February 06, 2024

Manglam Spa Resort Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	45.00	45.00	[ICRA]BB (Stable); rating reaffirmed
Total	**45.00**	**45.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for the bank facilities of Manglam Spa Resort Private Limited (MSRPL) factors in the tie-up with the Starwoods Hotels & Resorts India Pvt Ltd, which provides the company with the brand visibility in terms of service and the quality offerings associated with the Westin brand of Starwood along with the favourable location of the project. MSRPL is owned by the family members of the Manglam group[1] based out of Jaipur, Rajasthan, which is into real estate business. The project is favourably funded with proposed debt: equity mix of 12:88. The promoters have infused Rs. 45 crore (38% of the total contribution) of equity and unsecured loans towards project execution and payments of interest during construction. Further, ICRA notes that the group has an established presence in the Jaipur real estate market and has the ability to infuse funds to support the entity during the construction phase.

The rating is, however, constrained by the high execution risk given that 51% of the total budgeted cost yet to be incurred as of November 2023. The project witnessed delays in execution majorly due to design changes, which resulted in an increase in the number of rooms from 126 to 142 and consequently, cost also increased by 35% to Rs. 135 crores. The incremental costs are proposed to be met through promoters fund in the form of unsecured loans/equity infusion. ICRA notes that the timely infusion of equity/unsecured loans by the promoter to support project execution and interest payment during construction remains monitorable. The property asset will remain exposed to elevated market risks till the time operations stabilizes post commencement of operations. The rating is also constrained by the single nature asset development and the operations are exposed to the inherent cyclicality in the hospitality sector.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will benefit from the tie-up with a reputed player for operations and management and the promoters will infuse funds in timely manner to support during project execution and in stabilisation phase, if required.

Key rating drivers and their description

Credit strengths

Favourable location of the project – The sharing of the WESTIN brand name, together with the favourable location of the project in the outskirts of Jaipur with proximity to the Jaipur-Delhi National Highway-248, supports its market position. The resort provides connectivity to Jaipur and Delhi.

Association with reputed brand - MSRPL has entered an agreement with the Starwood Hotels and Resorts Worldwide Group (Starwood), an established hospitality services provider with worldwide presence, for the operations and management. Besides management support, MSRPL benefits from Westin's brand recognition in terms of the quality of offerings and services.

[1] Flagship company of Manglam Group is Manglam Build-Developers Limited, currently rated at [ICRA]BBB (Stable).

Long and established track record of group in real estate business in Rajasthan - MSRPL is owned by the family members of the Manglam group based out of Jaipur, Rajasthan, which is into real estate business. The project is favourably funded with proposed debt: equity mix of 12:88. The promoters have infused Rs. 45 crore (38% of the total contribution) of equity and unsecured loans towards project execution and payments of interest during construction. Further, ICRA notes that the group has an established presence in the Jaipur real estate market and has the ability to infuse funds to support the entity during the construction phase.

Credit challenges

Exposure to project execution risk – Being an under-construction project, the project remains exposed to high execution risk given that 51% of the total budgeted cost yet to be incurred as of November 2023. The project witnessed delays in execution majorly due to design changes, which resulted in an increase in the number of rooms from 126 to 142 and consequently, cost also increased by 35% to Rs. 135 crores. The incremental costs are proposed to be met through promoters funds in the form of unsecured loans/equity infusion from promoters.

Exposure to project stabilization and market risks – The project is exposed to elevated market and stabilization risk, given the project is under construction stage and the risk remains till the time operations stabilizes post commencement of operations. The risks are further aggravated by the intense competition in the area, given the numerous established hotels and serviced apartments in the vicinity. However, ICRA notes that the demand outlook remains favorable, given the proximity of the project to popular tourist places.

Timely support for interest payment during the construction remains monitorable: – The interest during construction (IDC) component is to be serviced every month. The IDC is to be funded through promoter fund, out of the proposed contribution of Rs 120 crore towards project execution including IDC, the promoters have thus far infused Rs 45 crore till November 2023 in the form of unsecured loans. Considering the absence of operational cashflows, timely infusion of promoters' funds remains monitorable to service the IDC.

Cyclical industry – The operations are exposed to the inherent cyclicality in the hospitality sector given the single nature asset development and the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality.

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. The entity needs to service the interest on a monthly basis which is expected to be met through the timely infusions of unsecured loans from the promoters.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a sustained improvement in operational metrics and profitability indicators once operations are commenced and adequate deleveraging leading to significant improvement in debt protection metrics.

