

February 24, 2022

Ocean Pearl Hotels Private Limited: Ratings upgraded to [ICRA]C+/ [ICRA]A4

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	62.00	62.00	[ICRA]C+; Upgraded from [ICRA]D
Unallocated Limits	3.00	3.00	[ICRA]C+/ [ICRA]A4; Upgraded from [ICRA]D/ [ICRA]D
Total	65.00	65.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the ratings of Ocean Pearl Hotels Private Limited (OPHPL) takes into account the regularisation in debt servicing by the company from October 2021, aided by improvement in liquidity profile of the entity post sanction of additional loans by the banks and an improvement in the performance of the company. Albeit on a low base, OPHPL reported a revenue growth of ~130% to Rs. 37.9 crore in 8M FY2022 aided by the recovery in demand in the hospitality industry. The ratings also factor in favourably the extensive experience of the promoter in the hospitality industry, which is likely to help the company improve its scale of operations, as the demand scenario improves.

The ratings remain constrained by the company's stretched capital structure and coverage indicators (DSCR at 0.1x in FY2021), which necessitates dependence on additional borrowings/ refinancing or financial support from promoters. The company had opted for moratorium till August 31, 2020, under the RBI's Covid-19 Regulatory Package, and availed additional borrowings from banks in the form of Guaranteed Emergency Credit Line (GECL) loans and demand loans to service its debt obligations and meet its fixed expenses. The company's operating profitability also continues to remain under pressure with high fixed overheads such as lease rent and employee expenses.

Key rating drivers and their description

Credit strengths

Extensive experience of the management in the hospitality industry; Mr. Jayaram Banan is a renowned businessman in the restaurant and hospitality industry - OPHPL is spearheaded by Mr. Jayaram Banan, who has extensive experience in the industrial catering and hospitality business. Mr. Banan is the promoter of various restaurant chains, such as Sagar Ratna and Swagath. Even as the near-term revenue outlook for the hospitality sector remains weak in view of the adverse impact of the pandemic and the accompanying lockdowns, the extensive experience of the promoter is likely to help the company improve its scale of operations, as the demand scenario improves.

Credit challenges

Stretched financial risk profile; dependent on continuous support from group concerns – OPHPL had acquired ~77% equity stake in Sagar Ratna Restaurant Private Limited (SRRPL) in May 2017, which was entirely funded through debt. This had led to deterioration in the company's capital structure. Further, the low cash accruals during FY2021 and the current fiscal, led by the significant adverse impact of the pandemic, impacted the company's liquidity position severely. The company had opted for moratorium till August 31, 2020, under the RBI's Covid-19 Regulatory Package, and availed additional borrowings from banks in the form of GECL loan and demand loan to service its debt obligations and meet its fixed expenses. The second wave

and the consequent lockdowns, however, impacted the company’s cash flows, thereby leading to delays from April 2021. Nevertheless, an uptick in performance, coupled with additional lines of credit from banks, has helped the company correct its delays in debt servicing from October 2021 onwards. The company, however, continues to have a stretched capital structure and coverage indicators with gearing ratio at 12.2x and DSCR at 0.1x in FY2021, thereby necessitating dependence on additional borrowings/ refinancing or financial support from promoters.

Cyclical industry vulnerable to general economic slowdown and exogenous factors – Due to its presence in the hospitality industry, the company is susceptible to risks arising from its inherent cyclicity. Hotel revenues are also vulnerable to general economic slowdown and exogenous shocks (such as geopolitical crises, disease outbreaks and natural calamities, among others). Due to the ongoing outbreak of Covid-19, the operational metrics of the company have been severely impacted.

Intense competition – OPHPL faces stiff competition from other hotels and banquet facilities in proximity to its properties, which is likely to exert pressure on the margins, even when the demand scenario improves.

Liquidity position: Poor

The company’s liquidity profile is poor characterised by 100% utilisation of its CMTCC limit, net losses and high debt repayment obligations. The company’s cashflows have been severely impacted due to the prevailing pandemic. Turnaround in operations or infusion of equity remain critical for improvement in the liquidity position of the company.

Rating sensitivities

Positive factors – ICRA could upgrade OPHPL’s rating if the company demonstrates improvement in its liquidity position and credit and profitability indicators on a sustained basis.

Negative factors – ICRA could downgrade OPHPL’s rating in case of further deterioration in the credit metrics or liquidity position leading to delays in debt servicing.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Policy on Default Recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the issuer.

About the company

Mr. Jayaram Banan commenced operations of OPHPL in 1986 with a restaurant called Sagar Ratna in Defence Colony, New Delhi. In 2010, the company opened an 84-room, four-star luxury hotel in Mangalore, Karnataka. In FY2012, the company hived off its restaurant business and transferred the assets and liabilities of the business division to its wholly-owned subsidiary, SRRPL. Later it sold its ~76% equity stake in SRRPL to a private equity (PE) firm. Subsequently, in 2012, OPHPL started banqueting services at a leased farmhouse in Chhatarpur, New Delhi, and named it Ocean Retreat. In May 2017, OPHPL bought back the ~76% stake in SRRPL from the PE firm, which was entirely funded by debt.

At present, OPHPL operates an 84-room hotel in Mangalore, two banquet halls in New Delhi, two restaurants at Ashoka Hotel, New Delhi, a 50-room hotel at Udupi, Karnataka, with an adjacent banquet hall with a 300-pax capacity, a 60-room hotel in

Bejai (Mangalore) and a 29-room hotel in Hubli, Karnataka. Further, OPHPL owns the Sagar Ratna restaurant chain via its 100% subsidiary, SRRPL.

Key financial indicators (audited)

OPHPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	82.7	39.0
PAT (Rs. crore)	-13.0	-19.1
OPBDIT/OI (%)	-2.2%	-8.2%
PAT/OI (%)	-15.7%	-48.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.2	14.2
Total Debt/OPBDIT (times)	-78.2	-50.2
Interest Coverage (times)	-0.1	-0.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Company, ICRA Research; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Earlier Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
				Feb 24, 2022	July 05, 2021	Dec 03, 2020	Feb 27, 2020*	Aug 30, 2018
1 Fund Based	Long-term	62.00	-	[ICRA]C+	[ICRA]D	[ICRA]D ISSUER NOT COOPERATING	[ICRA]B+ (Stable) ISSUER NOT COOPERATING	[ICRA]B+ (Stable)
2 Unallocated	Long-term and short term	3.00	-	[ICRA]C+/ [ICRA]A4	[ICRA]D/ [ICRA]D	[ICRA]D/ [ICRA]D ISSUER NOT COOPERATING	[ICRA]B+ (Stable)/ [ICRA]A4 ISSUER NOT COOPERATING	-
3 Non-fund based	Long-term and short term	-	-	-	-	-	-	[ICRA]B+ (Stable)/ [ICRA] A4

*An update on reason for delay in surveillance was published on November 25, 2019

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Limits	Simple
Unallocated Limits	Not Applicable

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	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	62.00	[ICRA]C+
NA	Unallocated Limits	NA	NA	NA	3.00	[ICRA]C+/ [ICRA]A4

Source: Company

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

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