



## Press Release

**Hotel Tara Palace**

**December 29, 2022**

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	55.26	IVR BB/ Stable (IVR Double B with Stable Outlook)	Assigned	Simple
<b>Total</b>	<b>55.26</b> <b>(Rupees Fifty Five</b> <b>crore and Twenty</b> <b>Six lakh only)</b>			

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The ratings assigned to the bank facilities of Hotel Tara Palace (HTP) derives strength from its experienced promoters and favourable location of the resort. The rating strengths are, however, offset by nascent stage of operations of the firm, its leveraged capital structure, exposure to risks associated with single property, geographical concentration and high dependence on tourists, cyclical nature of industry and constitution of the entity as a partnership firm.

### Key Rating Sensitivities:

#### Upward Factors

- Achievement of the projection leading to optimum cash flow.
- Achievement of average room occupancy at more than 60% on a sustained basis for hotel with healthy increase in revenue per available room (RevPAR).
- Improvement of the TOL/TNW ratio below 4x on a sustained basis.

#### Downward Factors

- Non achievement of the project cash flows.
- Inability to achieve average room occupancy of 40% for resort.
- Any major debt funded project or significant withdrawal in partners' capital resulting in overall gearing of 2 times or more.



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### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### Experienced promoters

HTP is a family run business. The operations of the company are looked after by all the partners of the firm collectively. One of the partners, Mr. Santosh G Shet, is a partner in another hotel firm by the name of Tara Emerald in Hubli city. The said hotel has been operational for the past three years. Hence, he is well experienced in the industry. This apart, all the partners have long standing experience mainly in jewellery sector, by virtue of being a part of the Karnataka based KGP group engaged in jewellery business for more than 20 years.

##### Favourable location of the resort

The company is operating a resort under the brand, 'Royal Ritz' at Hubli, Karnataka. The Hubli-Dharwad area is a major industrial hub in Karnataka. There are also some tourist destinations nearby such as Dandeli. Further, in the event hosting segment also, this is one of the most premium event venue in Northern Karnataka. The large number of industrial houses having their manufacturing hubs in the area such as the Belur industrial area also provides an opportunity for the firm.

Though there are a large number of lower end hotels, the number of high-end hotels in the area is comparatively less. The hotel attracts a diverse set of customers ranging from corporate clients, tourists and other customers. The hotel also has tie-ups with online portals such as 'Booking.com, Makemytrip.com, Golbibo among others. Major revenue contributing segment remains the travel customers, both foreign and local, which is contributing about 63.11% of total gross revenues, 30.73% is from corporate clients, and remaining from booking through agents which contributes revenues of around 6.14% in 7MFY23.

#### Key Rating Weaknesses

##### Nascent stage of operations of the firm

HTP has commenced operations in July 2022, and FY23 will be its first year of operations. As such the company reported total operating income of Rs.7.32 crore in 7MFY23 (from April to October 2022) with an EBITDA margin of 42.07% and PAT margin of 7.63%. Its overall gearing ratio and TOL/ TNW ratio were 4.81x and 4.96x respectively as on October 31, 2022, while its interest coverage was 1.21x as on October 31, 2022.



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### **Leveraged capital structure**

The company has a leveraged capital structure marked by its overall gearing and TOL/TNW ratio. Its overall gearing ratio and TOL/ TNW ratio were 4.81x and 4.96x respectively as on October 31, 2022, and are expected to remain high till end of FY25.

### **Exposure to risks associated with single property, geographical concentration and high dependence on tourists**

Being the only hotel property of the company, its presence in a single micro-market exposes the hotel to any adversities in the market. Owing to the geographic concentration of its room inventory in Hubli, the company would be exposed to any adverse region-specific development and risks. Also, HTP has a sizable room inventory (82 rooms) in a micromarket, which has several properties across segments and price points. HTP faces stiff competition from nearby hotels like Fortune Park, Dennissons Hotel, The Fern Residency and The Phlox, Hubli among others. Given the pandemic and its impact over the travel and tourism industry, the competition may exert pressure on HTP's occupancy levels and/ or restrict the pricing potential of its properties over the near-to-medium-term. Moreover, given the favourable location of hotel in proximity to the tourist destination such as Dandeli, the largest share of the revenues come from tourists. This leads to high dependence on tourism and climatic conditions, exposing the property to business cycles.

### **Cyclical nature of Operations**

The tourism industry is directly linked to the economic conditions prevalent and thus, exposed to cyclicity, resulting in sales and realisations coming under pressure in an economic downturn ,mitigated by the fact that the climate of Hubli being tropical in nature, the hotel will be occupied throughout the year.

### **Constitution of the entity as a partnership firm**

The constitution of the entity as a partnership firm restricts HTP's overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital in times of personal contingency as it has limited ability to raise capital and poor succession planning may result in dissolution of the firm in case of death/insolvency of any partner.

**Analytical Approach:** Standalone



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### Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating methodology for Service Sector companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

### Liquidity: Adequate

The company's liquidity position is adequate given the sufficient cash accruals in the period of FY23-25 as against the repayments. The free cash balance as on March 31, 2022 stood at Rs.0.03 crore. The company has completed the capex and has no plans to do more capex in FY24-25.

### About the company

HTP was incorporated in the year 2017. The firm is currently operating a resort, auditorium and bar & restaurants under the trade name 'Royal Ritz' at Amargol in Hubli, Karnataka.

The property has 82 rooms which includes 78 deluxe rooms, 2 suite rooms and 2 cottage rooms. The property also has an auditorium and 2 bar-cum-restaurants. The commercial operations commenced in July 2022. HTP is a part of the KGP group which is primarily engaged in jewellery business. The partners of the firm belong to the goldsmith family as well as are partners in big jewellery showroom under the trade name of KGP group located in Hubli, Davangere, Koppala, Gangavati, Mudhool, Bangalore, Vijaypur and Haveri.

The firm is being managed by Mr. Ganesh D Shet, Mr. Santosh G Shet, Mr. Srigandh Shet, Ms. Surekha G Shet, Ms. Vidya M Shet and Mr. Sandesh Raikar collectively.

### Financials (Standalone):

(Rs. crore)		
For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	-	-
EBITDA	-	-
PAT	-	-
Total Debt	6.82	62.01
Tangible Networth	4.32	4.27
<b>Ratios</b>		
EBITDA Margin (%)	-	-
PAT Margin (%)	-	-
Overall Gearing Ratio (x)	1.58	14.53



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\*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 Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	55.26	IVR BB/ Stable	-	-	-

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### About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	April, 2032	55.26	IVR BB/ Stable

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Len-HotelTara-dec22.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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).