

A S K Brothers Ltd

December 28, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	57.00	57.00	[ICRA]BBB- (Negative); reaffirmed; rating removed from 'Issuer not co- operating' category
Fund-based – Cash Credit Facilities	6.00	6.00	
Total	63.00	63.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating action factors in the ongoing stabilisation of operations for the renovated Radisson Blu property located in Bengaluru which is owned and managed by the Atria Group. The rating action also factors in the healthy contribution of Food & Beverages (F&B) segment to the overall revenues, thereby diversifying the dependence of revenues on the 'Room Rentals' segment. ICRA also notes the gradually improving occupancy rates for the hotel post commencement of operations in December 2016. Also, the increasing traction in Average Room Rentals (ARRs) lends comfort to the rating. Lastly, the efficacy and expertise of Carlson Hotels Private Limited (CHPL) in managing hotel operations around the globe, provides the property a 5-star status and access to CHPL's global reservation system and its widespread client base.

However, the ratings are constrained due to subdued occupancy levels achieved by the hotel since December 2016. The low Average Room Rentals (ARRs) have also not been able to attract higher occupancy and hence higher revenues for the hotel. ICRA further observes the modest scale of operations and geographic concentration risks arising out of the single city presence of the business. Also, given the ballooning nature of repayments, the company remains exposed to adversities in the micro-market and adverse movements in economic cycles, which has impacted the demand in the hospitality industry. Finally, ICRA notes the surplus capacity addition forecasted in the Bengaluru hotel industry which may cap ARR and occupancy levels.

Going forward, the ability of the management to achieve higher occupancy, maintain buoyant ARR and timely service of debt obligations will remain to be key rating sensitivities.

Outlook: Negative

ICRA believes that A S K Brothers Ltd (ASKBL) will continue to benefit from the expertise and brand recognition offered by its association with CHPL. However, the outlook continues to be Negative as the hotel operations are still under stabilisation and may require further expenditure in the future to improve occupancy levels. The outlook may be revised to Stable if occupancy levels improve and ARR increase thereby positively impacting the profitability of the business.

Key rating drivers

Credit strengths

Long experience of the promoters in the hotel industry along with the previous operational track record of this hotel as 'Atria Hotel'

The management has a long experience, spanning more than twenty years, in the hotel industry. Apart from the hotel, the group also has presence in other businesses wherein they have also received capital from reputed institutions.

Healthy revenue mix curbs dependency of revenues on one particular segment

Room occupancy levels have improved post renovation, thereby increasing the contribution of the rooms segment towards overall revenues. The revenues are now evenly spread over the rooms and the F&B segment, thus reducing dependency of revenues on a particular line of business. This has significantly reduced volatility of cash flows to adverse advancements in rooms or the F&B segment.

Proximity to prominent landmarks offers premium status to property

The hotel is located on Palace Road, in close proximity to Bangalore Golf Club and Vidhana Soudha. The hotel is near (4.0-5.0 kms) to CBD of Bangalore (M.G. Road) and other prominent landmarks such as Millers Road, Queens Road and Infantry Road. The location is vicinal to commercial/ retail developments located on the main Cunningham road/ Infantry Road and (primarily) residential developments along the arterial roads emanating from the main road. Palace Road is recognised as an established residential and hospitality hub of Bangalore. Factors such as its central location and its image as a business hub have resulted in a distinct premium for this zone.

Rebranding as Radisson Blu and management agreement with Carlson group offer 5-star status to the property

Initially, the Atria group started the renovation activity on its own and in the middle of the project, an agreement was entered with Carlson group to make this property a part of the Radisson Blu family. As per the revised construction plan, the hotel has been converted into a five-star property and comprises 167 rooms and other amenities as per the CHPL standards. Association with CHPL provides ASKBL brand recognition along with access to CHPL's global reservation system and its widespread client base.

Credit challenges

Modest scale of operations and geographic concentration risks

ASKBL has presence only in Bengaluru and the hotel comprises of only 167 rooms and 6 banquets. This exposes the company to risks arising out of geographic concentration and adversities in this micro market.

Intense demand and industry cyclicity may adversely impact occupancy and ARR levels

The hotel faces significant competition in immediate vicinity in premium and business category from Taj West End, Lalit Ashok, Le Meridian and ITC Windsor Manor and also from recently opened hotels such as Ritz Carlton, Hilton, JW Marriot and Ibis. Also, new inauguration from other players would add to the existing hotel inventory and further constrain the

ARR and occupancy of the hotels in the market. The demand for hotel segment in Bangalore is dependent on the IT/ITES industry. Thus, negative performance of this industry may also directly impact the hotel demand adversely.

Presence of surplus capacity in the pipeline to further intensify the competition

Bengaluru is forecasted to achieve the highest capacity addition pan India. With more than 1200 rooms already added in YTD FY2019 the competition which ASKBL faces is projected to be fiercer in the near term.

Financial profile characterised by leveraged capital structure and weak debt coverage indicators

The company has an outstanding term loan which was availed for renovation of the hotel property. The current capital structure stands at Debt:Equity of ~1.4 times with Debt Service Coverage Ratio (DSCR) of 1.0 times. Weak cash flows from operations and non-availability of Debt Service Reserve Account (DSRA) accentuate the liquidity concerns for the company.

Liquidity Position:

The cash flows from operations are subdued as the hotel property is still under stabilisation and hence is unable to attract healthy occupancy and ARR. Also, the non-availability of DSRA coupled with ballooning nature of repayments further stresses the liquidity profile of the company. However, largely undrawn working capital lines of Rs 6 crores provide some comfort to the liquidity position.

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	The ratings are based on the standalone financial profile of the company

About the company:

A S K Brothers Ltd. (ASKBL) was incorporated in 1984 by the Atria Group. The company established a business hotel, 'The Atria Hotel', in Bangalore in 1993. The hotel is located on Palace Road, near the Vidhana Soudha, and is easily accessible from major landmarks such as MG Road, Cunningham Road and Chinnaswamy Stadium. ASKBL entered into a management agreement with Carlson Hotels (South Asia) Private Limited (CHPL) in November 2013 for renovation of the hotel. The hotel was then converted into a Radisson property and comprises of 167 rooms, six banquets, multiple restaurants and one bar.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	3.46	32.30
PAT (Rs. crore)	(14.62)	(14.63)
OPBDIT/OI (%)	(75%)	19.80%
RoCE (%)	(29%)	(15.3%)
Total Debt/TNW (times)	0.81	1.40
Total Debt/OPBDIT (times)	(16.10)	8.00
Interest coverage (times)	(1.7)	1.3

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 (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in	Date & Rating in FY2018	Date & Rating in FY2017	
				December 2018	November 2018	August 2017	October 2016	
1 Term Loan	Long Term	42.00		[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative) ISSUER NOT COOPERATING	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	
2 Term Loan	Long Term	15.00		[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative) ISSUER NOT COOPERATING	[ICRA]BBB-(Negative)	NA	
	Total	57.00	54.72					
3 Cash Credit	Revolving	6.00		[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative) ISSUER NOT COOPERATING	[ICRA]BBB-(Negative)	NA	

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	Term Loan 1	June 2015	NA	June 2025	42.00	[ICRA]BBB- (Negative)
NA	Term Loan 2	April 2017	NA	June 2025	15.00	[ICRA]BBB- (Negative)
NA	Cash Credit	NA	NA	NA	6.00	[ICRA]BBB- (Negative)

Source: ASKBL

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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