Negative factors – Negative pressure on the rating could arise in case of longer than expected time taken for the property to stabilize post commencement of operations or in case of lack of timely support from the promoter group in case of any liquidity mismatches or cost overruns.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Manglam Spa Resort Private Limited (MSRPL), incorporated in 1998, is currently owned by the family members of the promoters of the Jaipur-based Manglam Group, which is into real estate business. The company is currently developing a premium hotel and resort comprising 142 rooms in Jaipur, Rajasthan. The asset has an operations and management tie-up with the Starwoods Hotels & Resort India Pvt Ltd, a well-known international hospitality group. As a result, the assets benefit from the Group's global branding, marketing and advertising networks. The 142-room hotel will be branded as WESTIN and is expected to be operational by November 2024.

Key financial indicators (audited)

MSRPL Standalone	FY2022	FY2023
Operating income	-	-
PAT	- 0.0	0.0
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	6.2	4.2
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	- 10.9	- 0.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, interest coverage ratio is calculated on OPBIDT. Source: Company annual reports, ICRA Research; 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 (Rs. crore) as on November 30, 2023	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				February 06, 2024	January 05, 2023	-	-
1 Term loan	Long term	45.0	15.0	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – 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 loan**	March 2022	-	FY2032	45.0	[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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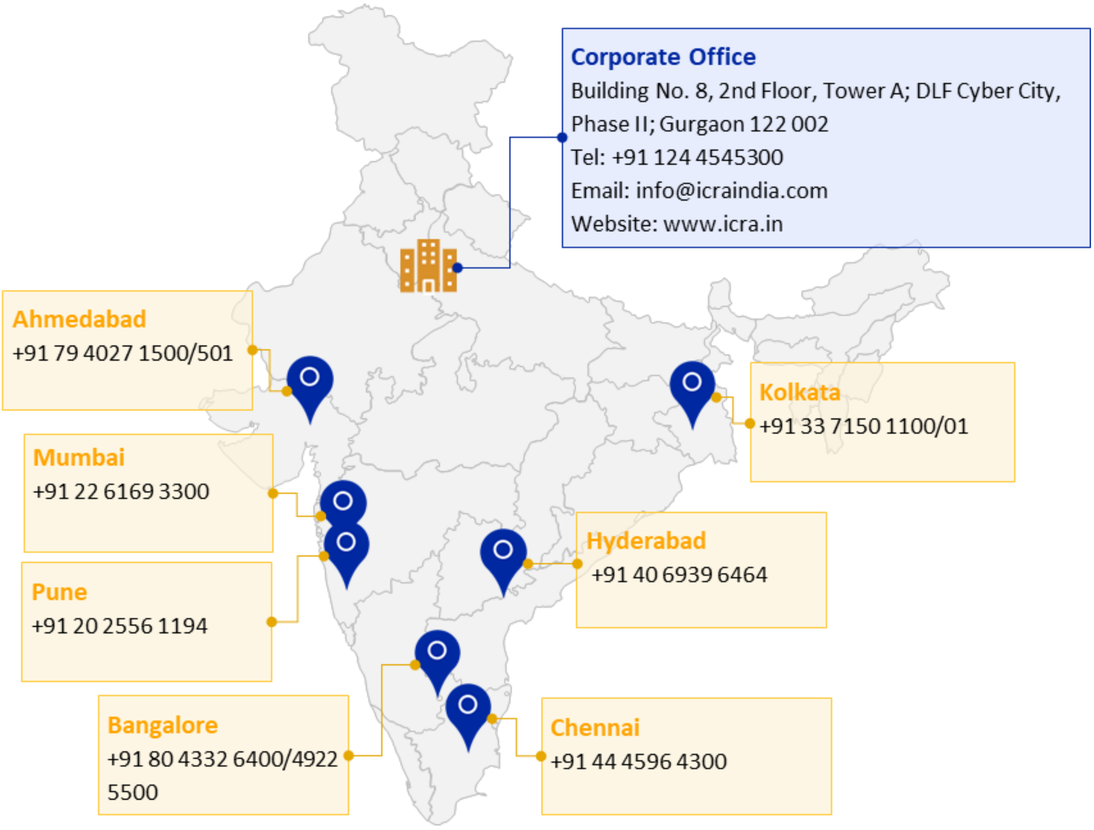

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