

Sankalp In

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	81.00 (Reduced from 85.00)	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	81.00 (Rs. Eighty-One Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities of Sankalp In (SKI) derives strength from the long-standing experience of its promoters in hospitality and real estate sector, continuous growth of its restaurant business through under franchise model and satisfactory performance of its operational hotel properties in Ahmedabad.

The rating also factors in improvement in the operational performance of its recently commenced 5-star property- 'Taj Skyline' in 9MFY22 (refers to the period April 01 to December 31) under the hotel management agreement with renowned brand of "Taj Hotels", various incentives accrued to the firm under Gujarat Tourism Policy and successful completion & satisfactory booking status of its completed real estate.

The rating strengths are, however, partially offset by the project execution and saleability risk associated with the on-going commercial project and timely receipt of proceeds from the booked units considering high dependence on customer advances for completion of the real estate project. The rating continues to remain constrained on account of inherent risks associated with real estate & hospitality sectors.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Achievement of average room occupancy at more than 60% on a sustained basis for Taj Skyline hotel with healthy
- increase in Revenue per available room (RevPAR).
- Operationalization of remaining 145 units of Taj Skyline hotel.
- Successful completion of the existing ongoing real estate project within envisaged cost and time parameters along with- sale of units at envisaged rates.
- Timely receipt of proceeds from the booked units for both its real estate projects in line with construction pace.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Inability to achieve average room occupancy of 40% for Taj Skyline hotel on sustained basis.
- Inordinate delay in receipt of envisaged capital subsidy of Rs.10.00 crore under the Gujarat Tourism Policy.
- Delay in receipt of customer advances, hampering the pace of construction of real estate projects.
- Delay in execution of the real estate project by more than 6 months from scheduled date of completion or cost overrun of more than 20% of the envisaged cost.
- Any major debt funded project or significant withdrawal in partners' capital resulting in overall gearing of 2 times.

Outlook: Positive

The revision in the outlook from 'Stable' to 'Positive' reflects the expected improvement in the sales velocity and sales collection from the on-going and the completed projects resulting in reduced project implementation and saleability risk. The outlook may be revised to "Stable" in case of lower than envisaged improvement in sales velocity and delay in sales collection in the completed project.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters in hospitality and real estate sector

SKI is part of the Ahmedabad-based Sankalp group formed by the Goenka family with Mr. Kailash Goenka having 75% share in profit and loss of the firm. The flagship company of the group i.e., Sankalp Recreation Private Limited (SRPL) is also owned by Mr. Kailash Goenka and his wife Mrs. Nitu Goenka.

The promoters have an experience of more than three decades in the hospitality and restaurant industry. Sankalp group has expanded its presence in diversified sectors viz. hospitality (restaurants and hotel), processed food manufacturing and real estate development. Over the years, Sankalp group has developed a good brand name in the Ahmedabad market.

Established presence of Sankalp group in the restaurant business

Sankalp group commenced its operations in 1980 by setting up a single restaurant named 'Sankalp' in Ahmedabad serving South Indian cuisine in Ahmedabad. Gradually Sankalp group expanded its presence in the restaurant segment by opening additional branches of 'Sankalp' (through owned as well as franchise model). Subsequently, the group expanded its restaurant

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

business by setting up North Indian, Italian and Multi-cuisine restaurants under various brands in multiple status through the franchise-based model to multiply its brand visibility. As March 31, 2021, the restaurant business consists of total 107 restaurants, 8 of which are owned & managed by SRPL and balance 99 restaurants are being operated by various franchise holders. Under the franchise model of restaurants, the initial one-time license fee and the recurring fee (in certain brands) is received by SKI. Further, in order to maintain the consistency in food taste and quality across its growing number of franchises, Sankalp group backward integrated its operations by setting up a food processing factory at Mehsana, Gujarat in 2011 with an installed capacity of 20,000 MTPA. The processing facility initially started with manufacturing of frozen food items and instant mixes used in its restaurant chains. Thereafter, it has launched its products in retail market for selling wide range of gravy mixes, instant mix and ready to cook products.

