

## Peninsula Projects (Bangalore) Private Limited

January 09, 2019

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based	20.00	20.00	[ICRA]B (Stable); reaffirmed
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	

\*Instrument details provided in Annexure 1

### Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 20.00-crore<sup>1</sup> bank facilities of Peninsula Projects (Bangalore) Private Limited (PPPL)<sup>2</sup> at [ICRA]B (pronounced ICRA B). The outlook on the long-term rating is 'stable'.

### Rationale

The rating reaffirmation continues to be constrained by the modest scale of operations of the company, its improving yet subdued Average Room Rate (ARR), and weak financial profile characterised by continuing net losses leading to erosion in net worth levels and weak coverage indicators. The rating also factors in the company's susceptibility to the inherent cyclicity in the hotel industry and the intense competition in the micro market given the presence of various other established hotels.

The rating, however, continues to derive comfort from the hotel's favourable location at Whitefield in Bangalore which is the city's IT hub, and its brand recognition resulting from its tie-up with Royal Orchid Hotel Group (ROHG). ICRA takes note of various measures undertaken by the company to reduce costs and improve occupancy levels resulting in improved operating profitability in FY2018. The rating also draws comfort from the continuing financial support from the company's promoters and group entities enabling it to meet its debt-servicing obligations given its inadequate cash flows.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that the company will continue to maintain its income levels given its favourable location and brand association with Royal Orchid group. The outlook may be revised to Positive if there is a substantial growth in profitability of the company, leading to improvement in its net worth and coverage indicators. The outlook may be revised to Negative if the company reports higher losses resulting in further deterioration of its financial profile.

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

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Favorable location of the property** – The hotel is situated in Whitefield close to International Tech Park Bangalore (ITPB) that houses companies in the fields of IT and ITES, telecommunications, electronics, etc., employing thousands of professionals. Also, proximity to shopping centers and entertainment hubs serves as an added advantage.

**Management tie-up with Royal Orchid Hotel Group** – The company has entered into a management tie-up arrangement with Royal Orchid Hotel group that provides it a reasonably strong brand name. The Royal Orchid Hotel Group (ROHG) has an established presence in the hospitality business through 47 business and leisure hotels in 29 popular destinations. It has a collective inventory of ~3300 rooms.

### Credit challenges

**Modest scale of operations and weak financial profile** – The scale of operations of the company is modest given its dependence on a single property with limited scope for increase in revenues. Given the high fixed overheads and interest expenses, the company continued to incur net losses in FY2018, notwithstanding the improvement in operating profitability owing to cost-cutting measures undertaken by the management. Subsequently, the financial profile of the company remained under stress with negative net worth and weak coverage indicators.

**Intense competition in the market and vulnerability to cyclical**– The hotel faces intense competition from various competitors in Whitefield. The micro market has many established players such as Lemon Tree, Keys Hotel, Ginger, Radha Hometel etc. that compete with Royal Orchid imparting pressure on Average Room Rates (ARR) and occupancy levels of the property. Being a highly cyclical segment, hotels witness significant variations in revenue and profitability through an economic cycle and are exposed to discretionary spends.

### Liquidity Position:

The liquidity position remains stretched with the company incurring net losses over the years and having high interest and principle repayment obligations, notwithstanding the support from the group entities/promoters for timely debt servicing. Also, with the reduction in dropline overdraft facility going forward, there could be further funding support required until the company is able to meet the financial obligations through internal cash generation.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Entities in the Hotel Industry</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	The analysis has been done on a standalone basis

### About the company:

Peninsula Projects (Bangalore) Private Limited operates a hotel property named Royal Orchid Suites in Bangalore since 2009. The company is a part of Bangalore-based Vaswani Group, which is primarily into real estate space. The property has a management tie-up with Royal Orchid Hotel Group (ROHG) and is situated in Whitefield that hosts various IT and other companies. The hotel consists of 88 rooms, including 42 executive apartments, 42 studio apartments and four penthouse suites, apart from a banquet hall, lounge bar, restaurant, spa and swimming pool.

## Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	7.7	8.7
PAT (Rs. crore)	-1.8	-1.7
OPBDIT/ OI (%)	13.1%	25.3%
RoCE (%)	-0.9%	4.9%
Total Debt/ TNW (times)	-6.3	-4.7
Total Debt/ OPBDIT (times)	28.9	13.6
Interest coverage (times)	0.5	1.0

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

**Any other information: None**

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

	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs. Crore)	Date & Rating January 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Asset Backed Loan	Long Term	20.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	[ICRA]BB- (Stable); suspended	[ICRA]BB- (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](http://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	Dropline Overdraft	June 2016	-	July 2026	20.00	[ICRA]B (Stable)

Source: Peninsula Projects (Bangalore) Private Limited

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