May 27, 2019

Keshav Holiday Resort Private Limited: [ICRA]B+(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	50.00	[ICRA]B+(Stable); Assigned
Total	**50.00**	

*Instrument details are attached in Annexure-1

Rationale

The assigned rating is constrained by the company's sizeable debt-funded capital expenditure towards installation of new rides and modernisation of water park. Though the ongoing debt-funded capital expenditure will increase the footfall, which in turn will support the growth in scale and profit margins, it will keep the capital structure and debt coverage indicators constrained over the near to medium term, till commensurate returns start flowing. Thus, the ability to ramp up and derive higher margins remains crucial. The ratings further factor in the intense competition in the water park segment and the geographical concentration risk. ICRA also notes the vulnerability of footfalls to exogenous factors and the discretionary spend by customers.

The assigned rating, however, favourably factors in the company's established track record and the promoters experience in the water park and hospitality industry along with its diversified revenue streams.

Outlook: Stable

ICRA believes that Keshav Holiday Resort Private Limited (KHRPL) will continue to benefit from the company's established presence and the promoters' experience in the water park, hospitality and entertainment industry. The outlook may be revised to Positive if the company witnesses substantial increase in its footfalls, which increases revenues and margins, thereby leading to higher-than-expected accruals. The outlook may be revised to Negative in case the footfalls remains lower than expected, leading to lower sales and pressure on margins, thereby resulting in inadequate cash accruals or delay in project completion. Moreover, any major capex in the near to medium term that weakens the company's liquidity position is also a credit negative. Further, any funding support provided to Group companies that weakens the company's liquidity position may lead to a negative outlook

Key rating drivers

Credit strengths

Company's established presence and promoter's extensive experience in waterpark and hospitality industry – Incorporated in 1992, the company opened India's first water park in 1993 and subsequently ventured into hotel, natural health care centre, catering and banquet hall businesses. Thus, the company and its promoters have a long track record and experience in the water park and hospitality industry.

Diversified revenue streams – The revenue mix of the company comprised of ticket revenue from water park, income from hotel business, liquor sales, food & beverages sales, natural health care centre and catering services. Hence, the dependence on single revenue source is limited.

Credit challenges

Project implementation and stabilisation risk – The company is undertaking a substantial capex of Rs. 158 crore towards modernisation of the water park and its facilities and replacement/ installation of new rides. The capex is funded through term loan of ~Rs. 79 crore from banks and NBFC and the remaining through non-interest bearing unsecured loan of Rs. 79 crore from promoters. The company already incurred capex of Rs. 122 crore as on March 31, 2019, with the balance expected to be undertaken in FY2020, after the current season (April to July 2019). The sizeable capex is expected to affect the liquidity of the company and expose it to risks associated with stabilisation and successful scale up of operations as per the expected parameters. Moreover, significant debt repayment coupled with a long gestation period is likely to keep the credit profile constrained over the near to medium term. Timely scale up of operations along with generation of adequate cash accruals would remain critical from the credit perspective.

Footfall vulnerable to discretionary spend by consumers; seasonal nature of demand and climatic risk results in fluctuations in earnings – The footfall in the water park is driven by school/college vacations, festive seasons, monsoons and discretionary consumer spending. Hence, the water park's footfalls remain seasonal in nature with Q1 being the strongest quarter. This leads to variations in sales and cash flows.

Geographical concentration risk – KHRPL's operations remains exposed to geographical concentration risk as the company's facilities are located at a single location in Mehsana, Gujarat.

Stiff competition from other water parks in Gujarat and Maharashtra – In the last decade, many water parks have come up in Gujarat, intensifying the competition for the company. Further, water parks such as Wet n Joy and Aqua Imagica have also come up in Maharashtra, which attract substantial visitors from Gujarat. Hence, the company remains exposed to significant competition, which may pressurise ability to price tickets and consequently the profitability.

Liquidity position

Fund flow from operations (FFO) has remained positive over the last five years (except in FY2016) and has improved gradually with increase in scale of operations. However, free cash flows turned negative in the last two years because of the capex undertaken during that period. Free cash flows in FY2019 and FY2020 will decline further with capex, the impeding debt obligation and interest burden. The company's overall liquidity is expected to remain under stress due to the impending debt repayment and thus generation of adequate cash accruals will remain crucial. However, for any cash flow mismatch in future, the promoter will provide support to the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Incorporated in 1992, Keshav Holiday Resorts Private Limited (KHRPL) was founded by Mr. Shankar Chaudhary. The company opened India's first water park in 1993 by name of 'Shanku's' in Mehsana, Gujarat. The water park has capacity to accommodate 5000 visitors per day and offers 39 rides. The company has undertaken a capex of ~Rs. 158 crore to install new rides and modernise the water park. Over the years, KHRPL also added a 3-star hotel named, The Retreat, which has 71 rooms, 2-restaurant along with liquor store, natural health care centre, catering services, Shanku's

Entertainment etc. KHRPL is a part of the Shanku's Group, which also has interest in hospital/medical, pharma, fertilizers, education and agricultural products businesses.

In FY2018, the company reported a net profit of Rs. 2.53 crore on an operating income (OI) of Rs. 26.33 crore as against a net profit of Rs. 1.81crore on an OI of Rs. 23.63 crore in FY2017. Further, the company achieved operating income of Rs. 24.00 crore in FY2019 (unaudited provisional financials).

Key financial indicators (audited):

	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	21.71	23.63	26.33
PAT (Rs. crore)	0.07	1.81	2.53
OPBDIT/ OI (%)	4.07%	15.48%	20.57%
RoCE (%)	4.81%	9.92%	11.13%
Total Debt/ TNW (times)	0.39	0.71	1.28
Total Debt/ OPBDIT (times)	12.27	5.73	7.64
Interest Coverage (times)	2.41	2.60	2.29

Status of non-cooperation with previous CRA:

CRISIL's rationale dated March 28, 2019. CRISIL has been requesting data, information and undertaking from the rated entity for conducting surveillance and review of the rating. However, the borrower failed to submit the required documents before the due date. Therefore, the rating is therefore being flagged as CRISIL BB-(Stable) Issuer not cooperating in line with prevailing SEBI regulations and CRISIL's policies

Any other information: None

Rating history for last three years:

	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2019 (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
Term Loan	Long Term	50.00	47.00	[ICRA]B+ (Stable)	-	-	-

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	FY2017	NA	FY2027	50.00	[ICRA]B+ (Stable)

Source: Keshav Holiday Resort Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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