

March 28, 2024

Ksheer Sagar Developers Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	25.66	19.85	[ICRA]BBB- (Stable); reaffirmed
Unallocated Facilities	19.34	25.15	[ICRA]BBB- (Stable); reaffirmed
Total	45.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors the implicit support enjoyed by Ksheer Sagar Developers Private Limited (KSDPL), from Royal Orchid Hotels Limited (ROHL). ROHL holds 50.0% stake in KSDPL and has committed to extending timely and adequate financial support to KSDPL to meet its operating and financial commitments in a timely manner. Apart from the strong parentage, the rating also takes into account KSDPL's healthy demand uptick in FY2024 and anticipated sustenance of the same in the coming quarters.

However, the rating is constrained by KSDPL's financial profile with modest scale of operations (revenues of Rs. 22.4 crore in 9M FY2024), relatively high debt levels for its scale of operations and stretched coverage indicators. Further, KSDPL is exposed to geographical concentration risk with only one property in Jaipur and its revenues are vulnerable to the inherent cyclicity of the hospitality industry, economic cycles and exogenous events, akin to other hotel players.

On April 01, 2023, Royal Orchid Hotels Limited (ROHL) informed the stock exchange that it had received an 'Interim Order cum Show Cause Notice' ('order') from SEBI dated March 31, 2023, against ROHL, its promoters and Chief Financial Officer. This order was following a complaint received by SEBI against ROHL that despite having control over Ksheer Sagar Developers Private Limited (Ksheer Sagar; rated [ICRA]BBB-(Stable)), it did not consolidate Ksheer Sagar as subsidiary but rather consolidated it as an associate (following appointment of 2 independent directors in FY2022), thus resulting in overstatement of consolidated profits for the FY2022 and consequent increase in share price. Further, the complaint also alleged that ROHL's promoters sold 4.08% stake between March 2022 and December 2022 gaining from share price increase. ICRA understands that the company had taken legal recourse to the order in May 2023 and subsequently the company had submitted its responses with SEBI. It is currently awaiting further communication from SEBI. ICRA will continue to monitor the developments in this regard.

Key rating drivers and their description

Credit strengths

Strong parentage; ROHL is committed to extending timely financial support to KSDPL, as and when required – Royal Orchid Hotels Limited (ROHL) holds 50.0% stake in KSDPL. ROHL has demonstrated its financial support to KSDPL in the past, by providing unsecured loans to the company. ROHL is committed to extending timely and adequate financial support to KSDPL, as and when required, to ensure that KSDPL meets its operating and financial commitments in a timely manner going forward.

Healthy improvement in revenues in 9M FY2024; favourable demand outlook – The company reported an operating income of Rs. 22.4 crore in 9M FY2024 (YoY growth of 17.1%), with demand stemming from weddings/MICE, transient passengers, gradual pick up in business travel and foreign tourist arrivals (FTAs). The operating margins also remained healthy supported

by better operating leverage and sustenance of cost optimisation measures undertaken during the covid period and stood at 38.6% for 9M FY2024 (9M FY2023: 35.4%). The healthy demand outlook for hotels in FY2025 is likely to support revenues and accruals for Ksheer in the next 6-12 months.

Credit challenges

Modest scale of operations; relatively high debt levels for scale of operations and stretched coverage metrics – KSDPL is a modest player in the hotel industry with revenues of around Rs. 25.0 – Rs. 30.0 crore per annum. The company has undertaken debt-funded capex in the past, and its accruals have remained low in the last several years. This has resulted in relatively high debt levels for its scale of operations. The company has stretched debt coverage metrics, with Debt Service Coverage Ratio (DSCR) at 1.0 time for FY2023. Despite healthy demand, ICRA expects KSDPL's coverage metrics to remain stretched in FY2025.

Exposed to geographical concentration risk and vulnerability of revenues inherent to hospitality industry, economic cycles and exogenous events – KSDPL operates a single 5-star hotel under the brand name of Hotel Royal Orchid with inventory of 139 rooms in Jaipur, exposing it to region-specific risks. Akin to other players in the industry, the company is exposed to industry cyclicity/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when KSDPL's performance was significantly impacted by the pandemic.

Liquidity position: Stretched

KSDPL had cash balances and free bank balances of Rs 10.5 crore as on December 31, 2023. As against this it has repayments of Rs. 7.4 crore in FY2025 and Rs. 8.5 crore on its existing loans and minimal capex commitments of Rs. 0.5 crore per annum over the medium term. ROHL is committed to extending timely and adequate financial support, as and when required, to KSDPL to ensure financial and operational commitments are met in a timely manner.

Rating sensitivities

Positive factors – Sustained improvement in operating metrics and profitability indicators leading to improvement in debt coverage indicators on a sustained basis or strengthening of linkages/improvement in credit profile of parent could lead to a rating upgrade.

Negative factors – Negative pressure on KSDPL's rating could arise from any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability or significant capex, leading to weakening of debt coverage metrics and liquidity position. Further, weakening in the parent's credit profile/KSDPL's linkages with ROHL or absence of timely and adequate financial support from ROHL, as and when required, would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Royal Orchid Hotels Limited (ROHL), rated [ICRA]A- (Stable), holds a 50.0% stake in the company. ROHL is expected to extend timely and adequate financial support to KSDPL, as and when required.
Consolidation/Standalone	Standalone

About the company

Ksheer Sagar Developers Private Limited (KSDPL) operates a 139 room, five-star hotel under Hotel Royal Orchid, Jaipur, established in April 2011. 50.0% of the shares in the company are held by Royal Orchid Hotels Limited and the remaining is held by the Tambi family, based in Jaipur. The land and building are owned by KSDPL.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	16.6	27.4
PAT	-0.4	4.6
OPBDIT/OI	29.9%	38.5%
PAT/OI	-2.4%	16.6%
Total outside liabilities/Tangible net worth (times)	-79.6	15.6
Total debt/OPBDIT (times)	10.2	4.3
Interest coverage (times)	1.4	3.5

Source: Company, ICRA Research; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Note: Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
CARE	CARE B; Stable; ISSUER NOT COOPERATING	April 13, 2023

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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
				Mar 28, 2024	Mar 20, 2023	Oct 20, 2022	Oct 04, 2021	Dec 07, 2020	Apr 13, 2020
1 Term Loans	Long term	19.85	19.85	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB(CE) (Negative) withdrawn and [ICRA]BBB-(Stable) simultaneously assigned	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Negative)	[ICRA]BBB(CE) (Stable)
2 Unallocated	Long term	25.15	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB(CE) (Negative) withdrawn and [ICRA]BBB-(Stable) simultaneously assigned	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Unallocated Facilities	Not applicable

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	FY2017	9.5%	FY2025	19.85	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	25.15	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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