Satisfactory performance of group's operational 4-star hotel property

Sankalp group has developed a 4-star hotel (under SRPL) at Prahaladnagar, Ahmedabad which is amongst the developed localities having a mix of corporate and residential customers. The hotel became operational from 2010 onwards. For the said 4-star hotel property, SRPL has collaborated with the international hotel brand 'Ramada' wherein as per the agreement the hotel is managed and operated by Sankalp group, whereas a fixed royalty is being paid to the Ramada group for using their brand name. The 4-star hotel property has 90 rooms along with 3 restaurants & 3 banquets with quality standards as prescribed by the 'Ramada' brand. Also, the hotel offers various amenities viz. Gym, Spa, Liquor Shop, Roof-top café etc. Over the last three years, the average room occupancy of Ramada hotel had remained healthy in the range of 60-65%. During FY21 (refers to the period April 01 to March 31), owing to disruption in the operations due to covid-19, the total revenue from the property moderated by ~42% with the total operating income (TOI) of Rs.13.66 crore (PY:23.49 crore). However, with the ease in travel restrictions, the avg. occupancy rate (OR%) improved to 52% (FY21: 32%) in 9MFY22 and is further expected to achieve pre-Covid level shortly in FY22.

Satisfactory operation of recently commenced 5-star hotel along-with various incentives available under Gujarat Tourism Policy

SKI has entered into hotel management agreement for its recently commenced 5-star hotel property viz. 'Taj Skyline' with The Indian Hotels Company Ltd. (IHCL; Rated CARE AA; Stable/ CARE A1+) for a period of 18 years whereby IHCL would manage the hotel property and would receive the agreed upon compensation as per agreement. IHCL is a part of large Indian conglomerate, Tata Group. IHCL occupies a leading position in the Indian hospitality industry through its diversified chain of hotels under 'Taj Hotels, Resorts and Palaces', Vivanta by Taj, SeleQtions and Ginger brands. Over the years, it has strengthened its presence and operations across India and selected overseas destinations.

'Taj Skyline' has reported moderate average occupancy of 45% in the first five months of operations in FY21 (refers to the period November 01 to March 31) which scaled up to 54.19% in 9MFY22 supported by average room revenue (ARR) of Rs. 4500 to Rs.6000 per room. SKI is planning to start operations of additional 29 keys (out of the total 145 non-operational keys) with a total estimated cost of furnishing of Rs. 5.80 crore to be incurred in FY23.

The TOI of the hotel during 5MFY21 has remained at Rs.9.83 crore, with an operating profit margin of 21.57%. However, as per the provisional financials of 9MFY22, the hotel reported TOI of Rs.31.67 crore along with the improvement in PBILDT margin to 31.44%. Improvement in profitability is driven by considerable saving on employee cost and other operating expenses. Sustenance of the same with gradual opening of the economy remains a key rating monitorable.

'Taj Skyline' is registered under the Gujarat Tourism Policy which provides various benefits to SKI. Key benefits under the policy are one-time capital subsidy up to Rs.10.00 crore [expected to be received in H1FY23 (refers to the period by April 01 to September 30)], set off for input GST of ~Rs.12 crore (outstanding as on February 28, 2021) paid on capital goods against GST charged on hotel services, interest subsidy of Rs.25 lakh per annum for a period of five years, etc.

Liquidity: Adequate

The liquidity of SKI is adequate as reflected by available cash flow from its recently commenced 5-Star hotel property, set-off of input GST against GST charged on services of 5-star hotel, ongoing bookings from its two real estate projects vis-a-vis moderate term debt repayment obligations of ~Rs.8 crore in FY22 and ~Rs.19.75 crore in FY23. As on March 24, 2022, SKI had free cash & bank balance of Rs.1.84 crore. The firm have a satisfactory receivable cover ratio of 91.76% (Dec'20:40%) against balance construction cost and debt outstanding as on December 31, 2021.

