Press Release

DTU Hotels Private Limited (Erstwhile Uppal Hotels Private Limited)

May 25, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	-	ACUITE A3 | Assigned
Bank Loan Ratings	250.00	ACUITE BBB- | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	275.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 275.00 crore bank facilities of DTU Hotels Private Limited (DTU). The outlook is **'Stable'.**

Rationale for assignment

The rating takes into account the extensive experience of the promoters in the hotel industry, the favorable location of the project, and the operational tie up with the Marriot group. However, the rating remains constrained due to the substantial delays in project execution, escalation in project cost and significant execution risk as only 38 percent of the project is completed. Completion of the project without significant time and cost escalation will remain a key rating sensitivity.

About the Company

DTU is a New Delhi based company incorporated in May 1991 and is promoted by Mr. Manish Uppal and Red Fort Realcon LLP. Until 2017, DTU was running a 5-star hotel under the name of Uppal's Orchid. The hotel consisted of 80 rooms. However, in 2017 with the change in the law and the subsequent availability of additional FSI the company demolished the existing structure and is currently undertaking reconstruction of hotel-cum- commercial space. In FY2021, Red Fort Realcon LLP a partnership venture between Dharampal Satyapal Limited (DSL) and Trident Infra homes Private Limited (TIHPL) acquired 50 percent shares in DTU.

The project involves total constructed area of 3,06,551 sq.ft. of which 2,45,495 sq.ft is toward the hotel and the rest has been allocated for the commercial premise. The hotel consists of 133 rooms. The total estimated project cost is Rs. 390.00 Cr. The commercial date of operations (COD) of the project is December 31, 2024.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of DTU to arriving at the rating. Further, Acuité has also factored the corporate guarantee from Red Fort Realcon LLP while arriving at the rating.

Key Rating Drivers

Strengths

• Extensive management experience and long track record of operations:
The company was incorporated in 1991 and is managed by the promoter Mr. Manish Uppal. Mr. Manish has an experience of three decades in the hospitality segment. Mr. Manish Uppal held 99.78 percent of the total shares until March 31, 2020. However, in FY2021, Red Fort Realcon LLP a partnership venture between DSL and TIHPL acquired 50 percent stake in DTU. Both DSL and TIHPL have substantial experience in the hospitality sector. DTU until 2017 was running a 5-star hotel under the name of Uppal's Orchid, which was demolished in 2017, as a change in law led to additional FSI being available for expansion. Currently, the DTU is undertaking construction of expanded hotel with an area of 3,06,552 sq. ft and 133 rooms branded under Ritz Carlton. Additional commercial leasing space is also being developed. Acuité believes that the extensive experience of the management along with their financial support will help the company to strengthen their business profile.

• Strategic project location and tie up with Marriot:
The upcoming hotel is strategically located considering its proximity to the Indira Gandhi International Airport. The hotel is 4.7 kms from the Airport. This location advantage will help mitigate some of the demand risk. Further, DTU has tied with the Marriot Group for operation and maintenance of the hotel until December 2022 with the option of extending the agreement further. Marriott group was founded in 1927 and is the largest hotel chain in the world. The group has 14,23,044 rooms and operates across 131 countries.

