March 31, 2024

Arpit Projects Limited: [ICRA]BBB- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Term Loans	101.00	[ICRA]BBB- (Stable) assigned
Non-Convertible Debenture (NCD) Programme	50.00	[ICRA]BBB- (Stable) assigned
Total	**151.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Arpit Projects Limited (APL) factors in ICRA's expectation of continued healthy operating metrics being achieved by the company, aided by a strong revival in demand witnessed in the domestic hotel industry and a favourable industry outlook. The company's sole hotel property operates under the five-star luxury brand, 'Radisson', in Gurugram and benefits from its favourable location. The property reported a sequential improvement in occupancy levels to 85% in FY2023 and 86% in 11M FY2024 (FY2022: 79%), aided by the strong demand from the corporate segment as well as wedding ceremonies/Banquet income resulting in improved RevPARs. The healthy operating metrics resulted in an improvement in the company's operating margins to ~36% in FY2023 and 31% in 11M FY2024 vis-à-vis 25% in FY2022 on a revenue base of ~Rs. 62 crore (over ~Rs. 36 crore in FY2022). In 11M FY2024, the property has reported occupancy levels of ~86% and revenues of Rs. 68 crore indicating a sustained healthy demand. While the company's performance continues to remain exposed to its limitation to a single geographical location, ICRA expects its operational metrics to remain healthy s, and support its cash accruals resulting in adequate debt service coverage metrics. The rating continues to favourably factor in the company's association with the Radisson Group, which provides enhanced brand recognition, access to its global distribution system, and strong loyalty programme in addition to extensive experience from the global hospitality industry.

The ratings however remain constrained by the limited geographic and segment diversification of the company which leads to moderate scale. Moreover, its presence in a single micro-market (i.e., Gurugram), exposes it to adversities in the concerned local market and competition from other properties in the vicinity. Moreover, since APL underwent debt restructuring over FY2022 and FY2023, its leverage is very high. The same will moderate gradually as the repayments are spread over a long period.

The Stable outlook on APL's rating reflects ICRA's opinion that the company will continue to benefit from its favourable location and robust demand in the hospitality industry as well as association with Radisson.

Key rating drivers and their description

Credit strengths

Favourable location of the hotel with strong catchment of office space as well as proximity to the airport – The hotel property is in Udyog Vihar, Gurugram and has easy access to the Indira Gandhi International Airport. It is 3 kms away from Kapashera Toll on the Delhi-Gurugram Highway (NH-48), which provides ample opportunities to tap business customers travelling to the business hubs in Gurugram. The hotel has dense commercial/office spaces in its catchment area including Udyog Vihar office space and Cybercity with further commercial spaces coming up in the medium-term. The location is 1.6 kms from DLF Cyberhub, a popular high street area, and Cybercity, which is home to prominent multinational companies.

Strong brand recognition given association with Radisson Group – APL owns a five-star hotel in Gurugram under the name 'Radisson' as per the hotel management agreement (HMA). Hotel Radisson has a total of 200 rooms inventory (170 rooms, 29 suites and 1 presidential suite), a global cuisine restaurant with a capacity of 104 guests, four banquet halls for hosting weddings, corporate functions and banquet events, bar/lounge, a terrace swimming pool and many other amenities like coffee shops, four business meeting centres, spa, sauna and gym, etc. The company also earns lease income from entertainment area Smaash situated in its premises.

Healthy recovery in operating performance over the last quarters led by healthy occupancy levels – The hotel has been reporting healthy occupancy levels since the start of FY2023 which has continued till date and is expected to remain so in the medium-term. The RevPAR has also been healthy given the steady demand and limited supply of inventory for 5-star category and the overall recovery of the domestic hospitality sector. The property reported a sequential improvement in occupancy levels to 85% in FY2023 and 86% in 11M FY2024 (FY2022: 79%). Consequently, APL reported improvement in its earnings with an EBIDTA of Rs. 20.7 crore in 11M FY2024 and cash accruals of Rs. 11.2 crore. The earnings and liquidity improvement are expected to sustain in line with the industry scenario. Going forward, APL's DSCR (1.3 in FY2023) is expected to witness improvement supported by healthy earnings and extended repayment schedule.

Credit challenge

Asset and geographical concentration risks leading to moderate operating scale – The ratings remain constrained by the limited geographic and segment diversification of the company. Since the company operates a single 5-star property in Gurugram, the operating scale is modest given the limited room inventory of 200 rooms available.

