

**Press Release**

**SAK Buildtech Private Limited**

**January 02, 2020**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating Assigned</b>	<b>Rating Action</b>
1	Term Loan	32.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed
	<b>Total</b>	<b>32.00</b>		

**Details of Facilities are in Annexure I**

**Detailed Rationale**

The rating affirmation continues to derive strength from good business potential for the hotel, Increasing Scale of operations, ability to operate profitably in future and Operation and management agreement with a leading hotel chain. The rating however is constrained by intense competitive industry & tight liquidity.

**Key Rating Sensitivities**

**Upward revision factors:**

Increase in operating income along with improvement in EBITDA Margin

**Downward revision factors:**

Any decline in scale of operation & profitability

**List of key rating drivers with detailed description**

**Key Rating Strengths**

***Good business potential for the hotel:***

The hotel has been constructed in Oragadam in Chennai, which is an industrial corridor contributed by 2 Industrial cluster – Automobiles and Electronics. Globally renowned automobile companies such as Renault Nissan, Royal Enfield Motors along with many auto-ancillary units are located in Oragadam. Also, the suburb is well connected by road and Chennai suburban railway. Given these factors, there is good business

potential as regards the location of hotel. The company has executed agreements with corporates such as Daimler, Bosch, Saint Gobain, Apollo Tyres, Royal Enfield and Yamaha – wherein they will use hotel facilities for accommodating their respective travellers and guests.

The production units of different electronics companies like Sanmina, Nokia, etc. Apart from these two industrial cluster, work of the other 3 clusters like Renewable Energy, Aerospace and Food processing industry are in progress.

### ***Increasing Scale of operations and ability to operate profitably in future***

The hotel has commenced operations on March 1, 2018. During FY18, the company has earned modest revenues of Rs. 0.58 crores and operating losses of Rs. 0.19 crores. But, it has increased its scale of operations steadily in FY19 with operating income of Rs. 13.36 crores and operating profit of Rs. 2.16 crores.

### ***Operation and management agreement with a leading hotel chain***

SAK Buildtech has entered into an agreement with Accor group, which is one of the leading hotel chains in the world. The Accor group is currently active in 109 countries with about 4,586 hotels worldwide. The hotel constructed by SAK will be operated under Accor's 'Mercure' brand, which is one of the world's prominent mid-scale hotel brand (871 hotels operating under the brand). The hotel can leverage the brand name and good management practices of the Accor group, to increase traction and thereby achieve profitably a desired scale of operations.

## **Key Rating Weaknesses**

### ***Intense competition:***

The hotel is located in the vicinity of other existing hotels such as Fortune, Citrus, Fairfield (budget brand of Marriot) and Holiday Inn Express (having similar brands associated with them and catering to the same clientele class). This could impair the ability of the hotel to generate requisite traction, thereby impacting its profitability and debt servicing ability.

## Analytical Approach & Applicable Criteria

Standalone

Rating methodology for hospitality sector companies

Financial ratios and Interpretation (Non-Financial Sector)

## Liquidity

The company's liquidity position is stretched as the cash accruals will be lower than payment obligation. However, the company had an FD investment to the tune of Rs.1.66 crores as on March 31, 2019 pertaining against duty saved. The same can be liquidated in the next 1-2 years as the company is earning in foreign currency also. Further shortfall, if any will be funded by infusion of unsecured loans.

## About the Company

SAK Buildtech Pvt. Ltd. (SAK) was incorporated in October, 2007, as a special purpose vehicle set up exclusively for undertaking a hotel project in Oragadam, Chennai. The company was promoted by Mr. R. C. Govil and Mr. Neeraj Govil, who also promoted Frank Brothers & Co. – a leading publishing house in India and Shree Maitrey Printech – a printing company. This project is the first hotel project of the promoters. SAK was allotted 4.70 acre land at the industrial hub of Oragadam, Chennai by SIPCOT (State Industries Promotion Corporation of Tamil Nadu Ltd.). The land was allotted on a 99 year lease for the construction and operation of a Hotel and Convention centre. The project has been completed and achieved COD on March 1, 2018. The hotel is a 100-room midscale business hotel with an all-day dining / multi-cuisine restaurant, bar, bakery, meeting room, conference room, fitness center, lounge and swimming pool.

## **Financials (Standalone) (Rs. crores)**

<b>For the year ended* / As On</b>	<b>31-03-2018 (Audited)</b>	<b>31-03-2019 (Audited)</b>
Total Operating Income	0.58	13.36
EBITDA	-0.19	2.16
PAT	-0.69	-6.43
Total Debt	32.00	32.00
Tangible Networth	31.31	26.76
EBITDA Margin (%)	-ve	16.19
PAT Margin (%)	-ve	-ve
Overall Gearing Ratio (x)	1.02	1.20

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: NA**

**Rating History for last three years:**

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long Term	32.00	IVR BB+ /Stable Outlook	IVR BB+(November 27, 2018)	IVR BB(August 28, 2017)	--

**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](http://www.infomerics.com).

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**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. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Term Loan	--	--	July 15, 2030	32.00	IVR BB+ /Stable Outlook