Newtech Buildhome Private Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities@	93.30 (Reduced from 100.00)	**CARE BBB (CE); Negative [Triple B (Credit Enhancement); Outlook: Negative]**	**Reaffirmed and removed from Credit watch with Negative Implications; Negative outlook assigned**
Short-term Bank Facilities@	11.50 (Reduced from 12.50)	**CARE A3+ (CE) [A Three Plus (Credit Enhancement)]**	**Reaffirmed and removed from Credit watch with Negative Implications**
Total Facilities	**104.80 (Rs. One Hundred Four Crore and Eighty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

@ backed by unconditional and irrevocable corporate guarantee extended by Serveall Land Developers Private Limited (SLDPL; rated CARE BBB; Negative / CARE A3+)

Unsupported Rating [2]	**CARE BB / CARE A4 (Double B / A Four)**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The above ratings assigned to the bank facilities of Newtech Buildhome Private Limited (NBPL) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by Serveall Land Developers Private Limited (SLDPL; rated CARE BBB; Negative / CARE A3+) for its timely debt servicing.

CARE has removed the ratings of the bank facilities of Serveall Land Developers Private Limited (SLDPL) from 'Credit Watch with negative implications' on account of emergence of clarity on the impact of COVID-19 pandemic on the business and financial risk profile of the company as well as its subsidiary, Newtech Buildhome Private Limited (NBPL).

The ratings continue to derive strength from the sound financial background and experience of the promoter group in the hospitality business, strategic location of the hotel properties of the group and their respective marketing-cum-management agreements with reputed brands. The ratings also factor its moderate scale of operations, profitability and debt coverage indicators at combined level in FY20 (refers to the period April 1 to March 31) along with adequate liquidity.

The ratings are, however, constrained on account of moderation in the operating margin and debt coverage indicators at the group level during 9MFY21 due to subdued performance of its hotels owing to disruption caused by Covid-19 pandemic, nascent stage of operations of its newly constructed hotel property under NBPL which has coincided with the outbreak of Covid-19 pandemic leading to adverse impact on RevPAR of both the hotel properties; its moderate leverage and its presence in the cyclical and competitive hotel industry.

CARE also takes cognizance of SLDPL availing the moratorium from its lender as a COVID relief measure (as permitted by the Reserve Bank of India) on its facilities for the period ranging from March till August 2020.

Rating Sensitivities

Positive factors:

- Significant improvement in OR as well as ARR of its hotels leading to increase in total operating income, profitability margins and debt coverage indicators at combined level to better than pre-Covid levels
- Improvement in capital structure with overall gearing of less than 1 time at combined level

Negative factors:

- Continued moderation in Occupancy level and ARRs of its hotels as a result of Covid-19 pandemic over a prolonged period of time, thereby impacting its profitability as well as debt coverage indicators resulting in significantly inferior performance than envisaged for FY22 or part thereof.
- Deterioration in overall gearing beyond 2.00 times at combined level and deterioration in debt coverage indicators on sustained basis
- Any further significant increase in exposure to group entities.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Outlook: Negative
The 'Negative' outlook on the long-term rating is due to expectation of lower level of RevPAR than the pre-Covid periods in the medium term amidst continuation of Covid-19 pandemic for a longer duration and its consequent adverse impact on the profitability and debt coverage indicators of the group at combined level. However, the outlook may be revised to 'Stable' if the group is able to significantly improve its RevPAR and generate adequate cash accruals to comfortably meet its debt servicing obligations going forward.

Key Rating Drivers of NBPL for Unsupported Rating
The un-supported ratings assigned to the bank facilities of NBPL takes into account nascent stage of its operations in newly constructed hotel property, moderate capital structure, weak debt coverage indicators, intense competition in the hospitality industry with presence of huge room inventory and inherent cyclicality in the hospitality industry. CARE also takes cognizance of the company availing moratorium on principal repayment obligation from its lender for 1 quarter falling due in the month of July, 2020, while for the period from April till August, 2020 on interest payment on its term loan as a COVID relief measure (as permitted by the Reserve Bank of India) however, it continued to service interest on working capital facility.
The ratings, however, favorably takes into account the experience of the promoters with proven track record in hospitality business and their sound financial background, franchise agreement with Starwood Asia Pacific Hotels and Resorts Pte Limited (Starwood); now part of Marriott International, strategic location of hotel property and comfort available from ballooning debt repayment structure resulting in lower repayment liability in the initial years. Further, ratings also take comfort from cushion available in the form of unutilized portion of its fund-based limits, as the average utilization of its limit stood low at around 15% for last 12 months ended February, 2021 along with loan amounting to Rs.15.00 crore under GECL scheme which has still not been availed (Last drawdown date for the said limit is June, 2021) which further adds to liquidity.

