CareEdge RATINGS

Fabworth Promoters Private Limited

September 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	380.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	5.00	CARE BBB-; Stable / CARE A3	Assigned
Non Convertible Debentures	138.47	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Fabworth Promoters Private Limited (FPPL) factors in significant improvement in operating metrics of the hotel from FY22 onwards marked by higher occupancy and Average Room Rent (ARR) aided by increased tourism, travels (official and personal), re-opening of foreign travels and events post Covid-19 pandemic.

The rating derive strength from long term marketing cum management tie-up with Marriott International, New York (a global leading hotel and leisure company). Further, tie-up with corporates ensures steady source of income for the hotel.

The rating also draws comfort from the presence of escrow account, creation of one quarter Debt Service Reserve Account (DSRA) and lender having the right to sweep cash flows in case Debt Service Coverage Ratio (DSCR) exceeds 1.10x (subject to company's cash balance exceeding Rs 10 crore at year end). The sanction terms are also strengthened by the presence of covenant pertaining to infusion of funds by the promoters of Rs 95 crore in a phased manner, out of which Rs 80 crore has already been infused in FY24 while the remaining Rs 15 crore is to be brought in equal tranches of Rs 7.50 crore each in FY25 and FY26 as per the terms of sanction. Additionally, repayment of large portion of unsustainable debt being back-ended also underpins the rating.

The rating also notes prepayment of term loan to the tune of around Rs 18 crore till August 31, 2024.

The rating is however constrained by high revenue concentration risk due to dependence on a single hotel property, seasonal industry scenario and increasing competition in the hospitality sector. The rating is also tempered by moderate profitability margin with modest credit metrics, saleability risks attached to slow moving inventory of Vivara apartments as well as uncertainties associated with the outcome of ongoing legal matters. The timely sale of Vivara apartments and any unexpected cash outflows due to adverse judgments in ongoing legal disputes will remain key monitorable for timely debt servicing going ahead.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial reduction in debt levels through revenue from hotel operations and sale proceeds of Vivara flats leading to improvement in Total Debt to Gross Cash Accruals (GCA) below 9x on sustained basis
- Higher than envisaged ARR and occupancy leading to improved cash flows from hotel business

Negative factors

- Inability to maintain occupancy and ARR at the current levels on a sustained basis
- Lower than envisaged sale of Vivara flats and collection thereof
- Any adverse judgement against the company in the ongoing legal cases leading to cash outflow

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to sustain its growth momentum amidst favourable business environment that shall enable it to maintain the envisaged operating performance over the near to medium term.

Detailed description of key rating drivers:

Key strengths

Long term marketing cum management tie-up with Marriot International, New York

FPPL has tied up with Marriott International, Inc. for the management-cum-marketing of the hotel in Kolkata under 'JW Marriott' brand. Marriott International Inc. is an American multinational diversified hospitality company that manages and franchises a broad portfolio of hotels and related lodging facilities. It is one of the leading hotel and leisure companies in the world with presence across 141 countries. The Marriott group has more than 8900 properties, which it operates under 30 established brands

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

FPPL has entered a contract with Marriott Hotel India Private Limited (Indian arm of Marriott International Inc) for a period of 30 years with permissible renewal for another period of 10 years.

Tie-up with corporates ensuring steady source of income for the hotel
FPPL has tied up with various corporates (including MNCs) for providing services and booking of minimum room days against which they pay a minimum fixed cost each year. These tie-ups assure steady income for the company. As maintained by the management, around 25-30% of revenue from hotel is derived from such clients historically.

