Press Release

Manjeera Hotels And Resorts Private Limited

July 26, 2022

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BB' (read as ACUITE Double B)** to the Rs. 10.00 Cr bank facilities of Manjeera Hotels and Resorts Private Limited (MHRPL). The outlook is **'Stable'.**

The rating takes into account the improvement in the operational performance of the hotel properties in FY2022 on account of the rebound in demand amid the waning impact of Covid-19. The rating also continues to derive comfort from the experienced management and strong promoter background, and the established position of the hotels in the premium hotel segment in Telangana and the strong brand image and network of both the Sarovar and Radisson chain of hotels, continue to be favourably factored into the rating. However, the rating continues to be constrained by the modest scale of operations, highly leveraged capital structure and delay in completion of the mall and multiplex project of the SPV. Further, given the discretionary nature of spending, the hospitality industry is susceptible to macroeconomic conditions, tourist arrival growth and several exogenous factors, whichleads to its inherent cyclicality in the sector.

About Company

Manjeera Hotels and Resorts Private Ltd (MHRPL) incorporated in the year 1995, owns two hotels in Hyderabad, engaged in hospitality business . The Company operates 3-star category hotel "Aditya Park" at Ameerpet, Hyderabad, a 4-star category Hotel "Radisson Hyderabad Hitech City" at Gachibowli, Hyderabad and a Three-star category Hotel "Hometel", through its subsidiary Aashraya Hotels And Estates Private Limited. It is a part of the Manjeera Group promoted by Mr. G Yoganand.

About the Group

Manjeera Hospitality (Rajahmundry) Pvt Ltd, which is a subsidiary of MHRPL is an SPV incorporated in 2016 was set up to implement the project for setting up Convention cum Exhibition centre, Hotel and Mall & multiplex at Rajahmundry. The SPV was floated to develop the PPP project awarded by Andhra Pradesh Tourism Development Corporation Limited (APTDC) to Manjeera Hotels and Resorts Private Ltd (MHRPL) in consortium with Manjeera Constructions Ltd (MCL) for development of MICE Tourism Destination project for Rajahmundry region.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at the ratings, Acuité has consolidated the business and financial risk profiles of Manjeera Hotels and Resorts Private Ltd (MHRPL) and its SPV i.e. Manjeera Hospitality (Rajahmundry) Pvt Ltd. The consolidation is in view of operational synergies between these two companies, common management and cash flow fungibility.

Key Rating Drivers

Strengths

Strong reputation for premium hospitality services in Andhra Pradesh

With operations for more than two decades, the group has an established position in the hospitality industry in Hyderabad. The group has leveraged the Radisson brand and the location of its property "Radisson Hyderabad Hitech City" in Hyderabad has created a strong reputation as a premium hotel in South India. The international track record and strong brand of Radisson, which handles the operations and marketing network of MHRPL's hotel, gives it an edge. The niche position that the management has created by marketing the hotel as an upscale luxury resort has kept the average room rate (ARR) healthy. Further, Hotel Aditya Park which is a 3-star hotel has operations agreement with Sarovar brand, an Indian Chain, whose existence is spread across the country. Moreover, both Manjeera Sarovar Premiere, a 5-star hotel and Manjeera International Convention Centre at Rajamundry are supported by the Sarovar Brand which ensures the marketing and sales strategies along with the day-to-daymanagement.

Improving nature of occupancy rates and ARR coupled with healthy t raction in the F&B revenues

Both the properties of MHRPL have shown an improvement in the occupancy levels in the FY2022 as compared to FY2021. Both properties recorded an average occupancy level of 70 per cent to 75 per cent and ARR of Rs. 2027 to Rs. 3354 in FY2022 as against 38 per cent to 45 per cent and Rs.2109 to Rs.3,455 in FY2021. The operations remained a complete washout during Q1 and Q2 of FY2021 due to the restrictions of lockdown. But the operations however resumed slowly since September 2021 as domestic leisure travel was the driving force behind the road to recovery coupled with an increase in business travel, and with most organisations gradually resuming to a full or hybrid work-from-office model. While demand was impacted in Jan-22 and for the first two weeks of Feb-22 because of the Omicron wave, the company witnessed healthy recovery post that aided by leisure, transient demand, MICE/weddings and gradual pick-up in business travel. The staff-to-room ratio continues to remain significantly lower than pre-Covid levels aided by redeployment of staff, reskilling employees and centralization of business functions. The SPV also recorded improved revenue in FY 22 with Hotel Manjeera Sarovar being fully operational since September 2021 and healthy traction in banquet bookings of the convention centre, with easing of restrictions on social gatherings.

Weaknesses

Highly leveraged capital st ructure further constrained by moderate debt protection metrics

The group's capital structure stood moderate with declining networth levels at Rs.93.64 Cr as on March 31, 2022 (Provisional) as against Rs.96.09 Cr as on March 31, 2021. This is mainly due to the net losses causing erosion of the reserves due to high depreciation. This has led to a high gearing ratio of 1.97 times as on March 31, 2022 (Provisional) as against 1.63 times as on March 31, 2021. The group's debt protection metrics have remained under pressure due to high interest bearing borrowings. In addition, the group's profitability remain exposed to adverse impact of the pandemic. The debt is backed by mortgage of one of the hotel properties of MHRPL, personal guarantee of the promoter and pledging of 76 per cent of the shares. The modest debt protection metrics of the group is marked by Interest Coverage Ratio at 1.26 times as on March 31, 2022 (Provisional) and Debt Service Coverage Ratio at 0.93 times as on March 31, 2022 (Provisional). Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.02 times as on March 31, 2022 (Provisional). Acuité believes that the financial risk profile of the group is expected to improve over the medium term with significant improvement in demand and consequent improvement in RevPARs to pre-Covid levels in FY2023 aided by increasing vaccination coverage and occupancy levels.

Susceptibility to cyclicality in the hospitality industry and regional concentration in operations

The hotel and resorts industry is vulnerable to downturns in the domestic and international economies. During an economic slowdown, revenue per available room of premium hotels is likely to be impacted more significantly than that of mid-scale or economy hotels. Geographical concentration renders the group more susceptible to cyclicality in business and to any business exigency that may lead to a sharp decline in operating revenue.

Project execution risk and funding risk

The SPV is entrusted with the construction of mall and multiplex along with the construction of hotel and convention centre. The project was initially supposed to be completed by AprilMay 2022; but the CoD has been extended due to the covid-led disruptions, as only the basement has been completed till date. The financial closure is yet to be achieved for the construction of the mall, and also the turnkey contractor for the execution of the project is yet to be finalised. The group is exposed to project implementation risk for the remaining portion of the project. Timely completion of the project without any cost overrun and stabilisation of operations will remain key rating sensitivity factors over the medium term.

Rating Sensitivities

- Improvement in the operations while improving momentum in occupancy levels and ARR of both hotels
- Improvement in networth levels; anywithdrawal of unsecured loans from business
- Higher than expected debt availed leading to weighing down of financial risk profile and liquidity
- Dilution of support from the promoters

Material Covenants

None

Liquidity Position: Adequate

The group's adequate liquidity position is expected to support debt servicing in the neartomedium term on account of presence of escrow accounts to ensure timely repayment. The current ratio also stood comfortable at 2.94 times as on 31st March, 2022 (Provisional). The cash flow cover is expected to be comfortable during the tenure of the loan and its debt service coverage ratio (DSCR) expected to improve over the tenure of the loan, owing to the expectation of steady improvement in RevPARs and occupancy levels supporting the debt repayment obligation. Further, MHRPL maintains DSRA equivalent to three months debt service obligation and Manjeera Hospitality (Rajamundry) Pvt. Ltd. maintains DSRA equivalent to one month's debt service obligation, which supports the liquidity profile of the group. There were instances of delays in debt servicing by the entity in April 2021, since Covid severely impacted MHRPL's cash flows . However, with the support of sufficient intercorporate deposits, the company repaid the entire term loan outstanding with Central Bank of India during October 2021. The company through its SPV has initiated project under PPP model and has also provided advances to group entities; any further investments or any inter-group transactions, which significantly impacts the credit risk profile of the company on prolonged basis will remain key rating monitorable.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook and continue to benefit over the medium term with respect to the extensive experience of management and established brand presence of 'Sarovar' and 'Radisson'. 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	50.26	20.09
PAT	Rs. Cr.	(2.52)	(5.00)
PAT Margin	(%)	(5.01)	(24.89)
Total Debt/Tangible Net Worth	Times	1.97	1.63
PBDIT/Interest	Times	1.26	0.64

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

Not Applicable

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- 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
Piramal Enterprises Limited	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BB | 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.