Detailed description of the key rating drivers of the guarantor; SLDPL
Key Rating Strengths
Experienced management with sound financial background:
The overall affairs of the group are managed by Mr Hari Mohan Dangayach (Chairman) along with his wife Mrs Kamlesh Dangayach. Both have vast experience in the hospitality business through their group concerns and have demonstrated their financial resourcefulness by supporting the operations of the companies through fund infusion from time to time.

Franchise and Management arrangement with Marriott for tenure of 30 years:
SLDPL's operational risk is mitigated to a large extent by the marketing-cum-management agreement with USA based luxury hotel chain "Marriott" under the brand "Jaipur Marriott" for a term of 30 years with automatic renewals of two 'ten year' terms.
Further, NBPL's operational risk is also mitigated to a large extent by the operating service agreement with luxury hotel chain "Starwood" which is now part of "Marriott" for its brand "Le Meridien" for a term of 30 years with option of renewals of two '10 year' terms. The hotel is marketed under the name of "Le Meridien Hyderabad".
As a member of the Marriott International network, both hotels are likely to enjoy benefits like advertising, promotional programs for the hotel on a global basis and access to Marriott's reservation system and loyal customer base.

Strategic location of both the hotel properties:
The hotel under SLDPL is located strategically near Jaipur airport and is in proximity to Sitapura Industrial Area, one of the key industrial areas of Jaipur. Further, Jaipur is a traditional leisure destination with the hospitality industry thriving on tourist arrivals especially foreign tourist arrivals (FTA).
Additionally, its hotel under NBPL which became operational from November 2019 is strategically located in Gachibowli area of Hyderabad in close proximity to HITEC City which comprises of various business institutions including many IT companies. Thus, NBPL is likely to benefit on account of its strategic location.

Moderate scale of operations along with moderate profitability during FY20:
During FY20, TOI of SLDPL declined marginally by around 5% to Rs.99.58 crore on account of decrease in occupancy rate of hotel as well as F&B income and other sales. During FY20, the average occupancy rate of SLDPL's hotel property declined to 70% from 74% in FY19 which was partially attributed to disruption caused by Covid-19 pandemic leading to lower bookings in the month of March 2020. Further, Average room rent (ARR) of SLDPL increased marginally by 0.59% to Rs.5360 in FY20 (Rs.5329 in FY19) with highest ARR of Rs.7325 reported in the month of November 2019 and resultantly its revenue per available room (RevPAR) decreased from Rs.3943 in FY19 to Rs.3741 in FY20. Further, during FY20, TOI of the group grew by around 5% to Rs.109.90 crore on account of commencement of operations in NBPL from November 2019.
PBILDT margin of SLDPL moderated by around 291 bps to 26.75% during FY20 on account of proportionately higher employee as well as other expenses. Further, PBILDT margin of the group moderated by around 446 bps to 26.75% during FY20 on account of nascent stage of operations of NBPL apart from higher employee as well as other expenses.

Moderate debt coverage indicators:
SLDPL's debt coverage indicators remained moderate with total debt to GCA at 3.54 times as on March 31, 2020 as against 3.55 times as on March 31, 2019. However, owing to higher proportionate decrease in PBILDT vis-à-vis interest expenses, its interest coverage ratio deteriorated marginally to 3.60 times in FY20 as against 3.62 times in FY19.
Further, the group's debt coverage indicators remained moderate with total debt to GCA at 10.18 times as on March 31, 2020 as against 8.04 times as on March 31, 2019; moderated due to decrease in the group's GCA level. Moreover, owing to decrease in PBILDT as well as increase in overall interest expenses, the group's interest coverage ratio deteriorated to 2.45 times in FY20 as against 3.62 times in FY19.

