



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

SAK Buildtech Private Limited.

November 27, 2018

Rating

| Instrument / Facility | Amount | Rating | Rating Action |
|-----------------------|-------------|---|---|
| Outstanding Term Loan | 32.0 | IVR BB+/ Stable Outlook (IVR Double B plus with Stable Outlook) | Revised from IVR BB/Stable Outlook (IVR Double B with Stable Outlook) |
| Total | 32.0 | | |

Details of Facility are in Annexure 1

Detailed Rationale

The revision in the rating factors in successful execution of project with minimal time and cost overrun. The rating also factors in operation and management agreement with a leading hotel chain and good business potential for the hotel. The rating is constrained by no prior experience of the promoters in the hospitality segment, intense competition and modest scale of operations and losses reported by the hotel. Successfully scaling up of operations and achieving profitability, timely servicing of debt and ability to compete with similar players are the key rating sensitivities.

List of Key Rating Drivers

- Successful execution of project with minimal time and cost overrun
- Operation and management agreement with a leading hotel chain
- Good business potential for the hotel
- No prior experience of the promoters in the hospitality segment
- Intense competition
- Modest scale of operations and losses reported by the hotel

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Detailed Description of Key Rating Drivers

Key Rating Strengths

Successful execution of project with minimal time and cost overrun

The company has been able to complete construction of the hotel, thereby mitigating project execution risk. Though the estimated project completion date was October 2017, the project was completed and COD achieved on March 1, 2018. The actual cost incurred was Rs. 64.59 crores marginally higher against estimated project cost of Rs. 64 crores.

Operation and management agreement with a leading hotel chain

SAK Buildtech has entered into an agreement with Accor group, which is one of the leading hotel chains in the world. The Accor group is currently active in 109 countries with about 4,586 hotels worldwide. The hotel constructed by SAK is being operated under Accor's 'Mercure' brand, which is one of the world's prominent mid-scale hotel brand (871 hotels operating under the brand). The hotel can leverage the brand name and good management practices of the Accor group, to increase traction and thereby achieve profitably a certain scale of operations.

Good business potential for the hotel

The hotel has been constructed in Oragadam in Chennai, which is an industrial corridor and a big 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 suburb is well connected by road and Chennai suburban railway. Given these factors, there is good business potential as regards the location of hotel.

Key Weaknesses:

No prior experience of the promoters in the hospitality segment

The promoters – Mr. R. C. Govil and Mr. Neeraj Govil – have entered into the hotel business for the first time. The promoters have long experience in the printing and



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publishing business. Though, hotel construction is complete and the promoters have carried out due diligence by way of feasibility studies and have tied up with Accor (for operation and management of the hotel), lack of hands on experience in the business could be a weakness for the company.

Intense competition

The hotel is located in the vicinity of other existing hotels such as Fortune, Citrus, Marriott and Holiday Inn (having similar brands associated with them and catering to the same clientele class). This could impair the ability of the hotel to generate requisite traction, thereby impacting its profitability and debt servicing ability.

Modest scale of operations and losses reported by the hotel

The hotel has commenced operations on March 1, 2018. During FY18, the company has earned modest revenues of Rs. 0.22 crores and operating losses of Rs. 0.56 crores. Ability of the company to achieve profitability remains a key monitorable.

Analytical Approach and 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, as 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 is 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

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the construction and operation of a Hotel and Convention centre. The project has been completed and achieved COD on March 1, 2018. The hotel is a 100-room midscale business hotel with an all-day dining / multi-cuisine restaurant, bar, bakery, meeting room, conference room, fitness center, lounge and swimming pool.

Financials (Standalone)

(Rs. Crores)

| For the year ended / As on | 31-03-2017 | 31-03-2018 |
|----------------------------|------------|------------|
| | Audited | Audited |
| Total Operating Income | 0.0 | 0.2 |
| EBITDA | 0.0 | -0.6 |
| PAT | 0.1 | -0.7 |
| Total Debt | 18.5 | 32.0 |
| Tangible Net worth | 24.5 | 31.3 |
| <u>Ratios</u> | | |
| a. EBIDTA Margin (%) | NA | -ve |
| b. PAT Margin (%) | NA | -ve |
| c. Overall Gearing ratio | 0.76 | 1.02 |

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:Not applicable

Any other information: Nil

Rating History for last three years:

| Name of Instrument/Facilities | Current Rating (Year 2018-19) | | | Rating History for the past 3 years | | |
|-------------------------------|-------------------------------|---------------------------------|---|---|---|---|
| | Type | Amount outstanding (Rs. Crores) | Rating | Date(s) & Rating(s) assigned in 2017-18 | Date(s) & Rating(s) assigned in 2016-17 | Date(s) & Rating(s) assigned in 2015-16 |
| Long term Facilities | Term Loan | 32.0 | IVR BB+/ Stable Outlook (IVR Double B | IVR BB(August 28, 2017) | -- | -- |



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| | | | | | | |
|--|--|--|---------------------------------|--|--|--|
| | | | Plus with 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. 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 | - | - | Quarterly step up repayment till July 15 , 2030 | 32.0 | IVR BB+/Stable Outlook(IVR Double B Plus with Stable Outlook) |