

## Hotel Harimangla Private Limited

July 14, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	75.55	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	0.45	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Assigned
<b>Total Bank Facilities</b>	<b>76.00</b> <b>(₹ Seventy-Six Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hotel Harimangla Private Limited (HHPL) are constrained on account of declining scale of operations amidst negative covid impact on hospitality industry coupled with net losses reported, leveraged capital structure and weak debt coverage indicators along with stretched liquidity during FY21 (Provisional, FY refers to April 01 to March 31). The ratings further remained constrained due to implementation and stabilization risk associated with the on-going capex with inherent cyclical nature of hotel industry and intense competition.

The ratings, however, derive strength from long standing experience of management in hotel industry along with favourable industry scenario.

### Rating Sensitivities

#### Positive Factors

- Successful execution of project within stipulated time and cost achieving envisaged operating income and profitability

#### Negative Factors

- Any delay in equity infusion of funds leading to delay in agreement
- Any delay in execution of project in the same putting pressure on liquidity as well as leveraged position  
Achieving lower than envisage level of operating income, profitability, and cash flows for its initial years of operations

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Declining scale of operations coupled with net loss

During FY21, the scale of operations of HHPL decreased by 45.77% and remained at Rs.9.91 crore as against Rs.18.28 crore during FY20. The decline during FY21 was mainly on account of halt of operations from March 25, 2020, to September 31, 2020, on account of lockdown declared by government led by COVID Pandemic.

Resultantly, the PBILDT margin dipped substantially and remained at 7.80% during FY21 as against 20.06% during FY20. Moreover, owing to decrease in operating profits along with stable depreciation and interest charges, company had incurred net loss of Rs.0.48 crore during FY21 as against net profits of Rs.1.26 crore during FY20.

##### Leveraged capital structure and weak debt coverage indicators

Capital structure of HHPL deteriorated and remained leveraged marked by an overall gearing ratio of 2.14 times as on March 31, 2021, as against 1.58 times as on March 31, 2020, mainly because of increase in total debt with additional term loan coupled with infusion of unsecured loan into the business as on balance sheet date. Debt coverage indicators remained weak marked by total debt to GCA deteriorated and remained weak at 102.22 times during FY21 as against 7.65 times during FY20 owing to substantial increase in total debt coupled with decrease in GCA. Moreover, interest coverage ratio also remained weak marked at 1.53 times during FY21 as against 5.40 times during FY20 mainly owing to decrease in PBILDT.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Implementation and stabilization risk associated with the ongoing capex**

HHPL is implementing a capex for construction of the new hotel 'Hyatt' owned by 'Hyatt India Consultancy Private Limited' at Bharuch, Gujarat, with a total estimated cost of Rs.75.00 crore, which is envisaged to be funded with project gearing of 1.67 times. Till January 31, 2022, it has incurred cost of Rs.80.20 crore towards the project which is more than envisaged. Further, as post project implementation risk towards quick stabilization of the manufacturing facilities to achieve the envisaged scale of business persists. However, considering promoters experience in same line of business, the risk remains mitigated to a significant extent.

**Inherent cyclical nature of hotel industry and intense competition**

Hotel industry is inherent cyclical in nature with demand linked to economic scenario. The performance of hotel also depends upon the parameters like location of property, demand supply scenario; target customers etc. Major target customers for the hotel would be leisure & business travellers due to industrial units and other commercial establishments and offices of companies. There are various other key factors that drive the market, including India's attractiveness as a medical tourism destination; steadily growing Meetings, Incentives, Conferences and Exhibitions (MICE) segment; and an increasing fondness among the millennials to travel. However, with the outbreak of Covid pandemic, Indian hospitality industry is witnessing a dip in occupancies and revenue with both business and leisure trips being cancelled/ postponed by domestic and international travellers. Therefore, the possible impact of the Covid-19 pandemic on the financial performance of HHPL in the short to medium term along with timely steps taken by the management so as to sustain its cash flows shall be a key rating monitorable.

