

## Stamlo Industries Limited

March 03, 2020

### Ratings

Instrument	Amount (Rs. Crore)	Ratings	Remarks
Long-term bank facilities	4.00	<b>CARE BBB+; Stable (Triple B Plus; Outlook – Stable)</b>	Reaffirmed
Long-term Bank Facilities/ Short-term Bank Facilities	208.50 (Enhanced from 8.50)	<b>CARE BBB+; Stable/CARE A2+ (Triple B Plus; Outlook – Stable/A Two Plus)</b>	Reaffirmed
<b>Total</b>	<b>212.50 (Rupees Two Hundred Twelve crore and Fifty lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Stamlo Industries Limited (Stamlo) continues to take into account significant increase in liability due to issuance of Bank Guarantee (aggregating Rs.200 crore) by it along with promoters being Co-borrowers towards indemnity commitment provided to Dr. Reddy's Laboratories Limited which if materialized would have an adverse impact on the credit profile of the company given the relatively moderate size of the company and guarantee extended constituting 2.29x of the net worth. The ratings, however, derive strength from significant improvement in total operating income and profitability margins in FY19 (refers to the period April 1 to March 31), moderate financial risk profile, comfortable working capital cycle, established presence with the hotel being located at IT hub of Hyderabad leading to comfortable occupancy rates, experienced promoters and favorable industry prospects. The ratings, nonetheless continue to remain tempered by high susceptibility to economic cycles and operations in highly competitive industry.

### Rating Sensitivities

#### Positive Factors

- Sustenance of PBILDT margin at 30% on a continuous basis.
- Sustenance of the occupancy rate of the company above 75%.

#### Negative Factors

- Overall gearing of the company increasing above 1.00x.
- Decline in ARR of the company below Rs.4000.
- Any inadvertent situation leading to invocation of Bank Guarantee issued by the company towards Dr. Reddy's Laboratories Limited.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Issuance of Bank Guarantee by the company along with promoters being Co-borrowers leading to significant increase in contingent liabilities**

On July 29, 2019, the board of directors of Dr. Reddy's Laboratories Limited (DRL) approved the amalgamation of Dr. Reddy's Holdings Limited (DRHL; an entity held by the Promoter Group which holds 24.88% equity shares of DRL) into DRL. Consequent to this merger, it has been decided that the promoters of the DRL will jointly and severally indemnify, defend and hold harmless the company (i.e. DRL), its directors, employees etc. for any liability, claim or demand, which may devolve upon DRL on account of this amalgamation. As part of this indemnity commitment, DRL had sought a bank guarantee of Rs.200.00 crores from the promoters. Given that high quantum of bank guarantee, it has been decided to include Stamlo Industries Limited also as a co-borrower along with promoters for arranging the aforesaid bank guarantee. Further, Federal bank has sanctioned bank guarantee of Rs.200 crore to promoters namely Mr. Satish Reddy, Mr. G V Prasad and Stamlo Industries Limited as co-borrowers. The bank guarantee has been sanctioned for a tenure of 8 years and is secured by all assets of Stamlo Industries Ltd apart from Personal Guarantees of Promoters. Also, Federal bank has taken over the existing working capital facility of Rs.12.50 crore (includes Rs.8.50 crore of BG and Rs.4 crore of Overdraft facility) from ICICI Bank to become the sole lender to Stamlo. On account of aforementioned transaction, the credit risk exposure of Stamlo has increased significantly in the form of increase in contingent liability by way of issuance of Bank guarantee thus weakening of overall credit risk profile in case of emergence of any eventuality.

#### **High susceptibility to economic cycles and operations in highly competitive industry**

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 comfortable occupancy rates. The performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism industry (which in turn is dependent on the

overall economy and disposable incomes), competitiveness of Indian tourism, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions. The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

### **Key Rating Strengths**

#### ***Significant improvement in total operating income and profitability margins***

Total operating income of the company has been growing at a CAGR of 12.88% over the past 3 years. The total operating income of the company improved by 19.74% during FY19 to Rs.56.64 crore from Rs.47.30 crore in FY18 mainly on account of improvement in the occupancy rate in FY19.

In line with increase in total operating income, the PBILDT margin of the company improved significantly by 947 bps from 20.71% in FY18 to 30.19% in FY19 mainly on account of increase in the occupancy rate during the year. Also, due to aforementioned reason, the PAT margin of the company also improved significantly by 1074 bps from 3.18% in FY18 to 13.92% in FY19.

#### ***Experienced Promoters***

SIL was promoted by Mr G.V. Prasad and Mr. K. Satish Reddy. The day to day activities of the company are managed by Mr. B. Gautam (Chief Executive officer). All the hotels are managed by the team of qualified professionals. Mr. GV Prasad, son of Mr. G. Harischandra Reddy, is the Chairman and Chief Executive Officer of Dr Reddy's Laboratories Ltd. Late Dr K Anji Reddy was the founder of Dr Reddy's Laboratories Ltd and was a well-known industrialist in the field of pharmaceuticals. The promoters of SIL have also incorporated GreenPark Hotels and Resorts Limited (GHRL) in the year 1986. GHRL has successfully operating all its properties located in Hyderabad, Chennai and Visakhapatnam with healthy occupancy rates of about 73%. SIL is operating hotel under the brand name "AVASA" which commenced operations from December 2011 with 217 rooms.

