January 24, 2022

Gurnani Inn Private Limited: [ICRA] BB-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	90.00	[ICRA]BB-(Stable); Assigned
Total	**90.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to Gurnani Inn Private Limited (GIPL) factors in the long-standing experience of the promoters in the hospitality sector, favourable geographical location of the project and the successful tie-up with Hilton World Wide Management Limited, which provides it with brand visibility in terms of quality offerings and service.

The ratings, however, are constrained by the high project execution risks, as the project is in the construction stage and is exposed to time and cost overrun risks, funding risks in terms of timely infusion of equity/unsecured loans by the promoter and stabilisation and timely achievement of commercial operations. The rating also remains constrained by the business remaining exposed to the vagaries of the Jaipur hospitality market in particular and the tourism sector in general, given its status as a single asset entity.

The Stable outlook reflects ICRA's expectation that the entity will benefit from the experience of the promoters in the hospitality industry and tie-up with a reputed player for operations and management.

Key rating drivers and their description

Credit strengths

Long-standing experience of the promoters in the hospitality sector, with an operational hotel in Jaipur itself – The hotel is promoted by the Gurnani family, which has an established track record of managing hotels of such stature. At present, the Group owns two hotels in Jaipur, Pinkcity Build Home Private Limited (rated [ICRA]BB(stable)/A4), which has operated about 182 keys in association with Radisson Blu since 2013, and Days by Whyndham, which was inaugurated recently in FY2022. In addition, the Group has diverse business interests in various sectors like electricals, construction, real estate, hospitalisation etc.

Favourable location of the project with proximity to key commercial centres and Jaipur International Airport ensuring strong demand dynamics – The hotel is located close to key commercial centres, pilgrimage destinations and Jaipur's international airport, which provides access to a large catchment area.

Association with a reputed brand of Hilton. – The upcoming hotel has entered an agreement with the Hilton Group, an established hospitality services provider with around 6700 properties and about one million rooms across 122 countries, for the operations and management. Besides management support, GIPL benefits from the brand recognition in terms of quality of offerings and services associated with the Hilton brand.

Credit challenges

Exposed to project construction risk, given a project stage company – Being an under-construction project, that too in its early stages of construction, it remains exposed to time and cost overruns. As of August 31, 2021, the project was only 16% complete and the scheduled commercial operations is expected by October 2023. Completion of the project within the stipulated timeline and budgeted cost remains critical from the credit perspective and will be a key rating monitorable. Nevertheless, comfort can be drawn from the promoters proven experience of setting up and managing such hotels in the past.

Exposed to funding risk in terms of timely infusion of equity and unsecured loans from promoter group, financial closure in terms of debt tie-up remains a source of comfort – Equity/unsecured loans forms about ~42% of the total project cost of Rs. 155.4 crore. Timely infusion of equity from the promoters is critical for the satisfactory progress of the project and proportionate draw down of term debt, that has been tied up. Out of the Rs. 65.4 crore of equity/unsecured loans to be brought in, the promoters have already infused Rs. 25.3 crore as on August 31, 2021. Comfort is drawn from the fact that financial closure for the project has been achieved in terms of debt tie-up of Rs. 90 crore, with partial draw down already in place.

Timely support for interest payment during construction remains critical, given IDC being funded by equity/unsecured loans – The interest during construction (IDC) component, although being a part of the project cost needs to be serviced every month. The IDC is envisaged to be funded through unsecured loans/equity. The company estimates an IDC of Rs. 13.26 crore (~9% of project cost), which remains exposed to any rise in case of delay in commercial operations. Considering the absence of operational cash flows, timely infusion of promoter funds remains critical to service the IDC.

Asset and geographical concentration risks along with competitive and seasonal nature of Jaipur's hospitality market – Dependence on a single property exposes the company to adversities in the Jaipur hospitality market. GIPL will also face stiff competition from other hotels and resorts in the vicinity. Further, hotel industry operations are usually seasonal in nature with the highest occupancy rate seen during the winter season.

Hospitality industry remains exposed to vagaries of tourism market both from domestic as well as international travelers – Operating performance of the properties remain vulnerable to seasonal industry trends, general economic cycles and external factors like geo-political crises, terrorist attacks, disease outbreaks, etc. Concentration risk by being a single asset from a single geography increases the exposure of the company to any black swan events.

Liquidity position: Stretched

The liquidity position of the company at present remains stretched, given the lack of operational cashflows because of the under-construction stage and will hinge on timely equity/unsecured loan infusions from the promoter group. Moreover, since the entity needs to service the IDC on a monthly basis, timely infusions of promised equity/unsecured loans remain critical. However, comfort can be drawn from the financial closure, where drawdown has already started.

Rating sensitivities

Positive factors – ICRA could upgrade GIPL's rating if the project achieves commercial operations in a timely manner, within the budgeted cost and time, along with stabilisation of the business.

Negative factors – Negative pressure on GIPL's rating could arise if there are significant delays in completion of the project, or delay in timely infusion of committed equity/unsecured loans leading to a delay in scheduled commercial operations or lack of timely support from the promoter group in case of any liquidity mismatches or cost overruns.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in the Hotel Industry]
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of GIPL.

About the company

GIPL, incorporated in August 2021, is promoted by the Gurnani family. The company is constructing a 203-key five-star hotel (with restaurant, convention centre, bar, party lawns and banquet hall facilities) in Jaipur. The hotel is close to the Jaipur international airport. The company has signed brand and management collaborations with Hilton Worldwide Manage Limited. The total project cost of Rs. 155.4 crore is to be funded by Rs. 65.4 crore of equity and Rs. 90.0 crore of term debt.

Key financial indicators (audited)

Standalone#	FY2020	FY2021
Operating Income (Rs. crore)	-	-
PAT (Rs. crore)	-0.1	-0.1
OPBDIT/OI (%)	n.m	n.m
PAT/OI (%)	n.m	n.m
Total Outside Liabilities/Tangible Net Worth (times)	n.m	n.m
Total Debt/OPBDIT (times)	n.m	n.m
Interest Coverage (times)	n.m	n.m

Source: Company, ICRA; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; n.m- Not Meaningful; # being a project stage company the financials are not meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of August 31, 2021* (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>Jan 24, 2022</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Term Loans</td><td>Long-term</td><td>90.0</td><td>-</td><td>[ICRA]BB-(Stable)</td><td>-</td><td>-</td><td>-</td></tr>
</table>

*Not Applicable

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	March 2021	NA	FY2031	50.0	[ICRA]BB-(Stable)
NA	Term Loan-II	July 2021	NA	FY2031	40.0	[ICRA]BB-(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 95-60555399
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-98-84086366
ksrikumar@icraindia.com

Suprio Banerjee
+91- 98-20244979
supriob@icraindia.com

Sachidanand Thillai
+91-74015 51867
sachidanand.thillai@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches