



Press Release

Naveen Hotels Limited

July 07, 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Total Withdrawn Quantum (Rs.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

Acuite has assigned its long term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) to the Rs.10.00 Cr bank facilities of Naveen Hotels Limited (NHL). The Outlook is '**Stable**'.

The rating assigned favorably factors in its experienced management with long track record of operation, Improved margins, improved GCA days, creditor days and Current ratio. The rating however is constrained by highly competitive industry that the company operates in and moderate financial risk position of the company.

About the Company

Naveen Hotels Ltd was incorporated in September 1975, by Mr. R N Shetty. The Company was formed with the main object to run Hotel, Lodging, Restaurant, Bars, Holiday Resort and Transportation. Naveen Hotels Ltd. is a group concern of R N Shetty Group of Companies. Directors of Naveen Hotels Limited are Ms. Anisha Puneeth Punja, Mr. Shivabasayya Siddaramayya Hiremath, Mr. Sankappa Keremane Shetty, Mr. Shobha Jeevan Shetty, Mr. Satish Rama Shetty, Mr. Naveen Rama Shetty, Mr. Nagaraj Hiriyanna Shetty, Mr. Sandip Malli Kaidale, Mr. Sunil Rama Shetty, Mr. Billadi Sudesh Kumar Hegde, Mr. Abhayanand Raghu Shetty, Ms. Shetty Satish Anvitaa. Naveen Hotels Limited had constructed a 5-star hotel in the garden city of Bangalore in the year 1982 having 166 rooms, Bauquet hall and all other luxury amenities and the same was leased to Taj Group on long term lease basis which is known as Vivanta by Taj. In the year 2006. The company had constructed another 5-star hotel having 324 rooms with other luxury amenities and handed over the property to run on joint collaboration basis with Indian Hotels Co. Ltd., for a long term lease basis at Yeshwanthpur. The said hotels are known as Vivanta by Taj, Yeshwanthpur. The company also have its own 3- star rating hotels in Hubli and with a beach resort and golf field in Murudeshwar region.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of NHL to arrive at the rating

Key Rating Drivers

Strengths

Experienced management and established presence in hospitality industry

Company was incorporated in the year 1961 by Dr. R N Shetty as a contracting firm. Today RNS Group has diversified its interests into construction, properties, automobiles, manufacture, power, hospitality and education. The promoters of the company have more than 35 years of experience in hospitality industry. Naveen Hotels Limited had constructed a 5 -star hotel in the garden city of Bangalore in the year 1982 having 166 rooms, Bauquet hall and all other luxury amenities. Management has established relations with Taj group by giving two of its luxury hotel buildings on long term lease for Taj Group. This will benefit the company due to its brand name, expertise and professional management. Acuite believes the company will continue to benefit from its established presence in Karnataka region, decent brand recognition and the promoter's extensive experience in the hospitality industry.

Recovered operations and profitability margins post covid-19 pandemic

The company has 3 star rating hotels in Hubli and Murudeshwar regions. Besides, the company has given its two buildings on Lease for Taj group Hotels (Vivanta by Taj) one in Bengaluru and other in Yashwanthpur. The company has shown improvement in revenue for FY22 as it generated Rs.31.69 Cr. The hospitality industry is one of the majorly affected industry during the Covid -19 pandemic restrictions. The occupancy rate of the company dropped down almost to half during FY21. The company's operations has recovered in FY22 as government lifted the restrictions in travel and hospitality industry. The revenue of NHL also comprises of lease license rent of two taj hotels (12 percent of gross revenue of hotel in Bengaluru and 15 percent of gross revenue of hotel in Yashwanthpur). The EBITDA and PAT margins for FY22 (Provisional) stood at 40.71 percent and 5.22 percent, respectively. Acuite believes that the company's operations will improve in medium term on account of its improving operations.

Moderate financial risk profile:

NHL's financial risk profile is moderate marked by moderate net worth, moderate gearing (debt-to equity), and moderate total outside liabilities to total net worth (TOL/TNW). NHL's net worth is moderate at Rs. 61.27 Cr as on March 31, 2022(Provisional) as compared to Rs.62.42 Cr as on March 31, 2021. Gearing is moderate at 1.15 times as on March 31, 2022(Provisional). TOL/TNW is moderate at 1.86 times as on March 31, 2022(Provisional) against 1.87 times as on March 31, 2021. Interest coverage ratio improved to 2.38 times as on March 31, 2022(Provisional) from 0.82 times on March 31, 2021. Debt service coverage ratio(DSCR) stood at 0.78 times as on March 31, 2022 . Acuite believes that financial risk position of NHL will improve over the medium term

Weaknesses

Moderate intensive working capital management

The working capital management of the company is moderate marked by Gross current Asset (GCA) days of 245 as on March 31, 2022 (provisional) against 358 days in on March 31, 2021. Debtor and Creditor days stood around 30 days and 139 days respectively as on March 31, 2022(provisional).Current ratio of the company stood at moderate at 1.50 times as on March 31, 2022 (Provisional). Inventory days around 8 days as on March 31, 2022 .High Creditor days comprises of the payment for ongoing constructions and repair works in Hubli and Murudeshwar hotels. Acuite believes that working capital management of the company will get better over the medium term.

Highly competitive industry

The state of Karnataka has vast opportunities and potential for high growth and has become the focus area of major tourism places. Several companies have their plans to establish hotels to take advantage of these opportunities. This will intensify the competitive environment. Acuite believes the success of the company will be dependent upon its ability to compete 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.

Rating Sensitivities

- Significant improvement in scale of operations and profitability margins
- Significant changes in financial risk profile of the company

Material covenants

None

Liquidity: Adequate

NHL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company has received Rs.13.18 Cr lease rental income from two Taj hotels in FY22 which is sufficient to repay its debt obligations of Rs.10.72Cr and the company having tripartite agreement involving escrow account which ensures timely receipt of lease rentals from two Taj hotels. The company also have DSRA cash reserve for how many month/quarter?? which is an additional security measure to ensure the debt repayment. The company's working capital operations are moderate, marked by GCA of 245 days for FY22. Unencumbered cash and bank balances stood at Rs.1.56 Cr as on March 31, 2022 (Provisional). The current ratio of the company stood at 1.50 times in FY22 (Provisional). Acuité believes that the liquidity position of the company is likely to improve over the medium term.

Outlook: Stable

Acuité believes the Naveen hotels Limited will benefit over the medium term from its promoters' longstanding presence and improving operations. The outlook may be revised to 'Positive' if revenue and profitability increase more than expected, and if working capital cycle improves, leading to a better business risk profile. The outlook may be revised to 'Negative' if debt protection metrics weakens on account of lower-than-expected increase in operating income or profitability, or significant, debt-funded capex leading deterioration in company's liquidity position

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	31.69	21.08
PAT	Rs. Cr.	1.65	(7.44)
PAT Margin	(%)	5.22	(35.28)
Total Debt/Tangible Net Worth	Times	1.15	1.13
PBDIT/Interest	Times	2.38	0.82

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>

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
Karnataka Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BB+ Stable Assigned

Contacts

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About Acuité Ratings & Research

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