

January 31, 2020

Ksheer Sagar Developers Private Limited: Rating Re-affirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Term loan	45.00	45.00	[ICRA]BBB(CE) (Stable); Reaffirmed
Total	45.0	45.0	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

ICRA has re-affirmed its long-term rating of [ICRA]BBB(CE) (pronounced ICRA triple B credit enhancement) to the Rs. 45.0-crore term loan facilities of Ksheer Sagar Developers Private Limited (Ksheer/ the company), based on the revised methodology of 'Approach for rating debt instruments backed by third-party explicit support'

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by Royal Orchid Hotels Limited(ROHL) in favour of the said instrument. The guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instrument, taking cognisance of the above, ICRA has assigned a rating of [ICRA]BBB (CE) to the said instrument against the unsupported rating of [ICRA]BB+. If the rating of the guarantor, ROHL, were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well. The rating of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- If any time default shall be made by the Borrower in fulfilling its obligation under the Facility, Guarantor on demand shall pay to the Lender amount due under the Facility. Due amount includes principal sum, interest, upfront fees, service charges and/or any other monies due under the Facility.
- Guarantee shall not be affected by any variations, alterations, waiver of any terms of the loan or security, sale/ transfer/ enforcement of security, raising of further loan by the Borrower from any Lender etc
- The Guarantor guarantees the Lenders of the due payments by the Borrower of its all payment obligations under the Loan Agreement including all amounts due together with principal sum, interest, upfront fee/service charges and/or other moneys and all costs charges and expenses, which the Lender may incur by reason of default on part of the Borrower.
- Lender may act as though the Guarantor is principal debtor to the Lender.

e) The Guarantee is continuing and legally binding and enforceable.

Key rating drivers

Credit strengths

- **Corporate guarantee and undertaking provided by ROHL towards the rated bank facilities of the company:** The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by ROHL and undertaking provided by the guarantor that it would ensure that the related debt obligations are serviced on or prior to the due date.

Credit challenges

- **Cyclical industry, vulnerable to general economic slowdown and exogenous factors:** The company is exposed to inherent cyclicity of the hotel industry and exogenous factors such as geo-political crisis, terrorist attacks, disease outbreak, etc
- **Net losses due to high fixed costs:** Due to high fixed costs and interest expenses, ksheer has been reporting net losses in recent years; the net losses are expected to continue over the medium term.

Liquidity Position of the guarantor: Adequate

Liquidity of the guarantor, ROHL, is adequate with net cash accruals expected to range around Rs. 28 crores-Rs.35 crores as against the repayments of Rs. 10.5 crores in FY20 and Rs.11.2 crore in FY21. The company will continue to pay out dividends over the medium term and the same will remain in the range of range of 15%-20% of the net profit. With no major debt funded capex plans the liquidity is expected to remain adequate over the medium term

Rating Sensitivity

Positive Triggers

- The rating would remain sensitive to any movement in the rating or outlook of the guarantor, ROHL

Negative Triggers

- The rating would remain sensitive to any movement in the rating or outlook of the guarantor, ROHL. Further negative pressure on the rating could arise in case of any significant deterioration in the operations of the company

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for hotel industry Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Royal Orchid Hotel Limited (rated [ICRA]BBB (Stable)) The assigned rating is based on an unconditional, irrevocable corporate guarantee extended by Royal Orchid Hotel Limited
Consolidation / Standalone	ICRA has evaluated the standalone operational and financial profile of Ksheer. The rating is based on the strength of the corporate guarantee provided by ROHL for the borrowings of Ksheer.

About the company

Ksheer Sagar Developers Private Limited (Ksheer Sagar), operates a 139 room, 5-star hotel under Hotel Royal Orchid, Jaipur, established in April 2011. The hotel is a 50:50 JV between Royal Orchid Hotels Limited (ROHL) and Tambi family based out of Jaipur.

About the guarantor

The Royal Orchid Group of Hotels has a portfolio of 55 operating hotels with a collective inventory of 3,783 rooms located in various cities (~29 cities) spread across the country, as of September 2019. Of this portfolio, 195 rooms (5.9%) are owned (building is owned, land is on lease); 433 rooms (11%) are leased (warm shell in most cases) by ROHL; 2,758 rooms (73%) operated as managed hotels; and 396 rooms (11%) are under joint venture. Standalone accounted for 56.3% of the revenues and 39.5% of the debt in Q2FY2020. The company has two key subsidiaries namely Icon Hospitality Private Limited and Ksheer Sagar Developers Private Limited which house the 134- and 129-room hotels in Bangalore And Jaipur. respectively. ROHL has extended corporate guarantees for the debt in its subsidiaries.

Ksheer Sagar's key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	23.7	22.2
PAT (Rs. crore)	-2.1	-1.8
OPBDIT/OI (%)	36.3%	34.3%
RoCE (%)	6.3%	5.7%
Total Debt/TNW (times)	7.4	9.5
Total Debt/OPBDIT (times)	7.0	7.5
Interest coverage (times)	1.4	1.3

Source: company

Guarantor ROHL's key financial indicators (Audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	196.2	213.0
PAT (Rs. crore)	2.4	13.1
OPBDIT/OI (%)	19.0%	20.9%
RoCE (%)	8.1%	11.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDITA (times)	3.2	2.6
Interest Coverage (times)	2.4	3.2
DSCR	1.5	2.0

Source: company

Status of non-cooperation with previous CRA: CARE Ratings in its rationale published on September 13, 2019 stated the following: -

“CARE has been seeking information from Ksheer Sagar Developers Private Limited to monitor the ratings vide email communications/letters dated May 31, 2019, July 15, 2019 etc however despite of the repeated attempts the company did not provide the requisite information. CARE has revised the rating on the best available information, which however in CARE's opinion is not sufficient to arrive at the fair rating. The rating of Ksheer Sagar Developers Private Limited on the bank facilities is now denoted as CARE BBB(CE) 'Issuer Not Co-operating'”

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1	Term Loan	45.0	41.2	January 31, 2020	April 5, 2019	-	-	-	
				[ICRA]BBB (CE) (Stable)	[ICRA]BBB (SO) (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	March 2016	13.25%	2025	45.00	[ICRA]BBB(CE) (Stable)

Source: Company

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Pavethra Ponniah

+91 44 4596 4314
pavethrap@icraindia.com

Pooja Bavishi

+91 80 4880405
pooja.bavishi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents