Stamlo Industries Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	4.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	208.50	CARE BBB+; Stable / CARE A2+ (Triple B Plus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**212.50 (Rs. Two Hundred Twelve Crore and Fifty Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Stamlo Industries Limited (Stamlo) takes into account experienced and resourceful promoters, stable total operating income albeit decline profitability margins in FY20 (refers to the period April 1 to March 31), healthy cash balances and liquid funds as on March 31, 2020, comfortable working capital cycle and established presence with the hotel being located at IT hub of Hyderabad leading to comfortable occupancy rates. The ratings, however, are tempered by weak performance of the company during H1FY21 on account of prevailing Covid 19 impacting the occupancy rate of hospitality industry, significant increase in liability due to issuance of Bank Guarantee (aggregating Rs.200 crore) by the company along with promoters being Co-borrowers towards indemnity commitment provided to Dr. Reddy's Laboratories Limited which if materialized would have an adverse impact on the credit profile of the company given the relatively moderate size of the company and guarantee extended constituting 2.28x of the net worth, high susceptibility to economic cycles and operations in highly competitive industry and negative industry outlook.

Rating Sensitivities

Positive Factors

- Sustenance of PBILDT margin at 30% on a continuous basis
- Sustenance of the occupancy rate of the company above 85%.

Negative Factors

- Overall gearing of the company increasing above 1.00x.
- Prolonged impact of the pandemic leading to significant weakening in operating and financial metrics and liquidity position of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful Promoters

SIL was promoted by Mr G.V. Prasad and Mr. K. Satish Reddy. The day to day activities of the company are managed by Mr. B. Gautam (Chief Executive officer). All the hotels are managed by the team of qualified professionals. Mr. GV Prasad, son of Mr. G. Harischandra Reddy, is the Chairman and Chief Executive Officer of Dr Reddy's Laboratories Ltd. Late Dr K Anji Reddy was the founder of Dr Reddy's Laboratories Ltd and was a well-known industrialist in the field of pharmaceuticals. The promoters of SIL have also incorporated GreenPark Hotels and Resorts Limited (GHRL) in the year 1986. GHRL has successfully operating all its properties located in Hyderabad, Chennai and Visakhapatnam with healthy occupancy rates of about 69%. SIL is operating hotel under the brand name "AVASA" which commenced operations from December 2011 with 217 rooms. Further the promoters of the company are also very resourceful and have been infusing the funds and when required.

Established presence with the hotel being located at IT hub of Hyderabad leading to comfortable occupancy rates during FY20.

SIL is located in prime IT Hub in Hyderabad and enjoy proximity to IT companies, airport and railway stations. Being positioned as a business hotel, SIL has shown improvement in occupancy level since commencement of commercial operations in December 2011 with marginal fluctuations synchronizing with trends in hotel industry. SIL has tied up with GHRL for operating the hotel. Occupancy levels of the company displayed an increasing trend over the years from FY14 to FY19 and the same has remained healthy but declined from 81% in FY19 to 75% in FY20 on account of low occupancy during March 2020 due to impact of COVID-19.

Stable operating income albeit decline in profitability margin in FY20

The operations of the company represented by Total operating income (TOI) has remained stable at Rs.57.72 crore in FY20 (Rs 56.64 crore in FY19). The occupancy of the hotel remained at optimum levels till February 2020, which resulted in improvement in ARR (Average Room Realization) and RevPAR (Revenue per Available Room) of the hotel during FY20 when compared to FY19. The PBILDT margin of the company declined by 602 bps from 30.19 %in FY19 to 24.17 % in FY20 mainly on account of increase in administration expense due to one-time research expense of Rs 1.34 crore towards the development of chemistry process for OLED chemicals that have applications in display & lightning segment and also due to increase in repair and maintenance expense from Rs 1.80 crore in FY19 to Rs 2.88 crore in FY20. The PAT margin of the company declined significantly from 13.92 % in FY19 to 0.76 % in FY20 on account of Rs.4.65 crore investment written off during FY20.

Comfortable working capital cycle

The operating cycle of the company is lean with comfortable collection period and low inventory holding. Since the food & beverages in the hotel business witness a daily & spontaneous consumption and are readily available, the company maintains low inventory holding which resulted in inventory period of 11 days FY20 (11 days during FY19). The operating cycle of the company improved from 17 days in FY19 to 9 days in FY20 on account of decrease in collection period from 19 days in FY19 to 15 days in FY20. The creditor period of the company also improved marginally from 16 days in FY20 to 13 days in FY19. Further, the average working capital utilization of the company remained low at below 2.00% for the past 12 months ending October 2020.

Key rating weaknesses

Moderate financial risk profile

During FY20, the debt profile of the company comprise of redeemable cumulative preference share of Rs 35.00 crore held by Kotak Mahindra Bank Limited. The overall gearing of the company has remained stable at 0.40x as on March 31, 2020 (0.40x as on March 31, 2019). The net worth of the company improved only marginally from Rs 87.35 crore in FY19 to Rs 87.79 crore in FY20 on account of accretion of profit to net worth. The debt protection matrix of the company such as total debt/GCA deteriorated from 2.04x as on March 31, 2019 to 2.73x as on March 31, 2020 on account of decrease in GCA level from Rs 17.19 crore in FY19 to Rs 12.81 crore in FY20 on account of increase in administrative expense and interest expense. The interest coverage ratio of the company represented by PBILDT/Interest also declined from 36.29x in FY19 to 7.94x in FY20 on account of decrease in PBILDT level and increase in interest expense. Furthermore with a sharp fall in operating profits, the debt coverage indicators are likely to deteriorate in FY21.

