Press Release

Fabworth Promoters Pvt Ltd

September 9, 2019

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities -Cash Credit	25.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned
Long Term Facilities -Term Loan	535.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned
Long Term Facilities -BG	5.00	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Assigned
Total	**565.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Fabworth Promoters Pvt Ltd (FPPL) derives comfort from its strong promoter groups with considerable experience in real estate and hospitality sector, tie up with established global brand and presence of a DSRA coupled with escrow mechanism for real estate receivables. However, the rating strengths are partially offset by long gestation periods in hotel industry, high geographic concentration, susceptibility to cyclicality in the hospitality industry and stretched financial profile marked by leveraged capital structure and weak coverage indicators. Growth in scale of operations with improvement in profitability, gearing level, support from the promoter groups and timely monetization of real estate inventory are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Strong promoter groups with considerable experience in real estate and hospitality sector provides financial flexibility

FPPL is a SPV promoted by Kolkata based “Mani Group” and Bangalore based “Sattva Group”. “Mani Group” has business interests across real estate (residential and commercial) and hospitality, having completed more than 30 million square feet of development across Kolkata, Durgapur, Jaipur, Siliguri and Bhubaneswar in the past 35 years of its existence.

"Sattva Group" is one of the leading real estate players in the Bangalore real estate market and has completed more than 40 million square feet of development in the past 32 years of its existence. FPPL benefits from the vast experience of the promoter groups, while also enjoying the financial flexibility for debt servicing. The promoters have periodically extended unsecured loans to FPPL over the years, which have supported its debt service obligations.

Tie up with established global brand

FPPL benefits from the long term management contract with JW Marriott for its hotel property. Further, the company benefits from the managements expertise and has access to the online reservation system and marketing strategies of JW Marriott. This has been demonstrated by the robust performance of the hotel despite a short track record of the property. During FY19, the hotel business reported ARR of Rs.7525 and occupancy of ~67%.

Presence of DSRA equivalent to one quarter of interest and principal repayment; real estate receivables routed through escrow mechanism

The presence of a debt service reserve account (DSRA) equivalent to one quarter of interest and principal repayment coupled with escrow mechanism for real estate receivables underpins the credit profile of the rating.

Key Rating Weaknesses

Long gestation periods in hotel industry

Given the high capital investment, hotel projects have long gestation periods as construction of a premium hotel takes upto three to four years while stabilization of operations may take another three to four years. While hotels which open before the peak of a cycle break even faster, those which open during the down cycle would take longer.

High geographic concentration and susceptibility to cyclicality in the hospitality industry

FPPL generates all its revenue from its hotel in Kolkata and is expected to do so over the long term, with no plans of launching any other hotel in the near future. Dependence on a single location makes the company susceptible to significant adverse changes in demand supply scenarios. Further, the performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism industry, business and leisure travel and foreign tourist arrivals.

Stretched financial profile marked by leveraged capital structure and weak coverage indicators

FPPL's financial profile is currently stretched marked by PAT losses over the past three years, high leverage (overall gearing of 1.85x as on March 31, 2019 considering the unsecured loans amounting to Rs.140.58 crores as subordinated) and weak coverage indicators (interest coverage of 1.16x in FY19). While the response towards the hotel property has been favourable, helping the company to register positive accruals for the first time in FY19 (Provisional), sustained delay in monetizing real estate inventory (service apartments) given the slowdown in the luxury real estate market can weaken its credit profile.

Analytical Approach: Standalone.

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Since FPPL's operational cash flows are inadequate to meet the debt obligations, reliance on the promoter groups support is likely to remain high. Nonetheless, the short term liquidity is supported by the presence of a DSRA equivalent to one quarter of interest and principal repayment.

About the Company

Fabworth Promoters Private Limited (FPPL) was incorporated in 2006 by Emaar MGF Land Limited (EMGF) of Delhi. In August 2010, FPPL was converted into a joint venture company, with other business groups (Sattva Group of Bangalore, Mani group of Kolkata and SPS Group of Kolkata) taking stake in the company. EMGF retained 26% stake in the joint venture and sold the remaining stake to the aforementioned groups. In August 2010, EMGF and SPS Group exited the JV. Presently, FPPL is a Special Purpose Vehicle (SPV) jointly owned by Mani Group (80%) and Sattva Group (20%).

The company was formed for the development and operations of a 281 key Five-Star hotel along with 51 service apartments on the Eastern Metropolitan Bypass, Kolkata in a phased manner. FPPL has entered into a hotel operating agreement with Marriott Hotel India Pvt Ltd for operating the hotel under its luxury brand name- "JW Marriott" for a period of 30 years. Hotel operations commenced in November, 2016 and presently all the 281 rooms and facilities are operational.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	166.76	150.83
EBITDA	34.37	50.53
PAT	-30.89	-24.35
Total Debt (Excl. Subordinated Loans)	555.08	595.75
Tangible Net worth	346.73	322.38
EBITDA Margin (%)	20.61	33.51
Overall Gearing Ratio (x) (Excl. Subordinated Loans)	1.60	1.85

*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 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	25.00	IVR BBB/ Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	535.00	IVR BBB/ Stable Outlook	-	-	-
3.	Long Term Non-Fund Based Limits – BG	Long Term	5.00	IVR BBB/ Stable Outlook	-	-	-

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.

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	-	-	-	25.00	IVR BBB/Stable Outlook
Long Term Fund Based Limits–Term Loan	-	-	June 2032	535.00	IVR BBB/Stable Outlook

Long Term Non-Fund Based Limits–BG	-	-	-	5.00	IVR BBB/Stable Outlook