January 24, 2020

JKR Enterprise Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
LT Fund-based Term Loan	65.00	50.00	[ICRA]BB (Stable); reaffirmed
Total	**65.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation in ratings favourably factors in the continuous financial support extended by the promoters of JKR Enterprise Limited (JKR) in the form of equity and unsecured loans to help meet the cash losses and debt servicing requirement. It also derives comfort from the 25-year management contract entered with Hyatt India Consultancy Private Limited for branding and management of the hotel under the Hyatt Place brand. Being the only branded property in Rameswaram, Tamil Nadu allows Hyatt Place to command a pricing premium compared to other hotels in the location. The rating also positively factors in the debt repayment structure with its ballooning and back-ended repayment as the project stabilises and in the presence of debt service retention account (DSRA) of Rs. 5.0 crore.

The rating is, however, constrained by the small scale of operations with a single 101-room property in Rameswaram. Increasing number of small and mid-scale hotels and disparity between the rates at Hyatt Place and these hotels adversely impacts Hyatt Place's pricing power and occupancy. JKR reported a modest operating income (OI) of Rs. 8.5 crore in FY2019 and Rs. 7.5 crore in 9M FY2020 owing to low ARR (Rs. 4,786 in FY2019 and Rs. 4,355 in 9M FY2020) and subdued occupancy (33% in FY2019 and 41% in 9M FY2020), resulting in improving yet low RevPARs (Rs. 1,620 in FY2019 and Rs. 1,874 in FY2020). Modest OI and sizable fixed overheads resulted in operating losses of Rs. 1.1. crore in FY2019 and Rs. 0.2 crore in 9M FY2020. Significant interest and repayment obligations due to high debt-funded capex will require periodic funding support by the promoter to meet the obligations in a timely manner. While Rameswaram is currently positioned largely as a tourist destination, the Government's push towards attracting adventure tourism by developing water sports in the location is gradually expected to aid in increasing footfalls. The management has been undertaking efforts by way of inclusion of liquor, non-vegetarian food, addition of spa. It further plans to add a convention centre adjacent to the hotel to increase occupancy.

The rating is further constrained by the high project cost and the lack of promoter experience in the hospitality business, though the hotel is expected to benefit from the operational support and expertise of Hyatt. The rating also factors in the cyclical nature of the hospitality industry, vulnerability to general economic slowdown and other exogenous factors.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that JKR will continue to receive need-based promoter funding to finance its cash losses, debt repayment obligations and operations.

Key rating drivers and their description

Credit strengths

Periodic fund infusion by promoter support operations and timely payment – JKR reported a modest OI of Rs. 8.5 crore in FY2019 and Rs.7.5 crore in 9M FY2020. Presence in a religious location with limited footfalls has kept the occupancy and ARRs subdued for the hotel. High fixed costs and low OI resulted in JKR reporting operating loss of Rs. 1.1 crore in FY2019 and Rs. 0.2 crore in 9M FY2020. Net loss was wider at Rs. 10.5 crore in FY2019 due to high interest and depreciation. The promoter has been supporting the entity through equity infusion and interest-free unsecured loans amounting to Rs. 12.8 crore in FY2019 and Rs. 7.0 crore in 9M FY2020. The funding support from the promoter aided in meeting the operational expenses, interest payments and timely repayment of debt obligations. Further, it helped in prepayment of a portion of loan (Rs. 8.4 crore) in FY2019, bringing down the dependence on external debt to some extent.

Management contract with Hyatt lends credibility and pricing power – The company has entered into a 25-year management contract with Hyatt India Consultancy Private Limited for branding and management of the hotel under the Hyatt Place brand. This lends credibility and garners visibility among foreign and domestic tourists. This also makes the property the first international branded hotel in Rameswaram.

Presence of DSRA (Rs. 5.0 crore) and ballooning repayment structure provide some comfort – The company had taken a loan of Rs. 65.00 crore to fund the hotel project cost of Rs. 95.00 crore. The repayment structure provides for ballooning repayments later in the life of the project. The presence of Rs. 5.0 crore as DSRA along with the repayment structure provides some comfort.

Growth in adventure tourism in Rameswaram – Rameswaram is a major pilgrim centre that boasts of its rich temple corridor and scenic beauty. Rich cultural heritage and fast-paced growth in spiritual tourism have been the key drivers for increasing popularity of Rameswaram among tourists. The Tamil Nadu Government is trying to develop water sports and other adventure tourism in the town to cater to diverse set of tourists by enhancing the overall travel experience. Rameswaram is ~187 km from Madurai, which is well connected with the rest of India, owing to the presence of an international airport.

