

Hillways Hospitality LLP

September 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long Term Bank Facility –Term Loan	15.27	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BBB (CE); Stable [Triple B (Credit Enhancement); Outlook: Stable]
Long Term Bank Facility –OD	1.00		
Total	16.27 (Rupees Sixteen Crore and Twenty-Seven Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Hillways Hospitality LLP (HLLP) is on account of change in analytical approach which was earlier based on Credit Enhancement in the form of Corporate Guarantee to 'Standalone Approach'. CARE believes that the structure based on which the rating was assigned does not hold resulting in the revision in the analytical approach.

The rating assigned takes into account the company's small scale of operations, moderate financial risk profile and presence in a segment with intense competition. The rating is further constrained due to weak debt coverage indicators, stretched liquidity position and adverse impact of Covid-19 pandemic that has severely affected the hospitality and leisure industry.

The ratings, however, continue to derive strength from the resourceful promoters with their demonstrated support to HLLP and favorable location of the hotel.

Rating Sensitivities

Positive Factors:

- Increase in Total operating income (TOI) on sustained basis with stable PBILDT margin
- Increase in Average Room Rent (ARR) and Occupancy Level by over 50%
- Improvement in overall gearing levels to below unity.

Negative Factors:

- Decline in profitability margins below current levels.
- Any deterioration in capital structure from current levels

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

HLLP has started its operations from December 2017 and has a small scale of operations as reflected by its revenues of around Rs.5.72 crore as on March 31, 2020 (prov.) along with Average Room Rent (ARR) of Rs.7847 and Occupancy Rate (OR) of 27.81%. Out of the total revenue, Rs.2.79 crore has been achieved from room booking services, Rs.0.59 crore from Banquets, Rs.2.21 from restaurant sales and balance from other services.

Moderate financial risk profile

While PBILDT margin of the company stood healthy of 59.29% (PY: 59.46%), PAT margin has declined at 1.75% (PY: 6.40%), owing to increased interest costs during the FY20, on account of availment of additional term loan in March 2019. The interest coverage ratio of the company also moderated at 1.86 times in FY20 as against 2.78 times during the FY19. As on March 31, 2020 (prov.), the company has long term debt of Rs.30.78 crore, including unsecured loans from promoter aggregating to Rs.15.23 crore, on a net worth of Rs.8.19 crore. Though the debt coverage levels remain

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

below unity, HHLLP has been supported by the promoters, on sustained basis, by infusion of funds, which provides comfort.

Highly competitive and cyclical nature of Industry with low Occupancy rate (OR)

HHLLP currently operates only one hotel in Rishikesh which restricts the operations to a single site leading to revenue concentration risk. Also, the competition from other hotels and micro market competition can also have an impact on its operational performance. The single-site operations expose the company's revenue and profitability margins to seasonality in business and happening of unfavorable event in relation to hotel property or city. The company started commercial operations during the FY2018 and has a low occupancy rate of about 28% during the FY20 as against 24% during the FY19. With the COVID-19 pandemic unfolding across the globe, the hospitality and leisure industry – dependent entirely on travel, business and tourism- is among the sectors directly impacted by it. While the company has been trying to reduce its operational costs, high fixed expenses are likely to adversely impact the performance of the company during the FY21.

Key Rating Strengths

Resourceful promoters

HHLLP is a limited liability partnership (LLP) between Hillways Construction Company Private Limited (HCCPL, CARE BBB; Stable/CARE A3) and Mr. Amit Sharma, promoter and executive director of HCCPL. HCCPL is promoted by Mr. Mohan Lal Sharma who has extensive experience of around 40 years in the construction sector. Presently, the company is being managed by his sons Mr. Amit Sharma and Mr. Ajay Sharma, who have around two decades of experience in the industry. HCCPL is engaged in construction and infrastructure sector, undertaking projects of roads and steel suspension bridges on engineering, procurement and construction (EPC) basis.

The promoters of HHLLP have been regularly infusing funds into the entity to support its operations. The demonstrated track record of promoters, to support HHLLP, provides comfort.

Favourable location:

Hotel Natraj is located at a prime location in Rishikesh which is one of the preferred travel destinations for tourists as people come for adventure sports like bungee jumping, rafting and cliff jumping. Peak season for adventure sports remains during the summer months of May and June and post monsoon from October to February. Rishikesh is also popular for religious purpose as well as for yoga, thus having high influx of both domestic and foreign tourists. Hence the diversity of the attractions in Rishikesh ensures tourist availability almost throughout the year.

Liquidity Analysis: Stretched

The entity's utilization of fund-based WC limits for the 12 months period ending July 2020 stood at around 23.92%. The company had free cash and bank balance of Rs 0.17 crore as on August 31, 2020. HHLLP has scheduled debt repayments of around Rs. 3.10 crore in FY21 as against Gross Cash Accruals of Rs.1.60 crore in FY20.

The entity has availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical approach: Standalone, while factoring linkages with the parent company- HCCPL

Applicable criteria:

[Criteria on assigning Rating Outlook and Credit Watch](#)

[CARE's Policy on Definition of Default](#)

[CARE's Policy on Curing Period](#)

[Rating Methodology - Hotel Industry](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

[Financial Ratios – Non-financial Sector](#)

About the Company

Hillways Hospitality LLP (HHLLP) is a limited liability partnership (LLP) between Hillways Construction Company Private Limited (HCCPL) (rated CARE BBB; Stable/ CARE A3) and Mr. Amit Sharma, promoter and executive director of HCCPL. As per the LLP agreement, the contribution ratio and profit-sharing ratio for HHLLP is 5% (Mr. Amit Sharma) and 95% (HCCPL). HHLLP acquired "Hotel Natraj" in an auction for Rs.29.51 crore in January 2016. The hotel has 75 rooms, 3 banquet halls, a restaurant and a spa. Post-acquisition, the hotel was renovated and started commercial operations in December 2017.

The total cost of the project including the acquisition cost was Rs.33.96 crore funded through term debt of Rs.20 crore and remaining through promoter's contribution. Subsequently, additional loan of Rs.9 crore was availed in March 2019 for shoring up the net working capital along with Overdraft limit of Rs.1 crore to meet routine hotel expenses.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	5.08	5.73
PBILDT	3.02	3.40
PAT	0.33	0.10
Overall gearing (times)	3.90	3.76
Interest coverage (times)	2.78	1.86

A: Audited; Prov.: Provisional

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Status of non-cooperation with previous CRA: Issuer did not Cooperate; BWR BB+; Stable as on 16 July 2019

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	-	15.27	CARE BB; Stable
Fund-based - LT-Bank Overdraft	-	-	-	1.00	CARE BB; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Feb-19)	1)CARE BBB (SO); ISSUER NOT COOPERATING* (04-Jan-18)
2.	Fund-based - LT-Term Loan	LT	15.27	CARE BB; Stable	-	1)CARE BBB (CE); Stable (01-Jul-19)	-	-
3.	Fund-based - LT-Bank Overdraft	LT	1.00	CARE BB; Stable	-	1)CARE BBB (CE); Stable (01-Jul-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Facility- Term Loan & OD	Detailed explanation
A. Financial covenants	Penalty of 1% on each default, subject to maximum penalty of 2% over and above the stipulated interest rate on entire loan amount for the period of default
B. Non-financial covenants	-

Annexure 4: Complexity level of various instruments rated for this Company

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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