**Key Rating Strengths****Long standing experience of management in hotel business**

The directors of HHPL are Mr. Natwarlal Prajapati, Mr. Amit Prajapati and Ms. Usha Prajapati. Mr. Natwarlal Prajapati has an experience of more than 2 decades in hospitality business and in HHPL he looks after overall business operations of the company while Mr. Amit Prajapati has an experience of more than a decade in hospitality business and in HHPL he looks after account department. Ms. Usha Prajapati has an experience of around 5 years in hospitality business and in HHPL she looks after management.

**Favourable industry scenario**

Rising disposable income, popularizing weekend culture, attractive getaway packages, easy access to travel-related information and increased business travel are likely to propel the growth in the hotel industry in the long term. Domestic leisure tourists will continue to dominate the demand for hotel rooms in the low, economy and medium segment while rise in foreign tourist arrivals and business travellers will drive the demand in the upscale and luxury segment. There is a dearth of good quality rooms in the economy and mid-market segment across the country which offers good growth potential for the hotel companies. Also, Government of India has increased spending on advertising campaign such as "Incredible India", "Atithi Devo Bhava" to reinform the variety of tourism in India.

**Liquidity: Stretched**

The liquidity position of HHPL remained stretched marked by inadequate cash accruals of Rs.0.48 crore against its debt obligation of Rs.0.83 crore for FY22 however, HHPL has maintained Debt Service Reserve account of 6 months of principle and interest of Rs.5.32crore by way of FDR at Bank of Baroda. Moreover, promoters will infuse funds if required to meet debt repayment obligations. Cash and bank balance which increased and remained at Rs.3.26 crore as on March 31, 2021, as against Rs.0.26crore as on March 31, 2020. Current ratio also remained at 0.41 times as on March 31, 2021, as against 0.21 times as on March 31, 2020. Further, its cash flow from operations have turned negative at Rs.8.95 crore during FY21 as against positive CFO of Rs.4.83 crore during FY20 on account increase in deposits to various parties. Moreover, the moratorium benefit was not availed on its bank facilities for the period ended August, 2020.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating Outlook and Credit Watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Service Sector Companies](#)

[Rating Methodology-Hotel Industry](#)

### About the company

Bharuch (Gujarat) based Hotel Harimangla Private Limited (HHPL) is a private limited company incorporated on February 17, 1997, and managed by directors Mr. Natwarlal Prajapati, Mr. Amit Prajapati and Ms. Usha Prajapati. The company is engaged into the business of hospitality. HHPL has developed and now managing hotel named 'Regenta Central Harimangla' owned by Royal Orchid Hotels Limited (ROHL) which comprises 104 rooms since 2013. Further, HHPL is developing hotel 5 star hotel 'Hyatt' owned by Hyatt India Consultancy Private Limited which comprises of 151 rooms with amenities like gym, swimming pool, BQT hall, conference hall, restaurant, spa, and saloon since 2018.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)	Till January 23, 2022 (Prov.)
Total operating income	18.28	9.91	10.00
PBILDT	3.67	0.77	NA
PAT	1.26	-0.48	NA
Overall gearing (times)	1.58	2.14	NA
Interest coverage (times)	5.40	1.53	NA

A: Audited, Prov.:Provisional, NA: Not Available

**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:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

**Bank Lender Details for this Company:** Please refer Annexure-5

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	19.00	CARE B+; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	0.45	CARE B+; Stable / CARE A4
Fund-based - LT-Term Loan		-	-	September 2030	40.00	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	May 2029	16.55	CARE B+; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Bank Overdraft	LT	19.00	CARE B+; Stable				
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	0.45	CARE B+; Stable / CARE A4				
3	Fund-based - LT-Term Loan	LT	40.00	CARE B+; Stable				
4	Fund-based - LT-Term Loan	LT	16.55	CARE B+; Stable				

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-** Not Applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

**Annexure 5: Bank Lender Details for this Company**

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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### About CARE Ratings Limited:

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