



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

SAK Buildtech Pvt. Ltd.

August 28, 2017

Rating

Instrument / Facility	Amount	Rating	Rating Action
Proposed Term Loan	Rs.32.00 crores	IVR BB with Stable Outlook (IVR Double B with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The rating takes into consideration the experience of the promoters in the real estate and hospitality segments, customer-segment concentration risk and project execution risk. The rating, however, derives comfort from the company's operating and management agreement with a leading hotel chain and good business potential for the proposed hotel. Timely completion of the project within the envisaged costs and future viability of the hotel post-commencement of operations are the key rating sensitivities.

List of Key Rating Drivers

- Operating and management agreement with a leading hotel chain
- Good business potential for the hotel
- Lack of prior experience of the promoters in real estate and hospitality segments
- Customer-segment concentration risk
- Project execution risk

Detailed Description of Key Rating Drivers

Operating and management agreement with a leading hotel chain

SAK Buildtech Pvt. Ltd. (SAK) has entered into an agreement with Accor group, which is one of the leading hotel chains in the world for hotel operation. The Accor group is currently



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active in 92 countries and operating 43 hotels under various brands in India (like, Sofitel in Mumbai, Pullman in New Delhi, Grand Mercure in Beguluru, Novotel in Goa, etc.) The hotel being constructed by SAK will be operated under the Accor's 'Mercure' brand, which is one of the world's prominent midscale hotel brand.

Good business potential for the hotel

The hotel is being constructed in Oragadam in Chennai, which is the industrial corridor and biggest automobile hub. Globally renowned automobile companies such as Renault Nissan, Royal Enfield Motors along with many auto-ancillary units are located in Oragadam. Also, the hotel location is well connected by road and Chennai suburban railway. Accordingly, there is good business potential for the proposed hotel. However, there exist the risk of competition as four hotels are already operating in nearby area (up to 20 Kms.) of the project. Besides, one of the well-established hotel chains is setting up a midscale hotel in the adjoining area.

Lack of prior experience of the promoters in real estate and hospitality segments

The promoters, Mr. R. C. Govil and Mr. Neeraj Govil, are entering into the hotel business for the first time. Further, they do not have any experience in real estate business. However, the promoters have long experience of printing and publishing business. Although, the promoters bought the land for investment purpose, based on positive outcomes of feasibility study & market enquiry and the tie-up agreement with well-established hotel group (Accor), they decided to undertake the proposed hotel project.

Customer-segment Concentration Risk

The hotel is expected to derive the demand mainly from the automobile sector/segment, indicating reliance on the single customer segment. This might pose a problem for the proposed hotel during downturns in that sector / segment.

Project execution risk

The project has seen time and cost overrun in the past due to various reasons such as natural calamities in Chennai, modification in construction plan and arrangement of debt for the



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revised construction plan. Further, a few approvals are still awaited. Thus, timely completion of the project is one of the key rating sensitivities.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Real Estate Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

SAK Buildtech Pvt. Ltd. (SAK) was incorporated in October, 2007, is 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 will be 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 proposed hotel – ‘Mercure Chennai Sriperumbudur’ – would be a 100-room midscale business hotel with an all-day dining / multi-cuisine restaurant, bar, bakery, meeting room, conference room, fitness centre and swimming pool. The company has entered into an agreement with Accor group for operation and management of the proposed hotel under the Accor’s *Merucre* brand.

Financials (Standalone)

The company is in project implementation stage and hence, financial performance is not applicable. The company earned small amount of profit of Rs.0.2 crores during FY2017, on account of non-operating income.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil



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Rating History for last three years: 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.

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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. 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 Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Term Loan	Proposed	To be finalised	To be finalised	32.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)