



Spank Hotels Private Limited

Rating History

	Amount Rated (Rs. Crore)	Rating Outstanding	Previous Rating
		December 2011	-
Long Term Fund Based Limits	85.00	[ICRA]BB+ (Stable)	-
Short Term Non Fund Based Limits	3.00	[ICRA]A4+	-

ICRA has assigned [ICRA] BB+ (pronounced ICRA double B plus) rating on long term scale to Rs.85.00 crore¹ fund based facilities of Spank Hotels Pvt Ltd (SHPL) †*. The long term rating has been assigned a stable outlook. ICRA has also assigned [ICRA] A4+ (pronounced ICRA A four plus) on short term scale to Rs.3.00 crore non fund based facilities of SHPL.

ICRA's ratings are strengthened by established track record of promoters in the hospitality industry which is expected to support both timely completion of the planned hotel projects and running of the completed hotel properties. Further, the ratings also draw comfort from the consistency in funding support from an international investor, Warburg Pincus (which has invested ~Rs.70.00 crore) and Indian Investor Kotak Realty Fund for its recent infusion of ~Rs.13 crore in the company. The equity funding support from the investor and fiscal conservatism adopted by the promoter group with relation to quantum of debt along with deliberate deferment of debt drawdown are expected to keep the capitalisation indicators moderate despite the capex phase of the group. The ratings are also supported by the favourable demand prospects in the economy segment of hotels which currently witnesses limited presence of branded select service hotels, and geographically diversified presence of existing and planned properties of Red Fox properties. ICRA notes that offtake will be further supported by favourable location of Red Fox properties which is usually located in close vicinity to retail/ commercial business districts. The ratings also positively factor in the emphasis on prudent cost rationalisation embedded in the Red Fox's business model which is expected to bolster the profitability indicators for the group.

The ratings are however constrained by inherently high operating leverage of the hospitality industry which increases the reliance on remunerative Revpars to sustain profitability, and cyclical nature of revenue generation owing to economic or seasonal cycles. However, presence in budget segment and attempts made to diversify the client base across business and leisure categories are expected to increase group's readiness to withstand cyclicity. Further, the ratings are also inhibited by nascent stages of brand positioning as the flagship property was launched in Jaipur only in November 2009 and witnessed moderate operating metrics. ICRA notes that owing to limited track record of the brand, through the cycle performance of Red Fox properties in mature markets remains to be seen. The ratings are also weakened by stiff competitive intensity from both unbranded and branded incumbents in the budget segment which may limit the pricing power of the group; this said favourable location of the properties coupled with standardisation of service offering is expected to partly insulate the properties from the competition. ICRA also notes that the company may witness a dearth of economically viable options for expansion of room inventory (through asset ownership model) while keeping intact the quality and affordability of the service offering due to steep real estate cost. However, to mitigate the challenge of high real estate cost, company's ability to bolster geographic brand presence in an asset light way (potentially through management contracts) versus its ability to contain dilution in service offering in initial stages of brand establishment, remains to be seen. The ratings are also capped by modest scale of operations of the company owing to stabilisation phase of operational properties and capex phase of the planned properties. Moreover, ICRA notes that in the backdrop of aggressive capex on the anvil, execution risks cannot be negated. In the medium term, ICRA also expects some cash flow stress which may necessitate the need for refinancing and keep

¹ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications



the coverage indicators modest; however, stretched repayment pattern (average maturity of 7 years) of the tied-up debt may alleviate the concern to an extent. Further, the ratings factor in the likely stress on achievable revpars in NCR and Hyderabad, in the short to medium term, owing to sizeable supply of room inventory; however, majority of room supply in the mid-segment (3.5 -4 star category) may insulate the properties from direct competition.

Going forward, company's ability to improve operational metrics of its operational properties by strengthening brand presence, maintain its profitability in wake of stiff competitive intensity and ensure timely completion of partly debt funded capex will remain the key rating sensitivities.

Company Profile

Incorporated in July 2005, by the Mr. Patu Keswani, Spank Hotels Pvt Ltd (SHPL) is engaged in the business of owning, developing and operating hotel properties under the brand name "RED FOX HOTEL". Although majority of the stake is held by the Keswani family, sizeable stake is also held by strategic investors like Warburg Pincus (WP) and Kotak Realty Fund. As per the agreement, while, Warburg Pincus has brought in venture capital of Rs.70 crore in the company, Kotak Realty Fund has recently invested ~Rs.13 crore in the company. The company along with its subsidiaries currently has 3 operational hotel properties and 3 under-construction properties. The total operating room inventory of Red Fox Hotels across 3 properties currently stands at 399 rooms. The company plans to operate a total room inventory of ~962 rooms by FY2015.

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