

January 16, 2017

JKR Enterprise Limited

Instruments*	Amount rated (Rs. crore)	Rating Action
Term Loan	50.00	[ICRA]BB(stable) Reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) on the Rs.50.00 crore term loan facility of JKR Enterprise Limited ("JKR"/ the company). The outlook on the long-term rating is stable.

Rationale

The rating reaffirmation follows the financial support extended by the promoter in the construction phase of the hotel project, and the promoter's ability to meet any cost overruns during the initial stages of operations of the proposed hotel. The hotel has entered into a 25 year management contract with Hyatt India Consultancy Private Limited for branding and management of the hotel under the *Hyatt Place* brand, which lends credibility and garners visibility among foreign and domestic tourists. However, the rating is constrained by the delay in the project by 10 months leading to a cost over-run by Rs.10 crore which was funded by the promoter by way of interest free unsecured loans. The total cost of the hotel is estimated to be Rs.90 crore funded through a debt: equity mix of 2.0:1. The management expects the hotel to be operational by February 2017. The rating is also limited by the small scale of operations with an inventory of 101 rooms and the limited buffer time between commencement of operations and start of repayments (July 2017).

Key rating drivers

Credit Strengths

- Ability of the promoter to meet any cost-overruns during the gestation phase
- Management contract with Hyatt lends credibility and there by helps attract foreign tourists

Credit Concerns

- Delays in project construction resulting in cost overruns (which was funded by the promoter by way of interest free unsecured loans)
- Small scale of operations with single property and inventory of 101 rooms
- The first hotel venture by the group; lack of past track record
- Limited buffer between commercialization of project (Q4 FY17) and repayments (July 2017)

Description of key rating drivers highlighted above:

JKR was established by Ms. Sharada Deepa, the daughter of Mr. P.R. Ramasubramaneya Rajha, the promoter of the Ramco group of companies. The 101 room proposed hotel in Rameshwaram was slated to commence operations in April 2016. Due to delays in procurement and minor modifications by Hyatt in the project, there is a delay in the construction and a cost –overrun by Rs.10 crore, which was funded by the promoter in the form of interest free unsecured loans with no repayment tenure. The hotel is estimated to be operational by February 2017. The established management contract with Hyatt lends credibility and visibility among foreign tourists and also enables the company to price its rooms at a premium.

The proposed hotel is the first hotel venture by the Ramco group of companies and has an inventory of 101 rooms concentrated in a single geography. The buffer period between commencement of operations and repayment is limited; however any short fall in funds would be met by the promoter until the hotel stabilizes.

Analytical approach:
Links to applicable Criteria

Corporate Credit Rating - A Note on Methodology

About the firm:

JKR Enterprise Limited was established by Smt.Sharada Deepa in 2009 to set up JKR Hotels and Resorts, a three star hotel in Rameshwaram. Smt. Sharada Deepa is the daughter of Mr. P.R. Ramasubramaneya Rajha the promoter of the Ramco group of Companies. The construction of the Hotel started in July 2013 and the management expects the project to be ready for commercialization by February 2017. The proposed property will have 101 rooms, one bar, one multi cuisine restaurant and a banquet hall. The company has entered into a management contract with Hyatt India Consultancy Private Limited and the hotel would be launched under the brand name of Hyatt Place.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
		Type	Rated amount (Rs. Crores)	Month - year & rating			
1	Term Loans	Long term	50.00	January 2017	Dec 2015		
				[ICRA]BB (Stable)	ICRA]BB (Stable)	Nil	Nil

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	-	-	-	50.00	[ICRA]BB (Stable)

Source: JKR

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