

Satyaratan Hotels

August 12, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	50.00	CARE BB; Stable	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Satyaratan Hotels remained constrained by its partnership nature of constitution exposing the entity to inherent risk of capital withdrawal, intense competition and cyclical nature of hospital industry, seasonality associated with hotel industry. The rating also takes into account its initial year of operations of the hotel leading to moderate occupancy level and leveraged capital structure in FY24 (refers to the period April 1 to March 31).

The aforesaid constraints are partially offset by its experienced promoters having past track record of running of hotel, the completion and commencement of Phase 1 of the hotel from January 2024, tie-up with Mayfair group for operating the hotel and its locational advantage.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations with total operating income (TOI) above Rs.60 crore along with PBILDT margin above 28% on a sustained basis.
- Successful implementation of the phase 2 of the project and stabilization of the hotel with sufficient occupancy (above 60%).

Negative factors

- Deteriorating capital structure with overall gearing more than 9x on a sustained basis.
- Delay in completion of the phase 2 leading to significant cost overrun of more than 10%.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall sustain its moderate financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key weaknesses

Partnership nature of constitution exposing to inherent risk of withdrawal of capital

Satyaratan Hotels, being a partnership firm, is exposed to the inherent risk of the partner's capital being withdrawn at the time of personal contingencies and the firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firms have restricted access to external borrowing as credit worthiness of partners would be a key factor affecting the credit decision for the lenders.

Intense competition and inherent cyclicity of the hospitality industry with dependence on tourist arrivals

The hospitality industry is highly sensitive to the untoward events such as slowdown in the economy. The hospitality industry is cyclical in nature. i.e., during positive cycles the industry witnesses periods of sustained growth and sees healthy average room rates (ARRs) and occupancy rates (ORs). When recession sets in, the ORs begin to decline followed by the ARRs. In the recovery phase, ORs starts to move up and eventually the ARRs also start to increase. While the macro-economic factors affect the business destinations, the leisure destinations show a greater sensitivity to non-economic factors such as terror attacks, health related travel warning, etc. Cyclical nature of the hotel industry and increasing competition from already established hotels has impacted performances of industry players

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

Seasonality associated with the hotel industry

The demand for hotel and hospitality sector has a direct relation to the overall health of economy. The Indian hotel industry normally experiences high demand during March to June months, mainly on account of summer vacations and from October to November mainly on account of festive vacations all over India. However, this trend is seeing a change over the recent few years. Hotels have introduced various offerings to improve occupancy during the lean months. These include targeting the conferencing segment and offering lucrative packages during the lean period.

Initial year of operations of the hotel leading to moderate occupancy level

The hotel has commenced its operation on January 10, 2024, and after 1st three months of operation in FY24, the firm generated a TOI of Rs.7.00 crore with a PBILDT margin of 30.50% on occupancy rate of around 63%. The occupancy rate is moderate on account of initial year of operation and same is expected to improve over the year.

Leveraged capital structure with high overall gearing

The firm has funded the project by way of availing two term loans of Rs.20 crore and Rs.30 crore. Till March 31, 2024, the firm has drawn term loan to the extent of Rs.32.85 crore and the partners have infused unsecured loan of Rs.44.96 crore while the equity contribution stood at Rs.10.65 crore against estimated Rs.16 crore. As a result, the capital structure remained leverage marked by overall gearing ratio of 6.99x as on March 31, 2024.

The capital structure is expected to further moderate on account of drawing of remaining term loan and infusion of unsecured loans by partners. However, over the years the same is expected to improve gradually on account of repayment of term loan and accretion of profit to reserve.

Key strengths**Completion and commencement of Phase 1 of the hotel since January 2024**

Satyaratan Hotels is setting up a 5-star hotel on approximately 23 bigha plot in Sonapur, Assam. The hotel implementation is structured in a two-stage process. The first stage has already been completed by January 10, 2024, upon which the hotel has commenced its commercial operation while the 2nd phase is currently under progress. The 2nd phase is expected to be completed and operational by March 31, 2025.

Tie-up with Mayfair Group

The firm had entered into an agreement on October 13, 2022, with Mayfair Elixir Private Limited which will allow them to operate the hotel under their brand name and accordingly the hotel has been named as Mayfair Spring Valley Resort. Satyaratan Hotels will pay 7.5% of its net revenue as royalty.

Locational advantage

The hotel is located in Sonapur, which is surrounded by verdant hills, approximately 25 kilometers from the main town of Guwahati. The lush greenery of the hill and its proximity to reserve forests makes it an appealing destination for tourists.

Experienced promoters having past track record of operating a hotel

The promoters of Satyaratan belonging to the Satyam Group has been running an existing resort at Sonapur. The day-to-day operation of the hotel is being managed by the partners Mr Ratan Sharma, having experience of over 30 years and Mr. Harsh Sharma, having experience of around 15 years in various industry. Besides hospitality, they both have experience in manufacturing iron and steel and ferro-silicon businesses as well.

Liquidity: Stretched

The liquidity position of the firm is marked stretched due to its nascent stages of operations as it has commenced its operation from January 10, 2024, following the completion of the first phase. Presently, the construction of second phase is underway and is expected to be completed by March 2025.

The firm had free cash and bank balance of Rs.1.44 crore as on March 31, 2024. In FY25, the firm has debt repayment obligation of Rs.1.80 crore against which it is expected to generate sufficient cash accruals. However, in case there is any shortfall, the promoters would bring in need-based funds.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Hotels & Resorts](#)

[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

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

Satyaratan Hotels, established as a partnership firm in 2021, has been in the process of setting up a 5-star category hotel-cum-resort at Sonapur, Guwahati, Assam (Approx 25 km away from Guwahati main town). The firm is a part of the Satyam Group, currently being managed by Mr. Ratan Kumar Sharma and Harsh Sharma. The partners had entered into an agreement on October 13, 2022 with Mayfair group in providing operational services to hotels under the brand name of Mayfair and has the necessary expertise to operate the hotel in accordance with the brand standard.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	0.00	7.00
PBILDT	0.00	2.14
PAT	0.01	0.47
Overall gearing (times)	46.52	6.99
Interest coverage (times)	0.00	3.64

A: Audited P: Provisional; 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		-	-	March 2034	50.00	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	50.00	CARE BB; Stable				

LT: Long term;

Annexure-3: Detailed explanation of covenants of the rated 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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