Outlook on revival for hospitality sector

The hospitality industry shall gradually pick up and factors such as progression of the vaccination drive coupled with pent up travel demand for past few quarters are likely to augur well in the medium term. Tourist arrivals, foreign and domestic, particularly leisure travel, are still unlikely to witness recovery to pre-covid levels before the end of the current financial year and even by the end of the first half of the next year. Furthermore, the industry focus was shifted to controlling and reducing costs significantly which will include redeployment of manpower, downward salary revisions, re-negotiation terms with utility service providers etc. Sustenance in fixed cost saving initiatives undertaken by the players in the industry in FY21 are expected to inch-up marginally.

Key Rating Weaknesses

Moderate execution risk with high dependence on customer advances:

SKI had incurred 46% of total construction cost as on December 2021 (Dec'20: 20.06%) for its the ongoing project i.e. 'Sankalp Square IIIB', indicating moderate execution risk. The balance cost of the project stood at ~Rs.43.93 crore, which is expected to be funded primarily through the customer advances, henceforth the project progress is highly dependent on timely sales of

remaining units. As on Dec 31, 2021, SKI had booked around 41.56% (78,600 square feet booked out of total saleable area of 1,89,122 square feet) against total construction of 47%. Furthermore, the surplus cashflow from units sold of the completed project i.e. 'Sankalp Square IIIA' is expected to provide cushion to cash flows of Sankalp Square IIIB.

Project salability risk

In the ongoing projects, sales velocity remained slow with around 59% of total inventory remained unsold, exposing the firm to salability risk. Furthermore, under completed project, around 18% of total project units remains unsold and 21% of the committed receivables from sold units stood outstanding as on December 31, 2021.

Inherent risks associated with real estate and hospitality sectors

The firm like any other hospitality player is exposed to cyclicalities of the industry, i.e. changes in the macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors which leads to inherent cyclicalities in the industry. These risks can impact the occupancy rate of the firm and thereby the firm's profitability.

The real estate sector in India is highly fragmented with most of the real estate developers having a city-specific or region-specific presence. SKI is also exposed to the cyclicalities associated with the real-estate sector which has direct linkage with the general macroeconomic scenario. The sector was already witnessing downturn since last few years with the sluggish property markets on the back of high unsold inventory, low demand and stalled projects, the outbreak of COVID-19 has further aggravated the problem.

With relaxation in lockdown norms post Q1FY21 (refers to the period April 1 to June 30), reduction in borrowing rates for construction finance as well as housing loans has resulted in improvement in buyers' sentiments and helped the developers withstand the impact of pandemic. Nonetheless, continuation in economic recovery and control over the sudden outbreak of second wave of COVID-19 pandemic would remain crucial for real estate developers in the near term.

Constitution as a partnership firm

The constitution as a partnership firm restricts SKI's overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital in times of personal contingency as it has limited ability to raise capital and poor succession planning may result in dissolution of the firm in case of death/insolvency of partner.

Analytical Approach: Standalone along-with factoring its linkages with its group company viz. Sankalp Recreation Pvt. Ltd. (SRPL) which can provide need-based support to SKI.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Rating methodology for Hotel](#)

[Rating methodology for Real estate sector](#)

About the Firm

Incorporated in December 2011, Sankalp In (SKI) is a partnership firm promoted by Mr. Kailash Goenka, who has also promoted the flagship firm of Sankalp Group i.e. Sankalp Recreation Private Limited (SRPL). The promoters have an experience of around three decades in the hospitality and restaurant industries. SKI derives revenue from three segments, majorly hospitality, real estate and franchise business as on March 31, 2021. SKI has developed a 5-star hotel property viz. Taj Skyline which was operational from November 2020. Also, SKI is currently constructing a commercial-real-estate projects adjacent to its 5- Star hotel property viz. Sankalp Square IIIB.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021 (Prov)
Total operating income	4.69	28.65	26.48
PBILDT	0.95	1.84	NA
PAT	0.62	1.62	NA
Overall gearing (times)	1.39	1.42	NA
Interest coverage (times)	NM	373.95	NA

A: Audited, Prov: Provisional, NA: Not Available, NM: Not meaningful as there was no interest cost.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2026	81.00	CARE BBB-; Positive

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	81.00	CARE BBB-; Positive	-	1)CARE BBB-; Stable (10-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Firm

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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