

Press Release

Mid India Creations LLP

October 24, 2019

Ratings

Sr. No.	Instrument/Facility	Amount (Rs. crore)	Rating Assigned
1	Term loan	70.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
2	Proposed Facility (Short Term)	5.00	IVR A3 (IVR A Three)
Total		75.00	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from industry experience of promoters, favourable location, reputed partner, the improving debt coverage parameters post the refinancing of the existing debt and moderate capital structure. The rating however is constrained by the moderate scale of operations, lower occupancy rate and the volatility in profits.

Key Rating Sensitivities

- **Upward factor**
 - Scaling up of operations under the new operating management would be crucial to company's profitability
 - Improvement in debt metrics
- **Downward factor**
 - Continued lower occupancy rate would impact the operating income

Detailed Description of Key Rating Drivers

Key Rating Strengths

Extensive Industry experience of promoters

Mr.Gurjeet Singh Chhabra is a known name in the field of real estate in Indore. He has a vast experience of over 25 years in Real Estate and above 10 years in malls and hospitality. He is the founder of Chhabra Group which is engaged in Real Estate Development for over a decade and owns a number of shopping malls, hotels and business parks across the city. Mr.

Rajesh Mehta, a gold medallist in B.B.A.(1991) from Bhopal University, also has an experience of more than two decades. He enlarged his real estate business by construction of various multi storied buildings for commercial purposes, residential flats, row houses etc. He also runs educational institutes namely Shishukunj International School and Ekayanaa School in his portfolio.

Benefits associated with favourable location

The hotel is located on the Indore bypass road, very near to Vijay Nagar square and has an easy proximity to the business and the commercial centres of the city. Indore Railway Station is 15Kms, Indore Airport is 25Kms, the Industrial District of Pithampur is 30Kms and Dewas Industrial Area is approximately 25Kms from the property. The hotel property stands to benefit from this favourable location.

Entry of a new reputed partner

The company has entered into an agreement with Starwood Hotels & Resorts India under the brand 'Sheraton Grand Palace' which will start its business w.e.f. November, 2019. It is an operating service agreement where Starwood will charge management fees and other charges to Mid India Creations. MICLLP stands to benefit from this agreement and would like to increase its operation under the new established partner.

Improving debt coverage indicators after the refinancing of the existing loan

MICLLP has refinanced its existing debt structure by availing a new facility worth Rs. 70 Crore from a new entity (NBFC). The interest and principal payments structure post the refinancing will be favourable resulting in improved debt coverage parameters for the company. The interest coverage ratio stood at 1.29x in FY19 and is expected to improve further in the coming years.

Moderate Capital Structure, however tempered by stressed liquidity position

The company has a TOL/TNW of 1.69x as on FY19 improved from 2.13x of previous year. The long term debt to equity ratio stood at 1.05x in FY19. The liquidity position is stressed as indicated by the current ratio of 0.89 in FY19.

Key Rating Weaknesses

Moderate level of operations and lower occupancy rate

Although MICLLP saw growing operating income for the past three years, its operations are still at a moderate level. The occupancy percentage of TGB (calculated as Total room nights occupied /Total No. of room nights available) has been low at 26.19% and 36.73% in FY

2018 and FY 2019 respectively. Going forward the company would look to increase the same in upcoming years.

Volatility in profits and margins

The company have had negative PAT for the past two years followed by a profit of Rs. 7.94 Cr. in FY19 (Provisional). TGB's RevPAR (Revenue per available room), a profitability gauge that combines occupancy and tariffs of a hotel saw a decrease of 2.14% in year FY2018 albeit, it grew at around 41% for the year FY19. As room revenue constitute a major portion of the total revenue that a hotel earns, volatility in RevPar would be a concern going forward.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for Service companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

Liquidity is marked by tightly matched accruals to repayment obligations and modest cash balance.

About the company

Mid India Creations LLP (MICLLP) is into the business of hospitality comprising of boarding, lodging and services of indoor and outdoor catering/ restaurant. The firm has constructed a five star hotel near MR-10 Junction in Indore and entered into Operating Service agreement with Starwood Hotels & Resorts India Pvt. Ltd. under the brand 'Sheraton Grand Palace'.

Financials (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	21.56	37.88
EBITDA	6.83	14.62
PAT	-22.32	7.94
Total Debt	107.73	95.24
Tangible Net worth	54.49	65.62
EBIDTA Margin (%)	31.69	38.59
PAT Margin (%)	-101.94	13.53
Overall Gearing ratio (x)	1.98	1.45

* Classification as per Infomerics' standards

Details of Non Cooperation with any other CRA: Nil

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Fund Based Facilities	Long Term (TL)	70.00	IVR BBB - /Stable Outlook	--	--	--
<i>Proposed Facility</i>	Short Term	5.00	IVR A3	--	--	--
	Total	75.00				

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. 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

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (TL)	--	--	12 years	70.00	IVR BBB- / Stable Outlook
2	Proposed Facility	--	--	--	5.00	IVR A3
Total					75.00	