#### ***Established presence with the hotel being located at IT hub of Hyderabad leading to comfortable occupancy rates***

SIL is located in prime IT Hub in Hyderabad and enjoy proximity to IT companies, airport and railway stations. Being positioned as a business hotel, SIL has shown improvement in occupancy level since commencement of commercial operations in December 2011 with marginal fluctuations synchronising with trends in hotel industry. SIL has tied up with GHRL for operating the hotel. Furthermore, with initiatives taken by Government of Telangana through several branding and marketing, there has been increase in arrivals of foreign and domestic tourists resulting in comfortable occupancy rates.

#### ***Moderate financial risk profile***

During FY19, the debt profile of the company comprise of redeemable cumulative preference share. The overall gearing of the company has improved from 0.42x as on March 31, 2018 to 0.40x as on March 31, 2019. The improvement is on account of accretion of profit to the net worth. Further, the GCA level of the company has improved significantly by 83.40% from Rs.9.70 crore during FY18 to Rs.17.19 crore during FY19. On account of the same, the total debt to GCA of the company also improved from 3.61x during FY18 to 2.04x during FY19. Low finance cost incurred by the company marked by minimal working capital utilization coupled with substantial increase in PBILDT level has resulted in improved PBILDT interest coverage ratio from 14.36x during FY18 to 36.29x in FY19.

#### ***Comfortable working capital cycle***

The working capital cycle of the company is comfortable, however, deteriorated marginally from 14 days during FY18 to 17 days during FY19. This deterioration is on account of increase in collection period from 13 days during FY18 to 19 days during FY19. The debtors as on March 31, 2019 stood at Rs.3.63 crore as against Rs.2.19 crore as on March 31, 2018. The average inventory period of the company improved marginally from 13 days during FY18 to 11 days during FY19. The creditor period remained stable at 13 days during FY19 as against 12 days in FY18. Further, the average working capital utilization of the company remained low for the past 12 months ending September 2019 at 0.84%.

#### ***Outlook on the hotel industry***

The outlook for the hotel industry is positive, considering the economic growth in the country, increase in the foreign tourism as well as domestic tourism led by lower airfare and increasing disposable income with the consumers. The increase in disposable income is reflected by the increase in GDP per capita to USD1980 (IMF) in 2017 from USD 1420 in 2010. Apart from these, there is further push to the hotel sector with the government increasing the visa on arrival to 150 countries and providing tax advantage to new hotels. With the visa on arrival policy, the arrival through E-visa has increased to 1.58 million tourists during the period of Jan-Sep'18 from 1.7 million during the CY 2017. Going forward with the expected improvement in overall business environment and tourism industry, the Occupancy rates are expected to improve going ahead with the mid-market and budget hotel being the major beneficiaries. However, with increase in supply in both mid-market and luxury hotel segment, the ARR growth is projected to stay muted.

### Liquidity Position – Strong

The liquidity of the company is marked by strong cash accruals of Rs.17.19 crore against zero repayment obligations and liquid investments of Rs.9.81 crore. The current ratio of the company has significantly improved from 1.19x as on March 31, 2018 to 2.03x as on March 31, 2019. The company as on March 31, 2019 has available free cash balance and liquid funds to the tune of Rs.11.07 crore. The quick ratio of the company also improved considerably from 0.97x as on March 31, 2018 to 1.89x as on March 31, 2019. Furthermore, the average of the maximum working capital utilization of the company during the last 12 months ended September 2019 remained very low at about 0.84% on account of cash and carry nature of hotel business and timely receipt of payments from corporate clients.

**Analytical approach:** Standalone

### Applicable criteria

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

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

[Criteria for Short term Instruments](#)

[Rating Methodology-Service Sector Companies](#)

[Rating Methodology – Hotel Industry](#)

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

### About the company

SIL was incorporated in 1996 by the name of Stamlo Finance and Real Estates P Ltd, as a real estate company (along with eight other companies) to buy land at Madhapur, Hyderabad, admeasuring 9,633 square yards. Later, the name was changed to Stamlo Hotels Limited. Recently, the name of the company was changed to its current nomenclature 'Stamlo Industries Limited (SIL)' in September 2016. The company is engaged in the hospitality business and operates a 5-star hotel in the name of 'AVASA' located at Madhapur, the IT Hub of Hyderabad from December 2011 with a room inventory of 217.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	47.30	56.64
PBILDT	9.80	17.10
PAT	1.51	7.88
Overall gearing (times)	0.42	0.40
PBILDT Interest coverage (times)	14.36	36.29
PBIT Interest Coverage (times)	5.54	23.19

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

### 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-Bank Overdraft	-	-	-	4.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	208.50	CARE BBB+; Stable / CARE A2+

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (28-Sep-17)	1)CARE A- (10-Oct-16)
2.	Fund-based - LT-Bank Overdraft	LT	4.00	CARE BBB+; Stable	1)CARE BBB+; Stable (08-Jan-20)	1)CARE A-; Stable (05-Dec-18)	1)CARE A-; Stable (28-Sep-17)	1)CARE A- (10-Oct-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	208.50	CARE BBB+; Stable / CARE A2+	1)CARE BBB+; Stable / CARE A2+ (08-Jan-20)	1)CARE A-; Stable / CARE A2+ (05-Dec-18)	1)CARE A-; Stable / CARE A2+ (28-Sep-17)	1)CARE A- / CARE A2+ (10-Oct-16)
4.	Non-fund-based - ST-Loan Equivalent Risk	ST	-	-	-	-	1)Withdrawn (28-Sep-17)	1)CARE A2+ (10-Oct-16)

## Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

**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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