Credit challenges

Small scale of operations with single property and inventory of 101 rooms – With a single 101-room property in Rameswaram, JKR has modest scale of operations and remains exposed to geographical-concentration risk. With Rameswaram being largely regarded as a religious destination, the overall footfalls and average length of stay (ALOS) remains low compared to the leisure destinations. While the limited demand drivers in the micro market pose challenges to scaling up of occupancies, Hyatt Place Rameswaram is the only branded property in the destination. The hotel is also working on various measure to increase visibility, such as marketing exercises inclusion of liquor, non-vegetarian food, spa addition, and planned development of a convention centre.

Hyatt Place Rameswaram is the first hotel venture for the promoter. However, the management contract with Hyatt is expected to provide the necessary operational expertise.

Cyclical industry; vulnerability to general economic slowdown and exogenous factors – Akin to other industry players, Hyatt Place Rameswaram is exposed to the cyclicality inherent in the hotel industry. Its revenues are also vulnerable to general economic slowdown and other exogenous factors (like geopolitical crises, terrorist attacks, disease outbreak, etc.).

Accumulated losses expected to continue till break-even requiring regular fund infusion – Due to its modest operating income and high fixed overheads, the company reported accumulated losses to the tune of Rs. 22.0 crore as on March 31, 2019. The promoters have infused unsecured loans of Rs. 12.8 crore in FY2019 and Rs. 7.0 crore in YTD FY2020, which supported in prepayment of a portion of term loan in FY2019. Further, equity capital of Rs. 5.0 crore was brought in FY2019. The trend is expected to continue till the operations stabilise and the cash accruals are generated to fund operating expenses and interest commitments. ICRA expects the promoters to continue providing need-based funding support to the hotel to meet its operating expenses and other debt obligations in a timely manner.

Liquidity position: Stretched

JKR's liquidity is **stretched** with negative cash flow from operations of Rs. 6.9 crore in FY2019, and modest free cash balance of Rs. 0.2 crore. With the partial prepayment of loan in FY2019, JKR does not have any repayment commitments in FY2020 and has about Rs. 3.0 crore repayment scheduled in FY2021. However, given the ongoing stabilisation of operations, the funding support from promoter will be necessary to meet the repayments in a timely manner.

Overall, ICRA expects JKR to be able to meet its debt commitments and capex requirements of ~Rs. 0.5 crore per annum supported by need-based fund infusion by promoters as the operations are yet to generate positive accruals.

Rating sensitivities

Positive triggers: Substantial growth in revenue per available room (RevPARs) leading to faster stabilisation in operations and operating profits. Steady debt reduction supported by fund infusion by promoters and strengthening of credit metrics with DSCR more than 1.2 time and OPBDITA/Interest more than 2.5 times on a sustained basis.

Negative triggers: Lack of adequate and timely promoter support, any major capital expenditure or reduction in RevPARs resulting in further weakening of financial risk profile.

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	Rating is based on standalone financial statements of the rated entity.

About the company

JKR Enterprises Limited (JKR) was established by Ms. Sharadha Deepa in 2009 to set up a three-star hotel in Rameswaram. Ms. Deepa is the daughter of Mr. P.R. Ramasubramaneya Rajha, the late promoter and chairman of the Ramco Group of Companies. She holds stake in a few Ramco Group companies, namely The Ramco Cements Limited, Ramco Industries Limited and Ramco Systems Limited. The construction of the hotel started in July 2013 and the operations commenced in April 2017. The property has 101 rooms, one multi-cuisine restaurant and a banquet hall. The company has entered into a management contract with Hyatt India Consultancy Private Limited and the hotel was launched under the brand name of Hyatt Place.

The company reported a net loss of Rs. 10.5 crore on an OI of Rs. 8.5 crore during FY2019 compared to a net loss of Rs. 11.2 crore on an OI of Rs. 6.1 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	6.1	8.5
PAT (Rs. crore)	-11.2	-10.5
OPBDIT/OI (%)	-36.7%	-13.0%
RoCE (%)	-14.3%	-6.6%
Total Outside Liabilities/Tangible Net Worth (times)	-61.3	-14.9
Total Debt/OPBDIT (times)	-47.2	-96.6
Interest Coverage (times)	-0.3	-0.2
DSCR	-0.3	-0.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2017	FY2016
					24-Jan-2020	4-Jul-2018	16-Jan-2017	15-Feb-2016
1	Term Loan	Long Term	50.00	50.95	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2018	NA	FY2026	50.00	[ICRA]BB(Stable)

Source: JKR Enterprise Limited

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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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