



Press Release

Swift Financial Results Ltd

August 05, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facilities	22.39	IVR BB - / Stable (IVR Double B Minus with Stable Outlook)
2	Short Term Bank Facilities	0.50	IVR A4 (IVR A Four)
	Total	22.89 (Rs. Twenty Two crore and Eighty Nine lakh only)	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Swift Financial Results Ltd (SFRL) derives comfort from its experienced and resourceful promoters, strong support from association with an established hotel brand like “Ramada”, locational advantage, entitlement for subsidy and satisfactory occupancy ratio with improvement in yield and its satisfactory capital structure. The ratings also notes support in the form of corporate guarantee from financially strong group companies. These rating strengths are partially offset by its limited track record with small scale of operation, longer gestation period associated with hospitality sector, geographical concentration in revenue, inherently seasonal and fragmented nature of the Hotel Industry.

Rating Sensitivities

Upward factors

- Significant growth in scale of operations with improvement in profitability and cash accruals on a sustained basis driven by improvement in occupancy, RevPar and consequent improvement in liquidity on a sustained basis
- Improvement in debt protection metrics

Downward Factors

- More than expected moderation in scale of operations and/or profitability on a sustained basis
- Withdrawal of subordinated unsecured loans amounting to Rs.13.84 crore and/or moderation in the capital structure with deterioration in overall gearing to below 2x and interest coverage below 1.2x



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- Significant delay in receipt of subsidy

Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced and resourceful promoters**

Mr. Pawan Kumar Agarwal, promoter cum director, has over three decades of business experience in diverse fields of business. This apart, other directors, Mr. Sushil Kumar Agarwal and Mr. Amit Agarwal, are also having adequate business experience. The promoters of the company are engaged in real estate like commercial & residential projects, road construction, warehousing, cement industry, road equipment manufacturing, logistics, rural electrification and education related business in and around North Bengal and are quite resourceful. Further, the promoters have supported the company by infusing subordinated unsecured loans as and when required and are committed to support going forward.

- **Strong support of established brand**

The company has a tie-up with International servicing and marketing agreement with Wyndham hotel group through Wyndham Hotel Asia Pacific CO Ltd. of Hong Kong to run its hotel under the brand name "Ramada". Wyndham hotel group is one of the largest hotel group in the world with branded properties located in 75 countries with approx 7,00,000 rooms under 20 hotel brands under its fold. The licensing agreement is of 20 years. Infomerics believes that the strong support of the established brand name of Wyndham Group will help the company in acquiring long term customers and suppliers in the market.

- **Location advantage**

The hotel, "Ramada Darjeeling" is located at heart of Darjeeling in West Bengal. Darjeeling is well known in the world as a hill station since long and is called Queen of Hills. It is well connected through North – East Frontier Railway with nearest railway station being Jalpaiguri. The site is also well connected through airways with the nearest airport being Bagdogra (which is about 80 Kms from Darjeeling). Furthermore, the hotel is also located at a very strategic place in Darjeeling and is nearby to all the major tourist attractions of the place.

- **Satisfactory occupancy ratio with improvement in yield**

The hotel despite its short track record witnessed steady increase in its occupancy rates from ~58% in FY19 to ~69% in FY20. Further, there was a steady increase in RevPAR from Rs.3186 in FY19 to Rs.3756 in FY20.



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- **Entitlement for subsidy**

The hotel unit is entitled to get a subsidy from West Bengal Tourism Development Corporation Limited under “West Bengal Incentive Scheme 2008” (vide letter dated, February 05, 2020). Under the said scheme the company is entitled to receive state capital subsidy of Rs.2.75 crore and interest subsidy - Rs.1.75 crore (50% of annual liability subject to a maximum of Rs.25 lacs annually). Out of the total subsidy the company is expecting to receive ~Rs.3 crore within FY21. Timely receipt of subsidy is a key rating monitorable.

- **Support in the form corporate guarantee from financially strong group companies**

The bank facilities of SFRL are backed by corporate guarantee from many of its group companies. Out of the said group companies, Siddheswari Vyapaar Private Limited (SVPL, owned by the promoters and operating as the investment arm of the promoters) is debt free and is having a net worth of Rs.79 crore as on March 31,2019 and has significant investment in SFRL in the form of unsecured loans and equity. Corporate guarantee from a financially strong group company imparts some comfort. Further, the SFRL is also having free Fixed deposits aggregating to Rs.0.80 crore for emergency.

- **Satisfactory capital structure**

SFRL has a satisfactory capital structure with the overall gearing ratio at 1.02x (after considering subordinated unsecured loan of Rs.13.84 crore as quasi equity) as on March 31, 2020 (Prov.) [0.95x as on March 31,2019]. Further, the total indebtedness of the company marked by TOL/ANW also stood comfortable at 1.20x as on March 31,2020 (prov.) [1.14x as on March 31,2019]. Moreover, the interest coverage ratio was at 1.84x during FY20, improved from 1.02x in FY19 on the back of increase in absolute level of operating profit and lowering of interest expense.

