

November 17, 2017

## Della Adventure & Resorts Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term fund-based limits- Term Loans	37.38	Revised to [ICRA]B+ (Stable) from [ICRA]BB-(Stable)
<b>Total</b>	<b>37.38</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has revised the long-term rating to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 37.38 crore<sup>1</sup> term loans of Della Adventure & Resorts Private Limited (DARPL). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating revision takes into account DARPL's increasing reliance on external borrowings to fund the on-going capex as reflected from gearing of 4.24 times as on March 31, 2017 compared to 3.45 times as on March 31, 2016. Additionally, the total debt has increased further in the current fiscal on account of fresh term loans availed by the company, to increase the number of rooms. The company's cash flows will also continue to remain under pressure in the near term due to high interest and debt repayment obligations. Furthermore, ICRA notes that the revenues from adventure park have remained low during the past two fiscals, thereby affecting the company's profitability.

The rating, however, factors in the increase in revenues from all the business segments in FY2017, except real estate operations. ICRA takes into account the healthy operating margin due to presence in high-margin segment and low working capital intensity of operations. In addition, DARPL has location advantage from its proximity to Mumbai and Pune.

ICRA expects the capital structure to remain highly leveraged in the near term on account of significant term loans availed by the company to fund its capex. However, the company's ability to improve its accruals by increasing the occupancy rate of its resort and footfalls to the adventure-park would be a key rating sensitivity.

### Key rating drivers

#### Credit strengths

- **Ramp up in all business segments in FY2017, offsetting revenue decline from the real estate project-** DARPL registered annual revenue growth across the segments in FY2017, except its real estate operations. Revenues from its adventure-park grew by 13%, hotel tariff by 9% and food and beverages by 34% in FY2017. Since only two villas out of 21 remained unsold in FY2017, the income from real estate segment declined by 40%.
- **Healthy operating margins-** DARPL's operating margins has remained healthy at around 27% over the past two years due to its presence in high margin segments. As the company derives majority of its revenues from the service sector, the operating margin stood healthy. However, DARPL's ability to increase its net cash accruals with rising debt levels will remain critical from a credit perspective.

<sup>1</sup> 100 lakh = 1 crore = 10 million

- **Low working capital intensity, with most of the collection coming in on cash/advance basis-** DARPL mostly receives advance payment from its customers for amenities such as the adventure-park, hotel and banquet. The outstanding receivables are mainly from corporate events organised in the banquet halls during the last quarter of FY2017. Moreover, due to the service oriented nature of its business, the inventory requirement for the company is minimal, and mainly comprises consumables. On the other hand, DARPL receives a credit period of a month from its suppliers for food & beverages and grocery purchase. As a result, the working capital intensity remains comfortable.
- **Advantages from being located close to Mumbai (90 kms) and Pune (77 kms) -** DARPL operates an adventure resort and hotel in Kunegaon near Lonavala (Maharashtra). The property is located between Mumbai and Pune and as a result is able to attract visitors from both the major cities of Maharashtra.

#### Credit weaknesses

- **Aggressive capital structure due to debt-funded capex-** DARPL's capital structure remained leveraged due to its high reliance on external borrowings to fund the capex. The gearing stood at 4.44 times as on March 31, 2017, which will increase further by the end of FY2018 owing to fresh loan of Rs. 31.00 crore availed by it. While, the debt outstanding has increased from Rs. 69.29 crore as on March 31, 2016 to Rs. 98.15 crore as on March 31, 2017, the increase in accruals were nominal, resulting in high gearing.
- **Stretched liquidity due to large interest and debt repayment obligation-** The company's cash flows remained under pressure over the past two years on account of high interest and debt repayment obligations. Although, the cash flow from operations continued to remain positive in FY2017, free cash flows turned negative owing to term loan repayments. ICRA expects the company's liquidity profile to remain stretched in the near term due to high interest and debt repayment obligations.
- **Pressure on coverage indicators on account of increasing debt levels:** DARPL's coverage indicators remained moderate on account at high interest and repayment obligations. The Operating profit before depreciation, interest and tax/Interest expense ratio stood at 2.11 times and debt-service coverage at 1.55 times in FY2017. With increased debt in FY2017 and FY2018, the interest and repayment obligation has increased, thereby exerting pressure on company's coverage indicators.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

#### Links to applicable criteria:

[Rating Methodology for Entities in the Hotel Industry](#)  
[Corporate Credit Rating – A Note on Methodology](#)

**About the company:**

Established in 2009, DARPL commenced operations with an adventure park at Kunegaon near Lonavala (Maharashtra) and gradually ventured into hospitality and real estate sectors. The adventure park is equipped with over 100 activities. The company also operates a resort and banquet halls at the same location. Currently, the resort includes 164 luxury rooms, which the management plans to increase to 245 by the end of FY2018. Further, DARPL had constructed 21 luxury villas, all of which are sold out. DARPL also offers banquet facility, restaurants and other amenities such as spa, fitness centre, salon, shopping facilities. The company has seven banquet halls within its property which is rented out for group events such as conferences, weddings and private parties.

For the 12-month period ended March 31, 2017, APL reported a profit after tax (PAT) of Rs. 2.02 crore on an operating income (OI) of Rs. 81.04 crore, as against a PAT of Rs. 2.01 crore on an OI of Rs. 79.70 crore for the 12-month period ended March 31, 2016.

**Key financial indicators- Audited**

	<b>FY2016</b>	<b>FY2017</b>
Operating income (Rs. crore)	79.70	81.04
PAT / Concern share (Rs. crore)	2.01	2.02
OPBDIT/ OI (%)	26.97%	26.79%
RoCE (%)	14.32%	14.02%
Total Debt/ TNW (times)	3.45	4.44
Total Debt/ OPBDIT (times)	3.22	4.52
Interest coverage (times)	2.28	2.11
NWC/ OI (%)	-11%	-7%

*OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; NWC: Net Working Capital*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	August 2016	July 2015	December 2014
1	Term Loans	Long-term	37.38	[ICRA] B+ (Stable)	[ICRA]BB- (Stable)	[ICRA] BB- (Stable)	[ICRA]D

**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](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Issuance/ Sanction</b>	<b>Coupon Rate</b>	<b>Maturity</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
Term Loans	July 2016/February 2017	12.00% - 12.75%	July 2021/August 2026/March 2027	37.38	[ICRA]B+ (Stable)

Source: Company

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About ICRA Limited:

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