA/TD) stood 0.84 times in FY2021 as against 1.00 times in FY2020. Acuité believes the financial risk profile of the company will witness moderation over the medium term because of large debt funded capex plan.

Healthy profit margin

The company has sound profitability margin with EBITDA margin of 24.01 percent in FY21 as against 12.02 percent in FY20. The improvement was driven by adoption of cost rationalisation measures. Acuité believes the profitability margin will remain healthy over the medium term backed by steady rise in average room rent after the completion of the renovation project.

Weaknesses

Small scale of operation

The company has a small scale of operation as revenue stood at 4.44 Cr in FY21 as against 19.38 Cr in FY 20. The decline is on account of a sharp fall in occupancy level because of pandemic outbreak. The scale of operation is expected to improve moderately in FY22 as company has already registered a revenue of Rs 4.04 Cr till November 2021. The company will benefit from access to the online reservation systems and marketing strategies of IHCL which will improve the occupancy level over the medium term. Hence the scale of operation is expected to improve significantly over medium term.

Near term capex plans to increase debt levels

The company has undertaken a large debt funded project to renovate the hotel as per IHCL's guidelines. The project cost is Rs 52.43 Cr which will be funded through a mix of debt and equity in 3:2 ratio. The promoters have infused around Rs. 1.51 Cr in the form of unsecured loan till November 2021. The renovation is likely to be completed by Q4FY22 and the hotel with IHCL's brand is expected to be operational by Q1FY23. The financial closure for the said project is yet to be achieved. Acuité also believes the debt coverage and leverage ratios of the company will witness moderation over the medium term because of the rise in the debt levels.

Rating Sensitivities

- Timely completion of planned capital expenditure
- Improvement in the scale of operation along with sustainability in profitability margins

Material covenants

None

Liquidity profile: Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. The average utilization of fund based limit stood at 50 percent during last 8 months ended November 2021. However the company has low net cash accrual which stood

at Rs 1.32 Cr in FY21 given the pandemic impact but there was no debt repayment. The net cash accrual is likely to improve to over the medium term backed by improvement in profit margin. Acuité believes the liquidity profile is likely to remain at adequate level over medium term backed by steady cash flow generation.

Outlook: Stable

Acuité believes the outlook on company will remain 'Stable' over the medium term backed by strong promoter support. The outlook may be revised to 'Positive' in case of a significant improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in liquidity profile or liquidity profile due to any significant time or cost overruns in their planned capital expenditure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	4.44	19.38
PAT	Rs. Cr.	0.51	0.80
PAT Margin	(%)	11.57	4.14
Total Debt/Tangible Net Worth	Times	0.09	0.10
PBDIT/Interest	Times	12.79	7.81

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

HSPL is listed under the ' Non co operation by issuer' by the issuer by CRISIL due to inadequate information on 19 November 2021.

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>

Note on complexity levels of the rated instrument

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

Rating History

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	35.47	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

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