• Improved financial flexibility on account of support from DSL:
Dharampal Satypal (DS) Group was founded in 1929 and DSL is the largest entity of the DS Group. DSL operates across various sectors including FMCG, hospitality and infrastructure. DSL's product portfolio consists of tobacco, mouth freshener, confectionary and food. Some of the leading brands include Rajnigandha, Pass Pass, Pulse, Catch and Ksheer. Further, the DS Group has invested in hospitality projects including The Manu Maharani-Nainital, Raddisson Blu Hotel-Guwahati, Crowne Plaza-Jaipur, and Hotel Inn Express-Kolkata. In FY 2021, Red Fort Realcon LLP a partnership venture between DSL and TIHPL, acquired 50 percent stake in DTU. According to the management, DTU is expected receive support from DSL in case of any further time or cost overruns. DSL also has a representative on the board of DTU.
DSL reported standalone revenue of Rs. 3,085.45 Cr in FY2021. The average operating profit and the net profit of DSL through FY2019-21 stood at ~21% and ~12% respectively. Further, the net cash accruals and repayment obligations through FY2019-21 was in the range of Rs. 499.42-601.81 Cr and Rs. 0.38-59 Cr respectively. Additionally, DSL has unencumbered cash and bank balance along with liquid investments of ~Rs. 275.00 Cr.
Acuite believes DSL's financial support to DTU through Redfort Realcon and their extensive experience in the hospitality sector is expected to improve DTU's financial risk profile..

Weaknesses

• Project completion risk:
The reconstruction of the project started in October 2017 with initial estimated project cost of Rs. 238 Cr. The original COD of the project was March 31, 2020. However, there has been cost and time overrun in the project. The revised COD of the project is December 31, 2024 and the project cost was revised upwards to Rs. 390.00 Cr. The revised cost shall be funded through promoter contribution of Rs. 148.20 Cr and the rest through debt.
The total project cost incurred as on March 2022 is Rs. 148.20 Cr funded completely through

promoter contribution and balance ~Rs. 250 Cr shall be incurred through project loan. Presently, only 38 percent of the project cost has been incurred. Since, 62 percent of the total project cost is yet to be incurred, implementation risks persist. However, the commercial premise is ~90 percent complete and a partial COP can be applied. About, Rs. 10.00 Cr needs to be further incurred towards finishing once the commercial premise is either sold or let out and annual lease income of Rs. 17.85 Cr is expected.

Acuite believes the leasing/sale of the commercial premise shall reduce the company's dependence on project loan.

- **Intense completion from other premium players:**

The company faces intense competition from other premium players located within 2-4 kms from the airport including Roseate House, Lemon tree premier, Centaur Hotel. Since, these hotels have remained operational for some time, this may have an adverse impact on the expected occupancy rates and average room rate once the hotel is operational.

Rating Sensitivities

- Delay in the project completion resulting into substantial price escalation.
- Continued tie up with the Marriott group for operation & maintenance of the upcoming hotel or delay in leasing/sale of commercial premise thereby causing funding constraints in the completion of the project.

Material covenants

- Debt/Equity<4.
- Disbursement shall be restricted to Rs. 200.00 Cr until the commercial space is leased out.
- Disbursal shall be limited to Rs.175.00 Cr if the contract with the Marriot Group is not extended beyond December 2022.

Liquidity Position: Adequate

The total project cost is Rs. 390.00 Cr of which Rs. 250.00 Cr shall be funded through fresh project loan and the balance through promoter contribution. As of March 2022, Rs. 148 Cr has been incurred and completely funded through promoter contribution. Going forward fresh project loan of Rs. 250.00 Cr shall be availed, to incur the balance cost, the loan has already been sanctioned. The repayment of the project loan shall commence after 3 years from the date of first disbursement.

Outlook: Stable

Acuité believes that DTU will maintain a 'Stable' outlook over the medium term due to promoter experience strategic location of the project and tie up with the Marriot Group. The outlook may be revised to 'Positive' in case of faster than expected completion of the project. Conversely, the outlook may be revised to 'Negative' in case further delays in project completion cost escalation or delays in leasing/sale of commercial premise.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.06	0.03
PAT	Rs. Cr.	(0.02)	(1.66)
PAT Margin	(%)	(30.09)	(6223.14)
Total Debt/Tangible Net Worth	Times	1.18	2.25
PBDIT/Interest	Times	(102.27)	(1294.25)

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
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
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 | Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	250.00	ACUITE BBB- | Stable | Assigned

Term loan includes Capex Letter of credit of Rs. 25.00 Cr as sublimit.

Contacts

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About Acuité Ratings & Research

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