

Ocean Pearl Hotels Private Limited

August 30, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based	62.0	62.0	Downgraded to [ICRA]B+ (Stable) from [ICRA]BB- (Stable)
Long-term/Short-term Non-fund Based	3.0	3.0	Downgraded to [ICRA]B+ (Stable) from [ICRA]BB- (Stable); Reaffirmed [ICRA]A4
Total	65.0	65.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has revised the long-term rating to [ICRA]B+ (pronounced ICRA B plus) from its earlier rating of [ICRA]BB- (pronounced ICRA double B minus) and reaffirmed the short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 65-crore bank facilities of Ocean Pearl Hotels Private Limited (OPHPL).¹ The outlook on the long-term rating is Stable.

Rationale

ICRA's rating action takes into account the company's debt-funded acquisition of the majority stake in Sagar Ratna Restaurants Private Limited (SRRPL), which led to deterioration in the capital structure and weakening of the credit profile. OPHPL's gearing deteriorated to 2.1 times as on March 31, 2018 with almost nil interest coverage in FY2018. The company's net losses in FY2018 were wider than ICRA's estimate. OPHPL's operating performance also deteriorated due to operating losses in the business, which coupled with high interest expenses, resulted in cash losses in FY2018. Despite the high occupancy in its hotel, the company has shown weak return indicators due to high fixed overheads, with limited growth in Average Room Revenues (ARRs) and high operating leverage. ICRA has also taken into consideration the intensely competitive hotel industry in Mangalore, with presence of various luxury and upscale hotels which restricts growth in ARRs.

However, ICRA favourably takes into account the extensive experience of the promoter in the catering and hospitality segment. The company has recently taken on lease various properties (banquet and hotel) in Karnataka and Delhi, which are expected to boost the top-line growth in the near term.

The company's ability to increase its ARRs and rein in the fixed overheads to improve its operating profitability and liquidity will be the key rating sensitivities. Its ability to monetise some of the non-core assets and capital infusion by the promoters will remain crucial for timely debt servicing.

Outlook: Stable

ICRA believes that OPHPL will continue to benefit from the extensive experience of its promoters and the profile of the properties under the management of the company, which will lead to healthy top-line growth. The outlook may be revised to Positive if substantial growth in revenues and profitability, and capital infusion by the promoters strengthen the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle weakens liquidity.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of the promoter – OPHPL is spearheaded by Mr. Jayaram Banan, who has extensive experience in the industrial catering and hospitality business. Mr. Banan is the promoter of various restaurant chains such as Sagar Ratna and Swagath.

Location of the properties under management – OPHPL operates an 84-room four-star hotel in Mangalore, Karnataka. Furthermore, it operates two banquets at Chattarpur, Delhi, namely Ocean Retreat and Ocean Gardenia. The banquet business has shown robust growth in the past four years owing to the location of the property, i.e. a wedding destination in Delhi in proximity to Gurgaon and the Delhi-Jaipur National Highway. OPHPL has also taken on lease a newly commenced 45-room hotel at Udupi, Karnataka and Dr. TMA Pai International Convention Centre. Furthermore, OPHPL has entered into an agreement in FY2019 to manage a 28-room hotel at Hubballi, Karnataka.

Credit challenges

Debt-funded acquisition of SRRPL – OPHPL acquired ~77% equity stake in SRRPL in May 2017, which was entirely funded through debt. This led to deterioration in the company's capital structure. The gearing of the company increased to 2.1 times as on March 31, 2018 from 1.0 times as on March 31, 2017. The costly borrowings resulted in high interest expenses in FY2018.

Operating loss in FY2018 – OPHPL witnessed operating loss in FY2018, mainly due to high operating leverage and inflationary pressure on fixed overheads. The company requires continuous support from Group concerns in terms of unsecured loans or dividend from investee companies for servicing repayment obligation due to negative return on capital employed.

Intense competition – OPHPL faces stiff competition from other hotels and banquets in the proximities, which is likely to exert pressure on the margins.

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

Links to applicable criteria:

[Rating Methodology for Hotel Industry](#)

[Corporate Credit Rating Methodology](#)

[Approach for Financial Ratio Analysis](#)

[Framework for Liquidity Analysis in Corporate Ratings](#)

About the company

Mr. Jayaram Banan commenced operations of OPHPL in 1986 with a restaurant in Defence Colony called Sagar Ratna. In 2010, the company opened an 84-room, four-star luxury hotel in Mangalore, Karnataka. In FY2012, the company hived off its restaurant business. Furthermore, OPHPL started banqueting activities in Chattarpur, Delhi at a leased farm house in 2012 and named it Ocean Retreat. At present, OPHPL operates an 84-room hotel at Mangalore, a banquet at Delhi, two restaurants at Ashoka Hotel, Delhi and a newly commenced 45-room hotel at Udupi, Karnataka, with an adjacent banquet that has a capacity to fit 300 people. The company has also taken on lease a convention centre in Mangalore and another banquet at Chattarpur, Delhi.

OPHPL registered an operating income (OI) of Rs. 64.3 crore with net loss of Rs. 3.1 crore in FY2017 compared to an OI of Rs. 59.5 crore and profit after tax (PAT) of Rs. 1.1 crore in the previous year.

On a provisional basis in FY2018, OPHPL reported an operating income of Rs. 75.0 crore against a net loss of Rs. 19.6 crore.

Key financial indicators

	FY2016	FY2017	FY2018 Prov.
Operating Income (Rs. crore)	59.5	64.3	75.0
PAT (Rs. crore)	1.1	-3.1	-19.6
OPBDIT/OI (%)	4.9%	1.1%	-1.2%
RoCE (%)	4.5%	2.3%	0.2%
Total Debt/TNW (times)	0.6	1.0	2.1
Total Debt/OPBDIT (times)	16.6	103.1	-151.0
Interest coverage (times)	0.7	0.1	0.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
		(Rs. crore)	(Rs. crore)	Aug-18	May-17		
1 Fund based	Long term	62.0	74.0	[ICRA]B+ (Stable)	[ICRA]BB- (Stable)	-	-
2 Non fund based	Long term/ Short term	3.0	-	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	-	-

(Source: OPHPL)

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	62.0	[ICRA]B+ (Stable)
NA	Bank Guarantee	-	-	-	3.0	[ICRA]B+ (Stable)/ [ICRA]A4

Source: OPHPL

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