

May 11, 2023

Ocean Pearl Hotels Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund Based limit	-	65.00	[ICRA]C+/ [ICRA]A4; reaffirmed
Long term – Fund based Limit-Cash Credit	62.00	-	-
Long term/Short term – Unallocated	3.00	-	-
Total	65.00	65.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action on the bank lines of Ocean Pearl Hotels Private Limited (OPHPL) reflects the stretched financial risk profile, characterised by weak debt coverage indicators and liquidity position. The adverse impact of the pandemic had impacted the company's cash flows and liquidity position severely during FY2021-FY2022; the company had opted for moratorium till August 31, 2020, under the RBI's Covid-19 Regulatory Package, and availed additional borrowings from banks in the form of Guaranteed Emergency Credit Line (GECL) loan and demand loan to help service its debt obligations and meet its fixed expenses. Despite improvement in profitability in FY2023, the company is expected to continue to have a stretched capital structure and coverage indicators with DSCR estimated to be 0.6-0.7x over the medium term because of high debt repayment obligations.

ICRA notes the extensive experience of the promoter in the hospitality industry and an improvement in the company's scale of operations aided by recovery in demand in the hospitality industry. OPHPL reported revenues of ~Rs. 51 crore and operating profit margin (OPM) of 10.4% in H1 FY2023. Despite the improvement in performance, ICRA expects the company to remain dependent on additional borrowings/ refinancing or financial support from promoters, over the medium term, to meet its debt servicing obligations in a timely manner. In this regard, deleveraging of the company's balance sheet would remain key in helping improve the credit profile of the company.

Key rating drivers and their description

Credit strengths

Extensive experience of the management in the hospitality industry, with Mr. Jayaram Banan being a renowned businessman in the restaurant and hospitality industry – OPHPL is spearheaded by Mr. Jayaram Banan, who has extensive experience in the catering and hospitality business. Mr. Banan is the promoter of various restaurant chains, such as Sagar Ratna and Swagath. The extensive experience of the promoter is likely to help the company improve its scale of operations, as the demand scenario improves.

Credit challenges

Stretched financial risk profile; dependent on continuous support from group concerns – OPHPL had acquired ~77% equity stake in Sagar Ratna Restaurant Private Limited (SRRPL) in May 2017, which was entirely funded through debt. This had led to

deterioration in the company’s capital structure. Further, the low cash accruals during FY2021-FY2022, led by the significant adverse impact of the pandemic, impacted the company’s liquidity position severely. The company had opted for moratorium till August 31, 2020, under the RBI’s Covid-19 Regulatory Package, and availed additional borrowings from banks in the form of GECL loan and demand loan to service its debt obligations and meet its fixed expenses. The second Covid-19 wave and consequent lockdowns, however, impacted the company’s cash flows, leading to delays from April 2021. Nevertheless, an uptick in performance, coupled with additional lines of credit from banks, helped the company correct its delays in debt servicing from October 2021. The company, however, continues to have a stretched capital structure and coverage indicators with gearing ratio at 45x and DSCR at 0.5x in FY2022, necessitating dependence on additional borrowings/ refinancing or financial support from promoters.

Cyclical industry vulnerable to general economic slowdown and exogenous factors – Due to its presence in the hospitality industry, the company is susceptible to risks arising from its inherent cyclicity. Hotel revenues are also vulnerable to general economic slowdown and exogenous shocks (such as geopolitical crises, disease outbreaks and natural calamities, among others). Due to the outbreak of Covid-19, the operational metrics of the company were severely impacted.

Intense competition – OPHPL faces stiff competition from other hotels and banquet facilities in proximity to its properties, which is likely to exert pressure on the margins. Moreover, the same may constrain a material improvement in the company’s credit metrics over the near to medium term.

Liquidity position: Poor

The company’s liquidity position is poor, characterised by near full utilisation of its OD limit, modest cash flows and high debt repayment obligations. A healthy ramp up in operations or infusion of equity remain critical for improvement in the liquidity position of the company.

Rating sensitivities

Positive factors – ICRA could upgrade OPHPL’s rating if the company demonstrates improvement in its liquidity position and credit and profitability indicators on a sustained basis.

Negative factors – ICRA could downgrade OPHPL’s rating in case of further deterioration in the credit metrics or liquidity position leading to delays in debt servicing.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of OPHPL. As on March 31, 2023, the company had a subsidiary and a partnership firm, which are all enlisted in Annexure-2.

About the company

Mr. Jayaram Banan began operating OPHPL from 1986 with a restaurant called Sagar Ratna in Defence Colony, New Delhi. In 2010, the company opened an 84-room, four-star luxury hotel in Mangalore, Karnataka. In FY2012, the company hived off its restaurant business and transferred its assets and liabilities to its wholly-owned subsidiary, SRRPL. Later it sold its ~76% equity stake in SRRPL to a private equity (PE) firm. Subsequently, in 2012, OPHPL started banqueting services at a leased farmhouse

in Chhatarpur, New Delhi, and named it Ocean Retreat. In May 2017, OPHPL bought back the ~76% stake in SRRPL from the PE firm, which was entirely funded by debt.

At present, OPHPL operates an 84-room hotel in Mangalore, two banquet halls in New Delhi, two restaurants at Ashoka Hotel, New Delhi, a 50-room hotel at Udupi, Karnataka, with an adjacent banquet hall with a 300-pax capacity, a 68-room hotel in Bejai (Mangalore) and a 29-room hotel in Hubli, Karnataka. Further, OPHPL owns the Sagar Ratna restaurant chain via its 100% subsidiary, SRRPL.

Key financial indicators (audited)

OPHPL Standalone	FY2021	FY2022	H1 FY2023*
Operating income	39.0	67.4	51.0
PAT	-19.1	-9.0	3.8
OPBDIT/OI	-8.2%	8.2%	10.4%
PAT/OI	-48.9%	-13.4%	7.5%
Total outside liabilities/Tangible net worth (times)	14.2	49.5	25.9
Total debt/OPBDIT (times)	-53.0	34.3	17.6
Interest coverage (times)	-0.2	0.3	0.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Source: Company, ICRA Research; * Provisional numbers; All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
				May 11, 2023	-	Feb 24, 2022	Jul 05, 2021	Dec 03, 2020
1 Fund Based limit	Long term and short term	65.00	-	[ICRA]C+/ [ICRA]A4	-	-	-	-
2 Fund based Limit-Cash Credit	Long term	-	-	-	-	[ICRA]C+	[ICRA]D	[ICRA]D ISSUER NOT COOPERATING
3 Unallocated Limits	Long term and short term	-	-	-	-	[ICRA]C+/ [ICRA]A4	[ICRA]D/ [ICRA]D	[ICRA]D/ [ICRA]D ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based limit	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	Long term/Short term – Fund Based limit	NA	NA	NA	65.00	[ICRA]C+/[ICRA]A4

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	OPHPL Ownership	Consolidation Approach
Ocean Pearl Hotels Private Limited	100.00% (rated entity)	Full Consolidation
Sagar Ratna Restaurants Private Limited	100.00%	Full Consolidation
Swagath	80.00%	Full consolidation

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