

Press Release

Hotel Sukhamaya Private Limited

April 07, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.53	ACUITE A- Stable Assigned	-
Bank Loan Ratings	35.47	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	0.40	-	ACUITE A2+ Assigned
Total Outstanding Quantum (Rs. Cr)	41.40	-	-

Rating Rationale

Acuite has assigned and reaffirmed a long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and assigned a short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 41.40 Cr bank facilities Hotel Sukhamaya Private Limited (HSPL). The outlook remains '**Stable**'.

Rating Rationale

The rating derives comfort from the strong linkages with RKD Construction Private Limited (rated at Acuite 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, the company has above average 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 Das.

Standalone (Unsupported) Rating

ACUITE BB/Stable

Analytical Approach

Acuite 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 Private Limited. 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, RKD has strong financial flexibility as reflected from its healthy financial risk profile and adequate liquidity position. In addition to this, RKD has provided corporate guarantee to HSPL and has extended unsecured loans to meet HSPL's working capital requirement.

Locational advantage coupled with tie-up with "Taj"

The hotel has the locational advantage, as it is strategically located near Bhubaneswar railway station and Airport. The close proximity of airport and railway station will help in attracting a lot of business travelers and tourists. Various infrastructure facilities such as power, water, telecommunication are also easily available in the area. Further, labors both skilled and unskilled are abundantly available from surrounding areas. In addition to this, the company has signed a formal agreement with Indian Hotels Company Limited (IHCL), part of the Tata Group on September 2021 for branding, operating and marketing of the hotel under the SeleQtion brand. IHCL has a well-established franchise (Taj Group) which has presence in more than 20 nations and operates around 200 hotels in 100 locations. The hotel is expected to be operational with IHCL brand from Q2FY24. 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.

Above average financial risk profile

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.17.69 Cr as on 31st March, 2022 as against Rs 17.56 Cr as on 31st March, 2021. The gearing ratio stood comfortable at 0.17 times as on 31st March, 2022 as against 0.09 times as on 31st March, 2021. Further, the TOL/TNW stood comfortable at 0.46 times as on 31st March, 2022 as against 0.42 as on 31st March, 2021. The strong debt protection metrics is marked by Interest coverage ratio (ICR) stood strong at 6.99 times as on 31st March, 2022. The net cash accruals against total debt (NCA/TD) stood 0.30 times as on 31st March, 2022. Acuité believes the financial risk profile of the company will witness moderation over the medium term because of large debt funded capex plan.

Weaknesses

Small scale of operations

The company has a small scale of operations as the revenue stood at Rs. 7.37 Cr in FY2022 and Rs.4.44 Cr in FY2021. The decline in revenue is primarily on account of a sharp decline in occupancy level because of pandemic outbreak. 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 the medium term.

Ongoing 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 52.93 Cr which will be funded through a mix of debt and equity in 3:1 ratio. The renovation is likely to be completed by April,2023 and the hotel with IHCL's brand is expected to be operational by June,2023. The financial closure for the said project is already achieved. Acuité also believes that 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 improvement in profitability margins

Material covenants

None

Liquidity Position: Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. However, the company has low net cash accrual which stood at Rs. 0.90 Cr in FY22 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 that the outlook on HSPL will remain 'Stable' over the medium term on account of the experienced management and financial flexibility of RKD. 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 time overrun in their ongoing renovation project 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.	7.37	4.44
PAT	Rs. Cr.	0.12	0.51
PAT Margin	(%)	1.66	11.57
Total Debt/Tangible Net Worth	Times	0.17	0.09
PBDIT/Interest	Times	6.99	12.79

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

Not Applicable

Any other information

Not Applicable

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, Acuité 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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Jan 2022	Proposed Bank Facility	Long Term	35.47	ACUITE A- 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
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE A2+ Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	35.47	ACUITE A- Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.53	ACUITE A- 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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