Favourable terms of sanction comprising of escrow, DSRA, back ended repayment schedule of NCD and upfront fund infusion by promoters
The terms of sanction require the company to route all cash flows of both hotel and service apartments through escrow account. It also mandates FPPL to create one quarter DSRA, accordingly, the company has created one quarter DSRA (principal plus interest) of Rs 15 crore in FY24. Moreover, the sanctioned terms provide for the creation of additional DSRA of Rs 30 crore in case DSCR exceeds 1.10x and company's cash balance is over Rs 10 crore as at year end. These provisions are in place to ensure that the lender has a secure and prioritized claim on the company's cash flows.
In addition, the repayment schedule of NCD is favourably structured to be back ended with sizeable repayments commencing post FY36 by which time 95% of term loan is scheduled to be repaid.
The sanction is further strengthened by the presence of covenants pertaining to equity infusion wherein the promoters are required to infuse Rs 95 crore in a phased manner. Accordingly, the promoter has brought in Rs 80 crore through issuance of Optionally Convertible Preference Shares (OCPS) in FY24. The same have been used to partly fund the repayment of NCD of Rs 60 crore and partly towards creation of DSRA of Rs.15 crore as per the terms of sanction. The remaining Rs 15 crore will be brought in two tranches of Rs 7.50 crore each in FY25 and FY26. Further, the management has articulated that in the event of non-infusion of funds by the investor, they will meet the shortfall amount.

Improvement in the operating metrics of the hotel from FY22 onwards
The performance of the hotel was severely impacted during Covid-19 pandemic in FY21. The occupancy level of FPPL deteriorated significantly from 67% in FY20 to 20% in FY21 while ARR deteriorated from Rs 7529 in FY20 to Rs 6210 in FY21. However, with resumption of normal operations from H2FY22 onwards, the operating metrics of the hotel have improved since FY22 owing to increased domestic tourism, travels (official and personal), re-opening of foreign travels and events. The occupancy crossed pre-covid level and stood at 75% in FY24 (FY23-70% and FY22- 43%). Similarly, ARR stood at Rs 9622 in FY24 (FY23- Rs 8383, FY22- Rs 6674). Consequently, the total operating income of the company has witnessed improvement and stood at Rs 178.90 crore in FY24 as against Rs 168.40 crore in FY23 and Rs 92.60 crore in FY22 and PBILDT margin stood at 27.61% in FY24 (FY23-27.63%, FY22-21.83%).

Key weaknesses

High revenue concentration risk due to dependence on a single hotel property
Majority of the revenue of FPPL is derived from the hotel business, which is driven by JW Marrott in Kolkata. Hence the revenue profile of the company is concentrated due to dependence on a single hotel property.

Moderate profitability margins with modest credit metrics
The company's operating margins stood at around 27.6% in FY24 (P.Y.: 27.9%) and is moderate given they are operating a luxury hotel. PBIDT margins have been moderate mainly on the back of opex as well as high legal and professional fees incurred, most of which are one time in nature (constitutes around 4-5% of total operating income). As articulated by management, the company is expected to incur around Rs.14 crore every year (excluding Rs.6 crore towards the new banquet in FY25), towards the repair and maintenance of the hotel, while one-time expenses are expected to reduce.
The capital structure of the company stood modest marked by overall gearing of 1.52x as on March 31, 2024 (1.97x as on March 31, 2023 and 1.60x as on Mar 31, 2022). The improvement in gearing is attributable to scheduled repayment of term loan and NCDs along with partial prepayment of term loan to the tune of Rs 7.16 crore till March 31, 2024. The debt coverage indicators like interest cover have remained low at 1.11x in FY24 on account of moderate profitability. Going forward, the capital structure is expected to improve on the back of scheduled repayment of term loan and NCD and absence of debt funded capex.

Seasonal industry scenario and increasing competition associated with the hospitality sector
The hospitality sector is driven by macroeconomic factors like prospects and competitiveness of Indian tourism industry, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions (MICE). Hence, the sector is susceptible to downturn in the economy as well as local government policies regulating trade. The sector also has an inherent feature of cyclicality where demand in first part of the fiscal is low compared to second half driven by weddings and festivals. Additionally, the hospitality industry is highly fragmented with many local and international players

operating across different hotel segments leading to high level of competition in the business. However, the company, on account of its brand name and reputation has been successful in maintaining stable and satisfactory occupancy rates.

