December 15, 2023

Gurnani Hotels Private Limited: [ICRA]BB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	25.00	[ICRA]BB(Stable); assigned
Total	**25.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the extensive experience of the promoters of M/s Gurnani Hotels Private Limited (GHPL) in the hospitality sector, the favourable geographical location of its project and successful tie-up with Hyatt India Consultancy Private Limited providing it with brand visibility. The rating also factors in the project's upmarket offering in terms of luxury villas and large recreational facilities, which are expected to provide GHPL with an edge over its competitors.

The ratings are, however, constrained by the high project execution risks, as the project is in its early construction stage and exposed to time and cost overruns, along with funding risks in terms of timely infusion of equity/unsecured loans by the promoter and stabilisation and timely achievement of commercial operations. The rating also remains constrained by the single-asset entity of the business, which remains exposed to the vagaries of the Jaipur hospitality market in particular and to the Indian tourism sector in general.

The Stable outlook on GHPL reflects ICRA's expectation that the long and established track record of the promoters in the hospitality sector, and the strong brand and market position of the property will continue to support the company's credit profile in the near to medium term.

Key rating drivers and their description

Credit strengths

Favourable project location in proximity to the National Capital Region (NCR) ensuring healthy demand dynamics – The proposed property is a 409-room hotel in the five-star category, which benefits from its location in Kukas near Jaipur, a busy holiday destination in India with high demand for destination weddings. Furthermore, its proximity to the densely populated NCR along with its proximity to the Jaipur international airport also provides it with access to a large catchment area and ensures healthy tourist traffic throughout the year.

Extensive experience of promoters in the hospitality business, with an operational hotel in Jaipur – The hotel is promoted by the Gurnani family, which has an established track record of managing hotels of similar stature. At present, the Group owns two hotels in Jaipur, Pinkcity Build Home Private Limited, which operates ~182 keys in association with Radisson Blu since 2013, and Days hotel by Wyndham, which was inaugurated in FY2022. In addition, the Group has diverse business interests in various sectors like electricals, construction, real estate, hospitality etc.

Association with reputed brand in Hyatt – GHPL has entered an agreement with the Hyatt Group, an established hospitality services provider with worldwide presence, for the operations and management of its upcoming hotel. Besides management support, GHPL benefits from Hyatt's brand recognition in terms of the quality of offerings and services.

Credit challenges

Exposed to project construction risk as a project-stage company – Being an under-construction project, that too in its early stages of construction, the hotel project remains exposed to time and cost overruns. As of November 30, 2023, the project was around 25% complete, while its scheduled commercial operation is expected to start by January 2027. Completion of the project within the budgeted time and cost remains critical from a credit perspective and will be a key rating monitorable. Nevertheless, comfort can be drawn from the promoters proven experience of setting up and managing similar hotels.

Exposed to funding risk in terms of timely infusion of equity and unsecured loans from promoter group – Equity/unsecured loans form about ~38% of the total project cost of Rs. 404 crore. Timely infusion of equity from the promoters is critical for the satisfactory progress of the project and proportionate draw down of the term debt that has been tied up. Of the Rs. 154 crore of equity/unsecured loans to be brought in, the promoters have already infused Rs. 86 crore as on November 30, 2023. Comfort is drawn from the fact that financial closure for the project has been achieved in terms of debt tie-up of Rs. 250 crore, with partial draw down already in place.

Timely fund infusion for interest payment during construction remains critical, with IDC being funded by equity/unsecured loans – The interest during construction (IDC) component, although being a part of the project cost, needs to be serviced every month. The IDC is envisaged to be funded through unsecured loans/equity. The company estimates an IDC of Rs. 42 crore (~10% of project cost), which may rise further in case of any delay in beginning commercial operations. Considering the absence of operational cash flows, timely infusion of promoter funds remains critical to service the IDC.

Asset and geographical concentration risks along with competitive and seasonal nature of Jaipur's hospitality market – Dependence on a single property exposes the company to adversities in the Jaipur hospitality market. GHPL will also face stiff competition from other hotels and resorts in the project's vicinity. Further, operations of the hospitality industry are usually seasonal in nature with the highest occupancy rate seen during the winter season.

Hospitality industry remains exposed to vagaries of tourism sector from domestic as well as international travellers – The operating performance of hospitality properties remain vulnerable to seasonal industry trends, general economic cycles and external factors like geopolitical crises, terrorist attacks and disease outbreaks, etc. Moreover, the concentration risk by being a single asset from a single geography increases the exposure of the company to any black swan events.

Liquidity position: Stretched

The liquidity position of the company at present remains stretched, given the lack of operational cash flows because of the under-construction stage of the project. The same will hinge on timely equity/unsecured loan infusions from the promoter group. Moreover, since the entity needs to service the IDC on a monthly basis, timely infusions of promised equity/unsecured loans remain critical. However, comfort can be drawn from the project's financial closure, where drawdown has already started.

Rating sensitivities

Positive factors – ICRA could upgrade GHPL's rating, if the project witnesses significant progress and remains on track in accordance with the budgeted time and costs for the project.

Negative factors – Negative pressure on GHPL's rating could arise if there are significant delays in completion of the project, or delay in timely infusion of committed equity/unsecured loans leading to delay in scheduled commercial operations, or lack of timely support from the promoter group in times of liquidity mismatches.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GHPL.

About the company

M/s Gurnani Hotels Private Limited was incorporated in 2019. The company is promoted by the Gurnani Group, which has diversified interests in hospitality, electricals and real estate sectors. The Group operates two hotels in Jaipur—Radisson Blu Durgapura Jaipur and Days hotel. The company is constructing a 409-key, five-star hotel (with ~110 villas, restaurant and bar, conference and banquet halls, fitness centre, spa, and other facilities) in Kukas, near the Delhi–Jaipur Highway, in close proximity to the Leela Palace Hotel in Jaipur. There are other five-star hotels the vicinity such as Fairmont, Le Meridian, Shiv Vilas and Taj Amer, and the micro-market is an upcoming area in terms of tourism, given its proximity to NCR. The company has signed a brand and management collaboration with Hyatt India Consultancy Private Limited. The total project cost of Rs. 404.0 crore is to be funded by Rs. 154.0 crore of equity/preference share/unsecured loans and Rs. 250.0 crore of term debt.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	-	-
PAT	-	-
OPBDIT/OI	NM*	NM*
PAT/OI	NM*	NM*
Total outside liabilities/Tangible net worth (times)	NM*	NM*
Total debt/OPBDIT (times)	NM*	NM*
Interest coverage (times)	NM*	NM*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *NM: Not Meaningful*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 15, 2023	-	-	-
1	Term loans	Long term	25.0	--	[ICRA]BB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loans**	FY2024	-	FY2035	25.00	[ICRA]BB (Stable)

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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