

Ksheer Sagar Developers Private Limited

June 01, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities@	45	CARE BBB-(SO); Stable [Triple B Minus (Structured Obligation); Outlook: Stable]	Assigned
Total Facilities	45 (Rupees Forty Five crore only)		

Details of instruments/facilities in Annexure-1

@ backed by unconditional and irrevocable corporate guarantee provided by Royal Orchid Hotels Limited (rated CARE BBB-; Stable).

Detailed Rationale & Key Rating Drivers

The above rating of Ksheer Sagar Developers P Ltd. (Ksheersagar) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Royal Orchid Hotels Limited (ROHL, rated 'CARE BBB-; Stable') for the bank facilities of Ksheersagar.

The rating of Royal Orchid Hotels Limited (ROHL) derives strength from its experienced promoters and long track record of operations of company with well-spread market presence, turnaround in financial performance of the company in FY17 (Provisional; refers to the period April 1 to March 31) with the company posting net profit at consolidated level supported by improvement in operational performance observed in Icon Hospitality Private Limited (Icon) and Ksheersagar Developers P Ltd. (Ksheersagar) which were earlier dependent upon ROHL for financial support and growing focus on Management contract (MC) model which is margin accretive business proposition and requires minimum capital. These rating strengths are partially offset by delays in debt servicing by its JVs/ subsidiaries before refinancing of their loans, relatively low PBDIT margins of the company due to high operational costs and inherent cycle nature of industry. The rating also takes note of its plan to monetize the land parcel in Mumbai and Tanzania which could help improve the liquidity and debt coverage metrics.

Going forward, the ability of the group to improve the occupancy levels and ARR and to improve its operating margins will be the key rating sensitivities

Detailed description of the key rating drivers of ROHL

Key Rating Strengths

Experienced Promoters and long track record of hotel operations: The promoter, Mr C K Baljee is an MBA from IIMA and has over three decades of experience in hospitality industry. The company, operating since 1986, has established market presence and over the years has expanded its base to 39 hotels with 2970 keys covering 25 cities.

Improved operational performance in key hotels: Group's flagship hotel, Hotel Royal Orchid Bengaluru (HRO, Bengaluru; which contributes around 25% of group's revenue) has recovered the occupancy level to above 60% levels during FY16-17 from 49-54% during FY13-15. Besides HRO Bengaluru, the company's other hotels which were earlier dependent upon support from ROHL viz. Icon and Ksheersagar, have also seen increase in occupancy levels.

Turnaround of financial performance in FY17: Increase in RevPAR coupled with closure of loan in some of the subsidiaries (viz. Maruti and Cosmos) and group's ability to re-finance the loan for ROHL, Ksheersagar and Icon for longer tenor at reduced interest rates helped the company in posting net profit at consolidated level after period of 5 years and see improvement in its liquidity position. The performance improvement in owned/leased properties as discussed above, coupled with incremental revenue from the MC-based hotels helped in improvement of overall cash accruals.

Increased focus on asset light model: The company during the past 3-4 years has shifted its focus on Asset light model with addition of new hotels coming under only Management contract (MC) basis which required minimum capital requirement. Out of 39 hotels (2971 keys) being currently operated by the company, around 28 hotels (1940 keys) are

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

under MC. Addition of new hotels under MC though do not help in increase in revenues significantly, however, the same is EBITDA accretive to the company

Key Rating Weaknesses

Recent instances of delays in certain subsidiaries/JVs: Due to modest occupancy level and high interest cost, company's JV and subsidiary, viz, Ksheersagar and Icon reported delays in debt repayments. However, post re-financing of loan, the debt servicing is regular.

Low PBDIT margins: The company's PBDIT margins have been declining from 16.46% in FY14 to 13.62% in FY16 due to increase in employee expenses and other operational costs. During FY17 (Prov.), the company saw slight improvement in PBDIT margins to 15.11% due to higher income from MC-based hotels, which is margin accretive business for the company

Analytical approach: The bank facilities of Ksheersagar are backed by unconditional and irrevocable corporate guarantee of Royal Orchid Hotels Limited (ROHL; rated 'CARE BBB-/Stable'). Hence, the guarantor's assessment is considered.

Applicable Criteria

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology- Hotel Industry](#)

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

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

[Financial Ratios-Non Financial Sector](#)

About the Company

Ksheersagar Developers Private Limited (Ksheersagar) operates a 5-star hotel under Hotel Royal Orchid, Jaipur, established in April 2011. The hotel having 139 keys, is a 50:50 JV between Royal Orchid Hotels Limited (ROHL) and Tambi family based out of Jaipur.

During FY17 (Provisional; refers to the period April 1 to March 31), Ksheersagar posted net loss of Rs.3.3 crore on a total income of Rs.21.5 crore as against net loss of Rs.9.8 crore on a total income of Rs.19.8 crore in FY16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	November 30, 2023	45.00	CARE BBB- (SO); 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	45.00	CARE BBB- (SO); Stable	-	-	-	-

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