Competition from other hotels in the vicinity and cyclical nature of business – APL has presence in a single micro-market (i.e., Gurugram). This factor exposes it to adversities in the concerned local market and competition from other similar properties in the vicinity. Moreover, being present in the hospitality business, APL is exposed to the cyclical nature of the industry itself which is prone to sharp upcycles and deep downcycles over a longer period.

High leverage given the recent history of restructuring; repayment is spread across a long period – APL's capital structure is highly leveraged with term loans of Rs. 186 crore (including unsecured loans of Rs. 23 crore from promoter and promoter-related entities) as on March 31, 2023. The debt included Rs 114 crore of sustainable portion and Rs 49 crore of unsustainable portion apart from unsecured loans. As a result, the company had a high gearing (Total Debt/Total Net Worth) of 6.2 times in FY2023 (previous year 18.2 times) and Total debt/OPBDITA of 8.3 times in FY2023 (previous year 24.4 times).As a part of the implemented restructuring plan (RP), the total debt of Rs. 171 was restructured into sustainable debt (70%) and non-sustainable debt (30%). The sustainable term debt carries lower rate of interest of 8%. The non-sustainable term debt was converted into NCDs, which carry coupon of 0.01% and will be repaid from FY2028 onwards. As per the RP, the company made an upfront payment of Rs. 25 crore which includes unpaid interest of FY2022 of ~Rs. 10 crore and Rs. 15 crore of principal repayment upon the implementation of the RP in March 2023. The same was funded through fresh equity infusion of Rs. 20 crore and cash and bank balances (Rs. 7-8 crore as on March 31, 2022). The leverage will moderate gradually as debt gets pared down.

Liquidity position: Adequate

APL's liquidity position remains **adequate** with expected cash flows from operations of ~Rs. 14 crores in FY2024. The company has annual principal repayment obligation of less than Rs. 4 crore in FY2024 and less than Rs. 1 crore in FY2025. Further, the company has cash and bank balances to the tune of Rs. 11 crore as of February 2024. The company does not have any significant capex plans in the near term.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant scale up in the revenues and profitability of the company while improving leverage and coverage metrics on a sustained basis.

Negative factors – Any significant decline in operating metrics or any major debt-funded capital expenditure resulting in deterioration of debt coverage indicators on a sustained basis, could trigger a rating downgrade. DSCR of less than 1.40 times on a sustained basis could trigger a downgrade.

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

Arpit Projects Limited (APL) was incorporated in the year 1995. It was acquired by the promoter Mr. Yogesh Bhasin in the year 2007 to commence hospitality business. APL acquired a 4-star hotel in the name of Country Inn and Suites by Carlson in the year of 2016. After taking possession, the company upgraded the hotel to 5-star category through an agreement with Radisson and the hotel was renamed as Radisson Gurugram, Udyog Vihar and relaunched the hotel in the October 2017 comprising of food courts, family entertainment area, shopping space and other need based public facilities / utilities on 2.25 acres out of 4.03 acres of land at most prime location - Udyog Vihar, Phase III, Gurugram, Haryana.

Key financial indicators (audited)

APL Standalone	FY2022	FY2023	11M FY2024*
Operating income	35.6	61.8	68.5
PAT	-19.0	31.0	35.3
OPBDIT/OI	24.5%	36.4%	30.2%
PAT/OI	-53.4%	50.1%	51.5%
Total outside liabilities/Tangible net worth (times)	19.2	6.6	2.4
Total debt/OPBDIT (times)	24.4	8.3	6.3
Interest coverage (times)	0.4	1.9	2.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

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 Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024	-	-	-
1	**Term loans**	Long term	101.00	101.83	**[ICRA]BBB- (Stable)**	-	-	-
2	**Non-Convertible Debenture (NCD)**	Long term	50.00	50.00*	**[ICRA]BBB- (Stable)**	-	-	-

** The NCD value reported in books would be lower post fair valuation as per Ind AS standards*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Non-Convertible Debenture (NCD)	Very 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**	FY2023	8%	FY2036	101.0	[ICRA]BBB- (Stable)
INE0EYP07017	**NCD**	FY2023	0.01%	FY2036	50.0	[ICRA]BBB- (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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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