

Sankalp In

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	40.45 (Reduced from 62.73)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Sankalp In (SKI) continues derive strength on account of vast experience of the promoters in the hospitality and real-estate sector and timely infusion of funds by the promoters to meet equity commitments for ongoing projects.

The rating also takes cognizance of increase in occupancy rate (OR) and average room rent (ARR) of its hotel property 'Taj Skyline' during FY23 (FY refers to the period April 01 to March 31) and 11MFY24, leading to sustained growth in the scale of operations, leading to improvement in its profitability, coverage ratios and liquidity. The rating also factors successful completion of the construction of its ongoing real estate project i.e. Sankalp III-B, within the envisaged cost and time parameters.

The above rating strengths are, however, partially offset by the project saleability risk associated with completed commercial project and timely receipt of proceeds from the booked units. The rating continues to remain constrained on account of inherent risks associated with real estate & hospitality sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achievement of average OR of more than 80% on a sustained basis for Taj Skyline with healthy increase in Revenue per available room (RevPAR)
- Timely receipt of proceeds from the booked units for both its real estate projects in line with construction pace.

Negative factors

- Reduction in average OR to below 40% for Taj Skyline hotel on sustained basis
- Any major debt funded project or significant withdrawal in partners' capital resulting in overall gearing of 2 times.

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.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain it's market position in the real estate and hospitality sector in the regional market coupled with favourable demand scenario enabling it to sustain healthy growth in the medium term.

Detailed description of the key rating drivers:

Key strengths

Successful growth in the scale of operations of its 5-star hotel with significant improvement in OR and ARR:

SKI's Taj Skyline reported healthy y-o-y growth of 74.84% in its TOI to Rs. 72.72 crore (PY: Rs.41.33 crore) in FY23. The substantial growth in total operating income (TOI) is on account of increase in average room revenue (ARR) by 50% to Rs. 7563/room in FY23 (PY: Rs. 5032/room) along with improvement in OR to 72% in FY23 (PY:57%). The revenue from room segment, F&B (food and beverages) and other income constituted around 57%, 37% and 8% of the total income respectively (45%, 48% and 7% respectively). Further, owing to the improvement in OR and ARR, the PBILDT margin improved by 912 bps to 40.94% in FY23 (PY:31.78%). Consequently, the firm reported profit with PAT margin of 15.51% in FY23, as compared to loss of Rs. 5.74 crore.

As per the provisional financials of 11MFY24, the firm's TOI grew by ~20% to Rs.86.04 (Rs.57.71 crore in 10MFY23) on account further growth in ARR by 26% to Rs. 9165/ room over FY23. However, owing to increase in room keys from 233 to 308 in October 2023, the OR in 10MFY24 is moderated to 58%. As on March 31, 2023, the total debt pertaining to the hotel division of SKI is Rs.95.31 crore. And further, the total cost of the addition of new 82 rooms of Rs. 45 crore in FY24 is funded by the term debt of Rs. 27 crore and balance by the infusion of capital by the partners.

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

Successful completion of the both the real estate project

As on March 20, 2024, both commercial real-estate projects i.e. Sankalp-III-A and Sankalp-III-B are completed. Sankalp-III A is completely sold out with negligible committed receivables from sold units stood outstanding as on March 07, 2024. The construction of Sankalp III-B was completed in September 2023 and the business utility (BU) permission is expected to be received by March 31, 2024. The firm has incurred the total cost of Rs.107 crore (as against envisaged cost of Rs. 100 crore) towards the completion of Sankalp-III B. As on February 29, 2024, the firm has received booking for 40% of the total area. As per the management, no new real-estate project is expected to be launched in SKI and TOI will largely comprise of revenue from unsold inventory of Sankalp IIIB and hotel operations. The company is expected to utilise the proceeds from the sale of unsold units towards repayment of unsecured loans.

Management agreement with IHCL:

SKI has entered into hotel management agreement for 'Taj Skyline' with The Indian Hotels Company Ltd (IHCL) for a period of 18 years whereby IHCL would manage the hotel property for a consideration as per the 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.

Vast experience of promoters in hospitality and real estate segment

SKI is part of the Ahmedabad-based Sankalp group, promoted 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 rapidly expanded its presence in diversified sectors viz. hospitality (restaurants and hotel) in India and abroad, processed food manufacturing and real estate development in Ahmedabad, Gujarat.

Key Rating Weaknesses

Project saleability risk

Sankalp Square IIIB is the largest real estate project of the Sankalp group, with a total saleable area of 175,702 square feet developed at a total project cost of Rs.107 crore. As on February 29, 2024, SKI has completed the construction of the project and the entire project debt has been repaid. However, the sales response of the project remains moderate marked by booking of 40% (70,176 square feet) of total saleable area as on February 29, 2024.

As on February 29, 2024, Sankalp IIIB has received customer advances of Rs.38.00 crore (58% of total sales value). Timely booking and receipt of customer advances remains crucial from the credit perspective.

Exposure to inherent risk associated with real estate sector:

The life cycle of a real estate project is long and the state of the economy at every point in time, right from land acquisition to construction to actual delivery, has an impact on the project. Further, the real estate sector in India is highly fragmented and intensely competitive with many regional players, who have significant presence in their respective local markets. Apart from above, adverse movement in interest rate and volatility in raw material prices affects the real estate players in both ways – by hampering demand as well as increasing the cost of construction.

Impact of macro-economic factors and seasonal uncertainty on hospitality sector:

The company is exposed to the 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 hospitality industry. These risks can impact the occupancy rate of the company and thereby the company's profitability. Further, industry is highly competitive in nature with presence of large number of organized and unorganized players in the market along with online aggregators. These risks have been partially mitigated by the company with rebranding of its hotel to 'Courtyard Marriott' which has a strong brand image.

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. During FY23, the partners' have infused ~Rs.20.34 crore in SKI to fund the operations of the firm.

Liquidity: Adequate

The liquidity of SKI is adequate as reflected by increase in available cash flow from its hospitality segment, surplus from debt-free real-estate segment and moderate term debt repayment obligations in the range of Rs. 20-23 crore in FY24-FY26.

As on March 31, 2023 and March 27, 2024, SKI had free cash & bank balance of Rs. 2.77 crore and Rs. 1.02 crore respectively. Furthermore, as the Sankalp Square IIIB project is completed with 40% of the units sold, cashflow from units sold is expected to aid liquidity cushion to the firm.

Assumptions/Covenants: Not Applicable**Environment, social, and governance (ESG) risks: Not Applicable****Applicable criteria**

[Definition of Default](#)

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

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About the company and industry**Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Leisure Services	Hotels & Resorts

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, and real estate as on March 31, 2023. SKI has developed a 5-star hotel property viz. Taj Skyline which was operational from November 2020. Also, SKI has completed the construction of both its commercial-real-estate projects adjacent to its 5- Star hotel property viz. Sankalp Square IIIB.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	30.55	14.90
PBILDT	2.66	-0.10
PAT	-0.88	-6.82
Overall gearing (times)	2.15	1.68
Interest coverage (times)	0.68	-0.01

A: Audited; Note: 'the above results are latest financial results available'. *As per the provisional financials of 11MFY24, SKI reported TOI of Rs.26.99 crore

Status of non-cooperation with previous CRA: Not Applicable**Any other information: Nil****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: Annexure-4

Lender details: 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-Term Loan		-	-	June 2026	40.45	CARE BBB; Stable

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	40.45	CARE BBB; Stable	1)CARE BBB; Stable (07-Apr-23)	1)CARE BBB-; Positive (07-Apr-22)	-	1)CARE BBB-; Stable (10-Mar-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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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