SAK Buildtech Private Limited

March 09, 2021

Rating

Facilities	Amount (INR Crore)	Current Ratings	Previous Ratings	Rating Action
Term Loan	31.44* (Thirty one crores forty four lakhs)	IVR BB+/Negative Outlook (IVR Double B Plus with Negative Outlook)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Reaffirmed with revision in outlook from Stable to Negative

*O/s as on March 31, 2020.

Details of facilities are in Annexure 1

Rating Rationale

The revision in the Outlook from Stable to Negative is on account of subdued 9MFY2021 financial performance which were impacted due to COVID-19 induced lockdown and travel restrictions across the country thus impacting the hospitality industry.

The ratings of SAK Buildtech have been reaffirmed driven by the locational advantage and good business potential of the hotel, operation and management agreement with a leading hotel chain, and comfortable capital structure. The ratings are however constrained by weak 9MFY2021 financial performance, moderate financial risk profile and intense competition.

Key Rating Sensitivities:

Upward Rating Factor:

- Growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals.

Downward Rating Factor:

- Any further decline in scale of operation & profitability and any delays in timely repayment of the term loan facility.

Detailed Description of Key Rating Drivers

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 corporate 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.

- **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 is being 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 certain scale of operations.

- **Comfortable capital structure marked by presence of only unsecured loans**

  Capital structure of the company comprised of paid up capital and unsecured loans infused by promoters and relatives. Infomerics has considered the amount of unsecured loans as neither debt nor equity. Capital structure stood comfortable as on March 31, 2020 marked by comfortable gearing ratio at 1.46x and TOL/ ANW at 1.68x in FY2020

Key Rating Weaknesses

- **Subdued 9MFY2021 financial performance impacted by COVID-19 pandemic**

For the 9MFY2021 the financial performance has been adversely impacted on account of COVID-19 lockdown and travel restrictions. As a result the total operating income has declined to Rs. 4.54 crores as against Rs. 17.75 crores in FY2020. However, the hotel operations have started since October 2020 and the company has reported high occupancy levels in Jan.2021 and Feb.2021 with the easing of the COVID-19 travel restrictions and rebound in the economic & industrial activities.

- **Moderate Financial risk profile:**

The Company's financial risk profile is moderate marked by net losses of INR 4.05 crores and modest Tangible Networth of INR 6.84 crores in FY2020. The Interest coverage ratio stood moderate at 1.07x whereas the Total Outside Liabilities to Adjusted Tangible Networth stood at 1.68x in FY2020.

- **Intense competition:**

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. The hotel is located in the vicinity of other existing hotels such as Fortune, Citrus, Mariott and Holiday Inn (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 Service Sector
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The company's liquidity appears to be stretched with Gross Cash Accruals (GCA) at Rs. 0.54 crores in FY2020 owing to net losses. The current ratio stood at 1.07x in FY2020. To cope up with any liquidity issues, the promoters have maintained sufficient levels of unsecured loans amounting to INR14.62 Crore as on March 31st, 2020.

Details of free cash and cash equivalents (FY20)

Particulars	Amt. (INR crore)
Free FDRs (not pledged/lien marked)	-
Mutual Funds	-
Cash & Bank Balance	2.82
Total	**2.82**

About the company

SAK Buildtech Pvt. Ltd. (SAK) is a special purpose vehicle incorporated exclusively for undertaking a hospitality construction project in Oragadam, Chennai. The company was incorporated on October 11, 2007. 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 (sold by the Govil family in 2012) and Shree Maitrey Printech – a printing company. This project is the first hotel project of the promoters. The promoters also own real estate assets – valued at around Rs. 10-12 crores, as a part of their individual investment portfolio.

Financials (Standalone)

INR in Crore

For the year ended / As on	31-Mar-19 (A)	31-Mar-20 (A)
Total Operating Income	13.07	17.48
EBITDA	1.87	4.39
PAT	-6.43	-4.05
Total Debt	32.00	31.44
Tangible Net Worth	26.76	21.46
EBIDTA Margin (%)	14.30	25.10
PAT Margin (%)	-48.11	-22.82

Overall Gearing ratio (x)	1.20	1.46

* *Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2019-20	Rating assigned in 2018-19	Rating assigned in 2017-18
Term Loan	Long Term	31.44*	IVR BB+/ Negative outlook	IVR BB+/ stable outlook (January 02, 2020)	IVR BB+/ stable outlook (November 27, 2018)	IVR BB/ Stable (August 28, 2017)
	Total	**31.44***				

*O/s as on March 31, 2020.

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.

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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.

Press Release

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Annexure 1: Details of Facilities

Sr.No.	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Long Term Facilities – Term Loans	--	LTMCLR +.1% i.e 13% p.a	July 15, 2030	31.44*	IVR BB+/Negative outlook
Total					**31.44***	

*O/s as on March 31, 2020.