Slow moving inventory for the service apartments in Vivara with saleability risk for unsold units
Vivara is a 28 storied luxurious service residence building comprising of 51 apartments. Till June 30, 2024, the company had sold 40 apartments including 3 apartments sold at a consideration of Rs.28 crore (collected Rs 18 crore till date) in Q1FY25. The y-o-y sales of Vivara apartments are happening at a slow pace with 4 flats sold in FY22, 2 flats in FY23, zero flats in FY24. While the sales have picked up pace in current fiscal with 3 flats already sold in Q1FY25, the inherent uncertainty with respect to timeliness and rate of sale for the unsold apartments along with timely realisation of the entire sale proceeds as envisaged remains.

Dependence on sale of flats of Vivara for debt servicing apart from cash flows from the hotel business
The cash accruals generated from the hotel business are tightly matched to meet the debt repayment obligation. Therefore, in case of shortfall in revenue or lower than envisaged profitability from hotel operations, the company will become dependent on sale proceeds of Vivara apartments to service its debt obligations.

Risk arising out of any adverse judgement in ongoing legal cases
FPPL is engaged in two legal cases with the Kolkata Municipal Corporation (KMC). The first case pertains to tax payment disputes wherein the Calcutta High Court ruled in favour of FPPL in June 2016, but the decision was contested in the Supreme Court in August 2019 and is currently sub-judice. FPPL's management has stated that they have paid Rs 27 crore to KMC and anticipate no further cash outflow in this regard. The second case is a title suit initiated by KMC over the hotel land filed in August 2016 by KMC at the Alipore Court. Against this, FPPL had filed an application which was dismissed in November 2017. Post this, FPPL approached the Calcutta High Court in June 2018 wherein the order was stayed by the High Court. This matter has also been sub-judice since then. The management does not expect any liability arising out of this case.
FPPL is also involved in a legal dispute with a group of its shareholders regarding issuance of OCPS in FY24. The OCPS issue was challenged by a group of shareholders belonging to Sattva group in the Commercial Court at Alipore and the Calcutta High Court and is pending adjudication. The management has articulated that it does not expect any liabilities to arise from this as well. The outcome of the ongoing legal cases remains a key rating sensitivity.

Liquidity: Adequate
The company has made a prepayment of Rs 18.08 crore in the term loan account till August 31, 2024, as against principal repayment obligation of around Rs 24.84 crore in FY25. The company has created one quarter (principal + interest) DSRA of Rs 15 crore and has free cash and bank balance of Rs 3.39 crore as on August 23, 2024. The liquidity is further supported by scheduled infusion of Rs 7.50 crore each by the investor in FY25 and FY26. Moreover, the liquidity will also be strengthened with the collection of remaining sale proceeds of Rs 10 crore pertaining to sale of apartments of Vivara done in Q1FY25.

Environment, social, and governance (ESG) risks- Not Applicable

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

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Consumer Services	Leisure Services	Hotels & Resorts

FPPL, incorporated in 2006, is jointly owned by Mani group and Sattva group in 80:20 ratio respectively. It runs a 281 key 5-star hotel under the brand name "JW Marriott" along with 51 luxurious serviced apartments named "Vivara" at E.M. Bypass, Kolkata. The hotel is operational since November 2016.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	168.40	178.90
PBILDT	47.04	49.40
PAT	-104.21	-39.14
Overall gearing (times)	1.97	1.52
Interest coverage (times)	2.04	1.11

A: Audited, Prov.: Provisional, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debentures-Non Convertible Debentures	INE229M07019	17-08-2023	FY23-FY27:0.01% FY28-FY33:3.00% FY34-FY40:8.60%	31-03-2040	138.47	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	5.00	CARE BBB-; Stable / CARE A3
Term Loan-Long Term	-	-	-	31-03-2037	380.00	CARE BBB-; Stable

Annexure-2: Rating history for 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	Debentures-Non Convertible Debentures	LT	138.47	CARE BBB-; Stable				
2	Term Loan-Long Term	LT	380.00	CARE BBB-; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	5.00	CARE BBB-; Stable / CARE A3				

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

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:

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