

PRACHI RESORTS PRIVATE LIMITED

July 31, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	47.00	CARE BB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Prachi Resorts Private Limited (PRPL) takes into consideration the early stage of project implementation, capital-intensive business with long gestation period, moderate capital structure and high competition from established players along with inherent cyclicity risk associated with the hospitality sector.

The aforementioned weaknesses however gets partially offset by the experience of the promoters in hospitality business for more than three decades, favourable location and association with Sarovar Hotels.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of the project without any significant cost or time overrun.

Negative factors

- Any significant delay in execution of the project resulting in major time or cost overrun.

Analytical approach: Standalone.

Outlook: Stable

The stable outlook on the long term rating of PRPL is based on the expected timely completion of the project and stabilisation of operations post project completion.

Detailed description of the key rating drivers:

Key weaknesses

Early stage of project implementation

PRPL is setting up a 78 key 4 star luxury hotel at Bhubaneswar, Odisha. The total cost of project is expected to be Rs 70.54 crores and the same will be financed by term loan will be of Rs 47.00 crores and rest through preference share and promoter's capital of Rs 23.54 crores. The cost per room of the hotel is Rs 0.90 crore. The company has expenses Rs 14.15 crore on the project till March 31, 2024.

The project has started in January, 2023 and is expected to achieve COD by October, 2025. PRPL has appointed M/s Soil to Sky Project for civil construction, M/S Studio Works as the Local Architect and M/s Manomav Engineers as project consultant.

High competition & inherent cyclicity risk associated with the hospitality sector

The 'Prachi Sarovar Premiere' hotel is expected to face high competition from other luxury segment hotels present nearby, which are located in a range of 7 to 8 kilometres. High competition may result in pressure on ARR (Average Room Rate) and RevPAR (Revenue Per Available Room), which in turn will impact profitability margins. The hospitality industry is further exposed to inherent cyclicity & seasonality risk. However, with significant brand presence of Sarovar and Bhubaneswar being a commercial and tourist destination, the risk can be partially offset.

Capital-intensive and long gestation period

The hotel industry is a capital-intensive industry with a relatively long gestation period. Generally, a new hotel takes a timeframe of around three to four years to breakeven at its operational level. Time is also needed for its establishment, occupancy rate and financial stability in the initial period of operation. Thus, the promoter is required to support the operation until the mentioned parameters reach the minimum desired level. Furthermore, the maintenance capex required for the hospitality industry also remains high, owing to regular replacement of furniture and change in trend.

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

Moderate capital structure

The capital structure of the company is expected to remain moderate as the project is proposed to be funded through mix of debt of Rs. 47.00 crore rest through preference shares and promoter contribution Rs. 23.54 crore. The overall gearing is expected to moderate during the initial stage of operation. Nonetheless, thereafter, overall gearing is expected to improve on the back of gradual repayment of debts and accretion profits to reserve.

Key strengths

Favourable location

Bhubaneswar, the capital of Odisha, is one of the major tourist attractions in the state. There are several famous tourist spots in close proximity of the hotel, which includes Nandan Kanan Zoo, Khandagiri Caves, Lingaraj Temple and others. Furthermore, Bhubaneswar is the major education and a commercial hub of the state. As a result, many Corporate Houses, Colleges & Universities hosts different events throughout the year, which are attended by thousands of delegates coming from all over the world. Therefore, making it an ideal location for a hotel given the huge footfall of business travellers and tourist alike.

The project site is well connected by road, train and air, with Biju Patnaik International Airport located just 4 kilometres from the location.

Long track record of the promoters in the hospitality business

PRPL was incorporated in October 1970. The promoters of the company have more than 30 years of exposure in the hospitality segment by virtue of their association with family run business. The company owns a 2 star hotel located in Ashok Nagar, Bhubaneswar, Odisha which has been given on lease to Lalchand Resorts Limited. PRPL has already signed an operations and management agreement with Sarovar Hotels for their new hotel.

Good visibility of the 'Sarovar Premiere' brand and association with 'Sarovar Hotels'

Sarovar Hotels is one of the leading hotel chains of India with around 120 hotels across 75 destination in the country. It is a part of Paris headquartered Du Louvre group, the second largest hotel group of Europe. The Sarovar Hotels operates and manages hotels under the Sarovar Premiere, Sarovar Portico, Hometel, and Golden Tulip brands. These brands cover the 3, 4, and 5-star spectrum. As per the agreement with Sarovar Hotels, the new hotel will operate under the brand name "Prachi Sarovar Premiere".

Liquidity: Stretched

Liquidity position of the company is expected to remain stretched in near future as financing of project cost is largely contingent upon fund from promoters. Any delay in infusion of funds from promoters may lead to delay in completion of project.

The promoters have already brought in Rs. 10.00 crores in the form of preference shares during FY24. Liquidity position derives some comfort out of bank loan which has been sanctioned and around Rs. 2.50 crore has also been disbursed till July 24, 2024. Remaining fund from promoters and undisbursed bank limits are adequate to meet the remaining cost of the project. Going forward, it remains crucial for the company to commence its operations and generate revenue as envisaged to meet its debt repayment obligations, which will start from September 2026 quarter.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Hotels & Resorts](#)

[Financial Ratios – Non financial Sector](#)

[Service Sector Companies](#)

About the company and industry

Industry classification

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

PRACHI RESORTS PRIVATE LIMITED (PRPL), was incorporated in October, 1970 with its registered address in Bhubaneswar, Odisha. The Board of Directors comprises of Smt. Vijay Laxmi Singh Deo, Shri Kalikesh Narayan Singh Deo, Shri Manmath Vijay Singh Deo and Shri Arkesh Narayan Singh Deo who have more than three decades of experience in hospitality segment. The company owns a 2 star hotel located in Ashok Nagar, Bhubaneswar, Odisha which has been given on lease to Lalchand Resorts Limited and PRPL earns fixed license fee of Rs 2.70 crore each year. Currently, the company has undertaken a new project of building a 78 key 4-star hotel in Khandagiri, Bhubaneswar.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	2.81	2.73
PBILDT	1.53	1.40
PAT	2.03	1.66
Overall gearing (times)	0.08	0.79
Interest coverage (times)	1,423.31	216.29

A: Audited UA: Unaudited; Note: 'the above results are latest financial results 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: 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		-	-	September 2038	47.00	CARE BB-; 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	47.00	CARE BB-; Stable				

LT: Long 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 detailsTo 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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About us:

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