

Press Release

Nandhana Hotels Private Limited

July 03, 2020

Rating

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facilities	16.84	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Assigned
short term Bank Facilities	2.50	IVR A4+ (IVR A Four Plus)	Assigned
Total	19.34 (Nineteen crore and thirty-four lacs only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Nandhana Hotels Private Limited (NFPL) derives comfort from long track record of Nandhana group in the hospitality sector, strong brand presence supported by high demand in the region and regular infusion of equity from promoters. These rating strengths are partially offset by small scale of operations, intense competition with high geographical concentration, fiercely competitive hotel industry limiting the ability to attract and retain customers and moderately leveraged capital structure.

Key Rating Sensitivities

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

Downward factors

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.

Press Release

- Variation of more than 5% in key financial figures of audited financial statements from reported figures of provisional financial statements might trigger the negative rating action

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record of Nandhana group in the hospitality sector

Nandhana group (NG) is promoted by Dr. R Ravichandar having experience of over three decades in the hospitality sector. Nandhana group has presence in the hospitality sector since 1997 and Nandhana Palace is a renowned brand serving Andhra specialties and multi cuisine foods through the restaurant chain business across the Bangalore city with 16 outlets. Nandhana group has expanded into business of hotel industry through incorporation of Nandhana Hotels Private Limited in 2004. Currently company runs its 6 hotels under NHPL meeting the demand of high-end hotels in the city.

Strong brand presence supported by high demand in the region

Nandhana group has strong brand presence in Bangalore city accounted to its speciality in serving the Andhra cuisine through 16 outlets across the city. NG has a well-established relationship with corporate clients serving them with premium hotel facilities. NG also derives revenue through catering services for corporate events. NG has the Hotels at the premium location of the city such as Koramangala, Marathahalli, Sahakar Nagar and other prime locations nearby to areas having corporate presence.

Regular infusion of equity from promoters

Promoters have infused funds of around Rs. 6.52 crore into NFPL and NHPL through equity infusion and share premium account over last three fiscals. Regular infusion of equity from promoters imparts comfort towards personnel capacity of the borrowers and also indicates the intent to support the business as and when required.

Key Weaknesses

Small scale of operations

Press Release

Nandhana group (NG) has a small scale of operation with a PAT of Rs. 2.77 crore on a total operating income of Rs. 106.11 crore. Small scale of operations restricts the financial flexibility of the group. Further, the NG has achieved a moderate growth of ~9.64% in FY20 as compared to FY19. Moreover, the profit margins of the company reported satisfactory at 2.55% in FY20 improved from 0.71% in FY19.

Intense competition with high geographical concentration

Nandhana group Operations are concentrated in Bangalore city hence highly exposed to local cultural dynamics as well as political/ economic conditions. Furthermore, restaurant industry has intense competition due to presence of many small players in the sector, hence the company is also exposed to intense competition from other market players. However, NG's established presence over two decades imparts some comfort.

Fiercely competitive hotel industry limiting the ability to attract and retain customers

The hotel industry is very competitive with a large number of established organized players and their growing network of hotels catering to middle/high income group which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Further, improvement of the occupancy levels is highly dependent on the hotel's ability to retain and add reputed customers which will be a challenge in light of heightened competition in the hotel sector.

Moderately leveraged capital structure

The debt profile of the group is largely comprised of short-term debts (Overdraft) and long-term loans, due to its capital-intensive nature of operation. Owing to its term loan borrowings, the overall gearing ratio of the company remained moderate as on the past three account closing dates. Further, the overall gearing ratio stood at 2.08x as on March 31, 2020. Further, total indebtedness of the company has also stood moderate at TOL/ANW at 2.29x as on March 31, 2020 (2.73x as on March 31, 2019).

Analytical Approach: For arriving at the ratings, INFOMERICS analytical team has combined the financials for FY18-FY20 and projections for FY21-FY23 of Nandhana Foods Private Limited

Press Release

and Nandhana Hotels Private Limited, commonly referred as Nandhana group as these companies have a common management team and operational & financial linkages.

Applicable Criteria:

Rating Methodology for Hospitality Sector

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the Nandhana Group stands adequate marked by adequacy of expected gross cash accruals to serve the debt obligations. Further, NG current ratio reported at the level of 1.43x also imparts comforts towards meeting the near-term obligations. However, NG has working capital intensive nature of business leading to heavy utilization of working capital limits. NG reported working capital utilization reported at 88% for past 12 months ended at May-2020, indicating limited buffer to support additional working capital requirement. On Standalone basis NHPL has generated sufficient cash accrual of around Rs. 1.94 Cr as against debt repayment of Rs. 0.25 crore in FY20 imparting comfort for serving debt obligations on standalone basis.

About the Company

Nandhana Hotels Private Limited (NHPL) is incorporated in year 2004 by Mr. R. Ravichnadar. NHPL is engaged into business and management of 6 hotels in Bangalore city. NHPL is part of a Nandhana group, having well established business in the hospitality sector since 1997 through incorporation of Nandhana Foods Private Limited engaged into business and management of 16 food outlets across Bangalore city.

Financials (Consolidated):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	68.93	96.78
EBITDA	10.66	13.46
PAT	1.52	0.71
Total Debt	51.87	61.76

Press Release

For the year ended*	31-03-2018	31-03-2019
Tangible Net worth	20.63	25.69
EBITDA Margin (%)	15.46	13.91
PAT Margin (%)	2.12	0.71
Overall Gearing Ratio (x)	2.51	2.40

*Classification as per Infomerics' standards

S

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	11.53	13.41
EBITDA	2.61	2.71
PAT	0.03	0.18
Total Debt	4.73	10.81
Tangible Net worth	2.23	3.51
EBITDA Margin (%)	22.64	20.21
PAT Margin (%)	0.22	1.32
Overall Gearing Ratio (x)	2.12	3.08

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Overdraft	Long Term	11.00*	IVR BB+/ Stable	-	-	-
2.	Term loan	Long Term	5.84	IVR BB+/ Stable	-	-	-
3.	LC/BG	Short Term	2.50**	IVR A4+	-	-	-

*includes proposed facility of Rs. 5.00 crore



Press Release

*** includes proposed facility of Rs. 1.50 crore*

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Malik
Tel: (011) 24655636
Email: rmalik@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Press Release

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities-Overdraft	-	-	-	11.00*	IVR BB+/ Stable
Long Term Bank Facilities-Term loan	-	-	February, 2029	5.84	IVR BB+/ Stable
Short Term Bank Facilities-LC/BG	-	-	-	2.50**	IVR A4+

**includes proposed facility of Rs. 5.00 crore*

*** includes proposed facility of Rs. 1.50 crore*