



Press Release

Tirumala Enterprises

January 5, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	45.93 (including proposed limit of Rs. 10.00 crore)	IVR BB-/ Stable (IVR double B minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	0.20	IVR A4 (IVR A four)	Assigned	Simple
Total	46.13 (INR Forty six crore and thirteen lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Tirumala Enterprises (TER) derives strength from Association with the brand, ITC providing all the luxurious amenities, reputed and diversified clientele with lower counterparty risk. The rating also positively factors in advantageous location of the hotel, reporting of positive EBIDTA and PAT in the first year of operations. However, these rating strengths are partially constrained by small scale of operations, leveraged capital structure with weak debt protection metrics, high geographic concentration risk, and susceptibility to economic downturns, longer gestation period associated with hospitality sector along with seasonal uncertainties.

Key Rating Sensitivities:

Upward Factors

- Increase in the scale of hotel operations on a sustained basis leading to improvement in profitability and higher cash accrual
- Improvement in the capital structure, debt protection metrics and liquidity.

Downward Factors

- Decline in revenue or profitability, deteriorating the liquidity



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- Large, debt-funded capital expenditure, weakening the financial risk profile and liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Association with the brand, ITC providing all the luxurious amenities**

The marketing and selling is managed by Fortune Park Hotels Limited, ITC group of Hotels. Tirumala Enterprises and Fortune Park Hotels Limited have entered into agreement to operate the hotel for a period of 10 years. The hotel offer all the modern amenities like in room facilities, transportation, meeting and conference and features like gym, pool, lounge etc.

- **Reputed and Diversified clientele with lower counterparty risk**

The entity provides services to well renowned companies like Indigo Airlines, Air India, BPCL, IOCL, GAIL, Infosys, Dr Reddy, State Bank of India. The reputed clientele validates its capabilities. Top 10 clients contributes around 3% of the total revenue and there are diversified reputed clients associated with the entity.

- **Advantageous location of the hotel**

The hotel is strategically located on Gokul Road, just opposite of Hubballi airport which is just 0.5 km. railway station being 8 km away, highway is 4 km away. The hotel offers easy accessibility to corporate establishments, key shopping locations, and prominent monuments of the city like Indira Gandhi Glass House Garden, Chandramouleshwara Temple and Unkal lake.

- **Reporting of positive EBIDTA and PAT in the first year of operations**

The entity was able to earn a total revenue of Rs.5.53 crore in the first year of operations itself even after operating amidst the lockdown scenario of lockdown in the first half of FY22 and reported EBIDTA and PAT of Rs.2.32 crore and Rs.0.22 crore. That was due to no depreciation in the first year and stock realisation. The margins also healthy in the very first year of operations with EBIDTA margin at 41.9% and PAT margin at 4.02%.

Key Rating Weaknesses



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- **Small Scale of operations**

The entity has earned a total operating income of Rs.5.53 crore in the first year of operation, H1FY23 revenue is Rs.6.51 crore and the projected revenue for FY23 is 6.15 crore. The scale of operations is very small.

- **Leveraged capital structure with weak debt protection metrics**

The capital structure of the entity remained highly leveraged with Overall gearing and Long Term Debt to Equity ratio at 5.44x each respectively due to the high amount of Term loans taken for capital expenditure. TOL/TNW also remained high at 5.48x as on March 31, 2022. The debt protection metrics of the entity remained moderate with interest coverage at 1.11x in FY22. DSCR also remained moderate at 1.11x in FY23.

- **High geographic concentration risk, and susceptibility to economic downturns**

The operations of the concentrated in Karnataka and the hotel is located in Hubballi and the still 50% of the flights are operational. The downturn in economy is expected to hit the hotel industry as it lies in leisure services. The corporates and others intend to cut down on the overhead expenses in case of adverse economic scenario.

- **Longer gestation period associated with hospitality sector**

Hotel projects have long gestation period as construction of a premium hotel takes up to three to four years while stabilization of operations may take another two to three years. Luxury Hotels call for a huge investment and have longer gestation periods as compared to mid-scale budget hotels, given the investments involved in the project. Given that the gestation period for setting up hotels in India is significantly more when compared to global peers, in the initial few years the costs are high, and the returns are low. However, the industry demand in the near term is expected to stem largely from domestic leisure travel, although there will be gradual recovery in business travel and free trade agreement.