Significant exposure towards associate company

On July 29, 2019, the board of directors of Dr. Reddy's Laboratories Limited (DRL) approved the amalgamation of Dr. Reddy's Holdings Limited (DRHL) an entity held by the Promoter Group, which holds 24.88% equity shares of DRL into the Company. Consequent to this merger, it has been decided that the promoters of the DRL will jointly and severally indemnify, defend and hold harmless the company (i.e. DRL), its directors, employees etc. for any liability, claim or demand, which may devolve upon DRL on account of this amalgamation. As part of this indemnity commitment, DRL had sought a bank guarantee of Rs.200.00 crores from the promoters. Given that high quantum of bank guarantee, it has been decided to include Stamlo Industries Limited also as a co-borrower along with promoters for arranging the aforesaid bank guarantee. Further, Federal bank has sanctioned bank guarantee of Rs.200 crore to promoters namely Mr. Satish Reddy, Mr. G V Prasad and Stamlo Industries Limited as coborrowers. The bank guarantee has been sanctioned for a tenure of 8 years and is secured by all assets of Stamlo Industries Ltd apart from Personal Guarantees of Promoters. On account of aforementioned development, the credit risk exposure of Stamlo towards the associate company has increased significantly in case of any eventuality.

Impact of COVID 19 on the operations of the company

The performance of the company is highly dependent on performance of the hospitality sector. The performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism, competitiveness of Indian tourism, business and leisure travel, and foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions. The operations of the industry is disrupted due to impact of COVID 19 as the government of India has imposed lock down to curb the spread of COVID -19 pandemic from March 22, 2020 to June 08, 2020. This has resulted in a sharp fall in occupancy levels for the industry as well as the company, with occupancy falling to an all-time low in H1FY21 at 9.00%. The company, however, is managing its current operations with adequate cash and liquid funds that are available with them.

High susceptibility to economic cycles and operations in highly competitive industry

The hospitality industry is highly fragmented with many local and international players operating across different hotel segments leading to high level of competition in the business. However, the company, on account of its brand name and reputation has been successful in maintaining stable and satisfactory occupancy rates (pre-Covid). The performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism industry (which in turn is dependent on the overall economy and disposable incomes), competitiveness of Indian tourism, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions. The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

Negative industry outlook

Considering lowering of discretionary spending by the consumers in these times of economic downturn, the outlook for Indian hospitality industry is 'Negative' in the short to medium term. The Indian hospitality industry is among the sectors that have been impacted the earliest by the outbreak of the Covid-19 pandemic on account of its inextricable linkage with travel and tourism, especially foreign travel and tourism, which evidently bore the first brunt of the global crisis. Likewise, it may be among the last sectors to recover, considering that due to its nature, travel and tourism is a discretionary activity. Furthermore, the unabated rise in Covid-19 cases in the unlock phase and localised reimposition of lockdowns in several states continue to interrupt the economic recovery and discretionary travel because of which the demand recovery in the hospitality industry is expected to be prolonged. This is likely to weaken the company's financial profile. Its earnings have been weak during H1FY21 and this trend is expected to continue over the next several quarters with continued muted demand.

Liquidity Position – Adequate

The company has adequate liquidity position with satisfactory cash accrual generation vis-à-vis the interest obligations. The company does not have any term debts as on March 31, 2020. The current ratio and quick ratio of the company stood at 4.44x and 4.21x as on March 31, 2020. The company as on March 31, 2020 has cash and bank balance of Rs 14.06 crore and Rs.4.36 crore in the form of mutual funds. Further the average utilization of the company remained comfortable at below 2.00% for the last twelve months ending on October 2020 which provides additional cushion during the times of exigency.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short term Instruments
Rating Methodology-Service Sector Companies
Rating Methodology – Hotel Industry
Financial ratios – Non-Financial Sector

About the company

SIL was incorporated in 1996 by the name of Stamlo Finance and Real Estates P Ltd, as a real estate company (along with eight other companies) to buy land at Madhapur, Hyderabad, admeasuring 9,633 square yards. Later, the name was changed to Stamlo Hotels Limited. Recently, the name of the company was changed to its current nomenclature 'Stamlo Industries Limited (SIL)' in September 2016. The company is engaged in the hospitality business and operates a 5-star hotel in the name of 'AVASA' located at Madhapur, the IT Hub of Hyderabad from December 2011 with a room inventory of 217.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	56.64	57.72
PBILDT	17.10	13.95
PAT	7.88	0.44
Overall gearing (times)	0.40	0.40
PBILDT Interest coverage (times)	36.29	7.94
PBIT Interest Coverage (times)	23.19	4.53

A: Audited

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	4.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	208.50	CARE BBB+; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (28-Sep-17)
2.	Fund-based - LT-Bank Overdraft	LT	4.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (03-Mar-20) 2)CARE BBB+; Stable (08-Jan-20)	1)CARE A-; Stable (05-Dec-18)	1)CARE A-; Stable (28-Sep-17)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	208.50	CARE BBB+; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2+ (03-Mar-20) 2)CARE BBB+; Stable / CARE A2+ (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (05-Dec-18)	1)CARE A-; Stable / CARE A2+ (28-Sep-17)
4.	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	-	-	1)Withdrawn (28-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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