

Ksheer Sagar Developers Private Limited

November 16, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities@	38.99 (reduced from 45.0)	CARE BBB(SO); Stable [Triple B (Structured Obligation)]; Outlook: Stable]	Revised from CARE BBB-(SO); Stable [Triple B Minus (Structured Obligation)]; Outlook: Stable]
Total Facilities	38.99 (Rs. Thirty eight crore and ninety nine lakhs 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 revision in rating of bank facilities of Royal Orchid Hotels Limited (ROHL) takes into account improvement in operational and financial performance supported by improved occupancy and average room rent (ARR) across hotels translating into growth in income and cash profits. .

The rating continues to derive strength from its experienced promoters and long track record of operations of company with well-spread market presence and growing focus on Management contract (MC) model which is margin accretive business proposition and requires minimum capital. The rating also positively factors in 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. These rating strengths are partially offset by continued losses reported in some of JV's/subsidiaries, relatively low but improving PBDIT margins of the company due to high operational and lease payment 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

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 improved the occupancy level to 73% levels during FY18 from 64% during FY17. Besides HRO Bengaluru, company's other hotels which were earlier dependent upon support from ROHL viz. Icon and Ksheersagar, have also witnessed increase in occupancy levels. Average occupancy levels among all the managed and/JV hotels have improved from 70% in FY17 to 78% in FY18. Despite net addition of 5 more hotels under MC in FY18 the occupancy has remained stable at 67% in FY18 as against 66% in FY18. ARR of owned/JV hotels have improved from Rs. 3763 in FY17 to Rs. 3853 in FY18.

Improved financial risk profile and performance during FY18 and Q1FY19: Improvement in ARR and occupancy translated into increase in income from Rs. 181.9 cr in FY17 to Rs. 197.2 cr in FY18. This coupled with incremental revenue from the MC based hotels helped in improvement of overall cash accruals. Company's overall gearing remained comfortable at 0.54x as on Mar'18 (FY17: 0.58x).

Company has reported TOI of 49.93 crore in Q1FY19 as against Rs.42.16 crore in Q1FY18 with GCA of Rs. 5.32 crore in Q1FY19 (Q1FY18: Rs.0.66 crore).

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 48 hotels with 3363 keys covering 34 cities.

Increased focus on Asset light model: 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

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

requirement. Out of 48 hotels (3,363 keys) being operated by the company as of Jun'18, around 38 hotels (2,386 keys) are under MC. Addition of new hotels under MC though do not help in increase in revenues significantly, however, the same is EBIDTA accretive to the company.

Key Rating Weaknesses

Continued losses in certain subsidiaries/JVs: Icon and Ksheersagar, which were earlier dependent upon support from ROHL Ksheersagar and Icon continued to report losses however, refinancing of Ksheersagar and Icon's debt during FY17 for longer tenor at lower interest costs has reduced its dependency on ROHL. During FY18 there were no instances in which support was extended by ROHL to its subsidiaries.

Low PBDIT margins: Company's PBDIT margins have been relatively low, when compared with its peers, at 15.49% and 20.00% during FY17 and FY18 on account of high lease rental expenses. Adjusted towards the same, PBILDT margins would be 23.72% and 26.91% respectively in FY17 and FY18.

Analytical approach: The bank facilities of Ksheersagar Developers Private Limited 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- 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	21.12	23.36
PBILDT	7.76	8.78
PAT	-2.08	-1.84
Overall gearing (times)	4.63	5.39
Interest coverage (times)	5.85	4.96

About the Guarantor (ROHL)

ROHL is promoted by Mr. CK Baljee, to carry on the business and management of hotels/ hospitality business. The group largely operates 5-Star/4-Star hotels under the brand name Royal Orchid and Regenta. As on June 30, 2018, on consolidated basis, ROHL along with its subsidiaries, associates and JVs, owns/operates 10 hotels (977 keys) besides managing another 38 hotels (2386 keys) under management contract.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	181.94	197.17
PBILDT	28.19	39.43
PAT	-4.56	2.41
Overall gearing (times)	0.58	0.54
Interest coverage (times)	1.80	2.52

A: Audited

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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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 2023	38.99	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 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	38.99	CARE BBB (SO); Stable	-	1)CARE BBB-(SO); Stable (01-Jun-17)	-	-

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CIN - L67190MH1993PLC071691