- **Macro-economic factors and seasonal uncertainty**

Hotel industry being cyclical and dependent on the general economic scenario. The company is exposed to the changes in the macro-economic factors and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors which leads to inherent cyclicity



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in the hospitality industry. These risks can impact the occupancy rate of the company and thereby the company's profitability along with a drop in ARR's.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Service Sector companies](#)

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

[Criteria for assigning rating outlook](#)

Liquidity – Adequate

The company's liquidity is expected to remain adequate in the near to medium term vis-à-vis its debt repayment obligations. The company has earned cash accrual of Rs.0.22 crore in FY22 in the first year of operations and is expected to earn cash accruals in the range of ~Rs.6 crore to Rs. 7 crore during FY23 to FY25 respectively vis-à-vis its debt repayment obligation of Rs. Rs. 0.83 crore, Rs. 1.50 crore in FY23 and FY24 respectively. In FY23 there is nil repayment. The DSCR of the company remains adequate at 1.11x in FY22. The fund based utilisation remained at 17% during the past six months ended September 2022. In addition, absence of any capex plans provides further cushion to the liquidity position.

About the Company

Tirumala Enterprises (TER) formed by Mr. Govindappa Balappa Dandagi – proprietor of the entity in 2021. The entity runs a Hotel by the name of Fortune Park Airport Road Hubballi. It is a member of the ITCs hotel group. The hotel is strategically located on Gokul Road, just opposite of Hubballi airport. The hotel offers 90 guest rooms and suites featuring warm and modern décor. The hotel rooms are equipped with array of amenities.

Financials (Standalone):

For the year ended* / As on	(Rs. crore)	
	31.03.2021	31.03.2022
	Audited	Audited
Total Income	-	5.53
EBIDTA	-	2.32
PAT	-	0.22
Total Debt	-	45.41



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Tangible Net Worth	-	8.35
EBDITA Margin (%)	-	41.90
PAT Margin (%)	-	4.02
Overall Gearing Ratio (x)	-	5.44

**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	1.63	IVR BB-/ Stable	-	-	-
2.	Term Loan	Long Term	3.49	IVR BB-/ Stable	-	-	-
3.	Term Loan	Long Term	0.21	IVR BB-/ Stable	-	-	-
4.	Term Loan	Long Term	3.09	IVR BB-/ Stable	-	-	-
5.	Term Loan	Long Term	12.13	IVR BB-/ Stable	-	-	-
6.	Term Loan	Long Term	1.75	IVR BB-/ Stable	-	-	-
7.	Term Loan	Long Term	1.12	IVR BB-/ Stable	-	-	-
8.	Term Loan	Long Term	3.44	IVR BB-/ Stable	-	-	-
9.	Term Loan	Long Term	2.65	IVR BB-/ Stable	-	-	-
10.	Term Loan	Long Term	1.96	IVR BB-/ Stable	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
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11	Working capital Term Loan GECL 3	Long Term	3.36	IVR BB-/ Stable	-	-	-
12	GECL 3 Extension	Long Term	1.60	IVR BB-/ Stable	-	-	-
13.	Term Loan	Long Term	1.00	IVR BB-/ Stable	-	-	-
14.	Mortgage Loan	Long Term	5.00	IVR BB-/ Stable	-	-	-
15.	Overdraft	Long Term	3.50	IVR BB-/ Stable	-	-	-
16.	Bank Guarantee	Short Term	0.20	IVR A4	-	-	-

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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.



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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	Long Term	-	July 2031	1.63	IVR BB-/ Stable
Term Loan	Long Term	-	May 2031	3.49	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	0.21	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	3.09	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	12.13	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	1.75	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	1.12	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	3.44	IVR BB-/ Stable
Term Loan	Long Term	-	July 2031	2.65	IVR BB-/ Stable



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Term Loan	Long Term	-	June 2024	1.96	IVR BB-/ Stable
Working capital Term Loan GECL 3	Long Term	-	May 2027	3.36	IVR BB-/ Stable
GECL 3 Extension	Long Term	-	January 2028	1.60	IVR BB-/ Stable
Term Loan	Long Term	-	December 2028	1.00	IVR BB-/ Stable
Mortgage Loan	Long Term	-	-	5.00	IVR BB-/ Stable
Overdraft	Long Term	-	-	3.50	IVR BB-/ Stable
Bank Guarantee	Long Term	-	-	0.20	IVR A4

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-TER-jan23.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.