

**HMP Hotels Private Limited**

March 25, 2019

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities	5.10	<b>CARE D (Single D)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>5.10 (Rupees Five crore Ten lakh only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating drivers**

The rating assigned to the bank facilities of HMP Hotels Private Limited (HMP) is constrained by delays in debt servicing due to stretched liquidity position. The company has small scale of operations along with losses at PBILDT level and weak solvency position. Further, the rating is constrained by cyclical & seasonal nature of hospitality industry and by company's presence in a highly fragmented and competitive industry. The rating, however, derives strength from the experienced promoters in the hospitality industry and strategic location of the hotel.

*Going forward, the ability of the company to profitably scale up its operations while improving its overall solvency position and increase the occupancy levels in a competitive market would remain its key rating sensitivities.*

**Detailed description of the key rating drivers**
**Key Rating Weaknesses**
***Tight liquidity position***

There are instances of overutilization of the working capital limit which are settled within 10-15 days and instances of delays/default in the servicing of the term debt obligation for more than a month. The delays are on account of weak liquidity as the company is unable to generate sufficient funds on timely manner leading to cash flow mismatches.

***Small scale of operations along with losses at PBILDT level***

The company's scale of operations has remained small marked by total operating income (TOI) of Rs.1.97 crore in FY18. Though the total operating income of HMP increased from Rs.0.15 crore in FY17 to Rs.1.97 crore in FY18 at an annual growth rate of ~1213.33% mainly on account of increase in occupancy levels of the hotel, the same however, continued to remain small. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Furthermore, the company reported total operating income of Rs.2.10 crore in 11MFY19 (Provisional).

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Moreover, the company incurred continuous losses at PBILDT level in the last two financial years due to high operational expenses. The company further incurred a net loss of Rs. 1.62 crore and cash loss of Rs.0.87 crore in FY18.

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

The capital structure of the HMP stood leveraged marked by overall gearing ratio of (-)4.72x as on March 31, 2018 owing to high dependence on borrowings availed to fund the capex (setting up of the hotel) and negative net worth base. Losses incurred by the company led to erosion of net-worth base.

Further, the debt coverage indicators of the company remained weak marked by interest coverage ratio of (-)0.21x in FY18 and total debt to GCA of (-)10.58x for FY18 [PY: (-) 2.12 and (-) 23.72, respectively].

***Cyclical and seasonal nature of hospitality industry***

The hotel industry is highly seasonal in nature with non-festive and non-holiday months face a slack in demand. On the other hand, the industry is also cyclical in nature wherein the customers & corporates don't tend to spend more on hotel stays in case of economic slowdown. Thus, the ability

of the company to achieve the projected occupancy level along with projected ARR amidst seasonal & cyclical scenario would be critical from the credit perspective.

### ***Presence in a highly fragmented and competitive industry***

The Indian hospitality industry is highly fragmented in nature with the presence of large number of organized and unorganized players spread across various regions. Cyclical nature of the hotel industry and increasing competition from already established and upcoming hotels due to low entry barriers may impact the performance of HMP. Though the demand for hotel rooms is expected to steadily grow in the medium term on account of anticipated increased commercial and tourism activity and growth of the economy, however, presence of many luxury hotels in the vicinity can exert pressure on occupancy and ARR of the hotel in the medium-term.

### **Key Rating Strengths**

#### ***Experienced promoters in the industry***

HMP is currently being managed by Mr. Kamaljit Singh Hayre, Mr. Jaspal Nagga and Mr. Harmesh Dhiman. All the directors have industry experience ranging from 12years- 14 years, , respectively, gained through their association with HMP and other group concerns i.e., Nakodar Hotels Private Limited (NHPL) and Hayre Regency Private Limited (HRPL), engaged in hospitality business as well. The promoters have adequate acumen about various aspects of business which is likely to benefit HMP in the long run. Moreover, the promoters are supported by a team of experienced and qualified management having varied experience in the field of technical, finance and marketing aspects of business.

#### ***Strategic location***

Nawanshahr is the homeland of India's famous freedom fighter Bhagat Singh. It's at 53 km distance from Ludhiana and 59 km from Jalandhar. The major tourist attractions in the city of Nawanshahr are the Ropar lake, Shaheed-E-Azam museum and shopping arcades such as Shivala Banna Mall. The hotel is also well connected to other tourist destinations in the town and many gurudwaras & temples which are close by from the hotel.

#### **Analytical Approach—Standalone**

#### **Applicable criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology- Hotel](#)

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

#### **About the company**

HMP Hotels Private Limited (HMP) was incorporated as a private limited company in August, 2007 but started its commercial operations in September, 2017. The company is currently being promoted and managed by Mr. Kamaljit Singh Hayre, Mr. Jaspal Nagga and Mr. Harmesh Dhiman. The company is running hotel under the name of "Best Western Nawanshahr" in Nawanshahr, Punjab. HMP has a franchise agreement with Best Western International Inc. for its Best Western brand. The hotel comprises of total 19 rooms (Standard and Deluxe), along with 3 banquet halls, 1 conference rooms, 1 bar, 1 restaurant and parking area for 20-25 cars. Besides HMP, the directors are engaged in two other group concerns namely, Nakodar Hotels Private Limited (NHPL) and Hayre Regency Private Limited (HRPL). NHPL and HRPL both are private limited companies engaged in similar nature of business since 2014 and 2005 respectively.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	0.15	1.97
PBILDT	(0.25)	(0.15)
PAT	(0.48)	(1.62)
Overall gearing (times)	(22.72)	(4.72)
Interest coverage (times)	(2.12)	(0.21)

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June,2023	4.60	CARE D
Fund-based - LT-Cash Credit	-	-	-	0.50	CARE D

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

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	4.60	CARE D	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	0.50	CARE D	-	-	-	-

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