Key Rating Weaknesses

- **Limited track record with small scale of operation**

The hotel unit started operations in April 2018, hence FY19 was the first full year of operation and accordingly its ability to ramp up scale and occupancy is yet to be seen. The scale of operation of the company is small with a revenue of Rs.10.65 crore in FY20 (prov.) though improved from Rs.8.20 crore in FY19. Small scale of operations restricts the financial risk profile of the company.



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- **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 investments 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. The company was EBITDA positive in its first year of operation itself and witnessed growth in EBITDA in FY20 (Prov.) to Rs.3.59 crore from Rs.2.40 crore in FY19 driven by increase in occupancy rate and RevPar. Increase in share of revenue from banquets, foods and beverage segment also boost its operating profit level and margin in FY20. However, during FY20, its second year of operation the company made a net loss of Rs.0.72 crore as compared to a net loss of Rs.2.72 crore in FY19 (1st year of operation) though there was no cash loss and the company made a gross cash accrual of Rs.1.68 crore in FY20 (Rs.0.08 crore in FY19). However, due to a complete lockdown in the country, the operations of the hotel have come to a standstill and the situation may remain unfavourable for the company in the months to come and hence Infomerics expects moderation in the performance of the company in FY21.

- **Geographical concentration in revenue**

SFRL derives its entire revenue from a single hotel in Darjeeling, and is highly reliant on growth of the tourism industry in Darjeeling. However, association with the Whyndham International group and the Ramada brand will benefit the hotel.

- **Inherently seasonal and fragmented nature associated with the Hotel Industry**

The hotel industry is cyclical and inherently seasonal in nature as the demand for the hotel rooms varies with the business cycle. The most significant aspect of tourism seasonality is that it involves the concentration of tourist inflows during particular months. The Indian hotel industry normally experiences high demand during October-May, followed which the monsoon entails low demand. During the lean period, hotels offer lucrative packages to improve occupancy. The hotel industry is highly fragmented with a large no. of organized and unorganized players as well as many local and international players operate across different hotel segments. Further, SFRL faces intense competition as Darjeeling, in West Bengal is a major tourist destination and has many hotels and resorts. Further, presence of



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many small & medium players in the vicinity of the tourist places intensifies the already prevailing competition in the industry.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity: Stretched

The liquidity position of the company is expected to remain stretched in the near term due to adverse impact of Covid pandemic on its operations. Moreover, its highly utilized bank limits indicates limited liquidity buffer. However, the company has generated a cash accrual of Rs.1.68 crore in FY20 and is expected to generate cash accruals in the range of Rs.2.36-4.30 crore as compared to its debt repayment obligations in the range of Rs.0.90-2.38 crore during FY21-23. Further, the company is having free Fixed deposits of Rs.0.80 crore for emergency which imparts some comfort. The company has taken Covid related moratorium as allowed by the RBI.

About the Company

Swift Financial Results Ltd (SFRL) incorporated in 1992 by one Agarwal family of Darjeeling. After incorporation, the company was defunct for many years. During 2014, the company made a licensing agreement with Wyndham Hotel Asia Pacific CO Ltd. of Hong Kong, a renowned and one of the largest hotel chain in the world, and set up a deluxe hotel in Darjeeling. Subsequently, during March 2018, a 62 room deluxe hotel, under the name of 'RAMADA Darjeeling', has started operation with other related facilities like banquet, Tea lounge, restaurant and bar, pool, etc. The licensing agreement is of 20 years.

Day to day affairs of the company are look after by Mr. Pawan Kumar Agarwal, Director, along with other two directors and a team of experienced personnel.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Prov.
Total Operating Income	8.20	10.61



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EBITDA	2.40	3.59
PAT	-2.46	-0.72
Total Debt	19.42	19.42
Tangible Net worth	5.85	5.13
EBITDA Margin (%)	29.22	33.85
PAT Margin (%)	-29.73	-6.80
Overall Gearing Ratio (x)	0.95	1.02

*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.	Term Loan	Long Term	20.41	IVR BB- / Stable	-	-	-
2	Cash Credit	Long Term	0.80	IVR BB- / Stable	-	-	-
3	FITL	Long Term	0.41	IVR BB- / Stable	-	-	-
4	WCTL	Long Term	0.77	IVR BB- / Stable	-	-	-
5	Bank Guarantee	Short Term	0.50	IVR A4	-	-	-

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



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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.

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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
Long Term Fund Based Limits - Cash Credit	-	-	-	0.80	IVR BB-/Stable
Long Term Fund Based Limits – Term Loan	-	-	Dec 2027	20.41	IVR BB-/Stable
Long Term Fund Based Limits – WCTL	-	-	Dec 2025	0.77	IVR BB-/Stable
Long Term Fund Based Limits – FITL	-	-	Dec 2021	0.41	IVR BB-/Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	0.50	IVR A4

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/lender-swift-financial-5-10-20.pdf>