Liquidity - Adequate
The company's liquidity is adequate as the company has cushion available in the form of unutilized portion of its fund-based working capital limits, as the average utilization of its limit stood low at around 34% for last 12 months ending February 2021. Moreover, as confirmed by its lender, the company is maintaining DSRA of Rs.6.00 crore as on March 25, 2021. Additionally, its cash flow from operating activities stood adequate at Rs.31.45 crore in FY20. In order to ease its liquidity position in light of the severe disruption arising from outbreak of corona virus pandemic, SLDPL had availed moratorium on interest and principal obligation on term loans sanctioned by one of its lenders for the period starting from May, 2020 till August, 2020 and for the period from April, 2020 till August, 2020 on the term loan sanctioned by other lender. Also, tenure of the term loans on which moratorium was allowed by lenders has been extended by four months & 2 quarters respectively. The company had also availed moratorium on interest obligation on fund-based limit from March, 2020 till August, 2020. The cumulative interest deferred during the moratorium period pertaining to term loan from one of the lenders as well as on fund-based limits have been converted into Funded Interest Term Loan (FITL) to be repaid till March 31, 2021, while interest deferred during moratorium pertaining to other lender has to be repaid till March, 2024.
Also, SLDPL has availed loan amounting to Rs.2.99 crore under Emergency Credit Line Guaranteed Scheme (ECLGS). Additionally, one of the lenders has also sanctioned loan amounting to Rs.10.00 crore under GECL scheme which has been availed in the month of March 2021.

Key Rating Weaknesses
Adverse impact of Covid-19 pandemic on its operations and profitability:
Due to the adverse impact of Covid-19 pandemic on the hospitality sector, the OR and ARR of both the hotel properties of the group were significantly impacted during 11MFY21; albeit gradual improvement was witnessed during second half of FY21. Although, the domestic travel restrictions were eased gradually from June 2020, the restrictions on events/marriages continued with allowing of limited guests which along with restrictions on international flights continued till date which impacted the business profile of the company during current financial year. While SLDPL incurred a loss at PBT level of ~Rs.14 crore on a TOI of ~Rs.10 crore during 9MFY21, during the same period NBPL incurred a loss at PBILDT level of ~Rs.1.32 crore on a TOI of ~Rs.3.77 crore. The group has managed the challenging environment through its available liquidity and by availing various credit lines/moratorium from its lenders as a Covid-19 relief measure in line with RBI guidelines. Also, as articulated by the management, the group has initiated various cost cutting measures like reduction in number of staff, salary rationalization of all its employees depending upon the position in the company as well as discount (equivalent to 3 months charges) from AMC providers of ACs and other electronic devices to manage the situation.

Nascent stage of operations of its newly constructed hotel property under NBPL:
The hotel under NBPL commenced operations from November 2019 and thus has a limited track record of operations. During FY20, TOI of the company stood at Rs.10.32 crore with company reporting Average room rent (ARR) & Average occupancy rate (OR) of Rs.6541 & 30% respectively in FY20. However, the outbreak of Covid-19 pandemic adversely impacted its nascent operations during 9MFY21.

Moderate capital structure and exposure in terms of investment and corporate guarantee for bank facilities of NBPL:
SLDPL's capital structure at standalone level stood moderate with an overall gearing of 0.71 times as on March 31, 2020. Unsecured loans from promoters to the tune of Rs.45.00 crore are sub-ordinated to the bank borrowings as per condition laid down by one of the lenders and hence the same has been treated as quasi capital as on March 31, 2020 (Rs.50 crore considered as quasi-equity as on March 31, 2019).
Group's capital structure stood moderate with an overall gearing of 1.25 times as on March 31, 2020.
However, SLDPL has invested Rs.47.67 crore as on March 31, 2020 in NBPL which increased from Rs.32.80 crore as on March 31, 2019 and it has also extended its corporate guarantee for the bank facilities sanctioned to NBPL which has a relatively weaker credit profile. Because of the nascent stage of operations and subdued performance due to impact of Covid-19, SLDPL's investment in NBPL has further increased by around Rs.3.89 crore during current year i.e. FY21.

Concentration risk on account of being dependent on a single hotel property in both the companies:
SLDPL's performance is solely dependent on performance of its single property and overall performance of Jaipur hospitality market. Any change in prospects of Jaipur market can have an impact directly on the performance of the company.
Further, NBPL's performance is also solely dependent on performance of its single property and overall performance of Hyderabad hospitality market.

Intense competition and inherent cyclicality of the hospitality industry with dependence on tourist arrivals:
The hospitality industry is highly sensitive to the untoward events such as slowdown in the economy. The hospitality industry is cyclical in nature. i.e., during positive cycles the industry witnesses periods of sustained growth and sees healthy average room rates (ARRs) and occupancy rates (ORs). When recession sets in, the ORs begin to decline followed by the ARRs. In the recovery phase, ORs starts to move up and eventually the ARRs also start to increase. While the macro-economic factors affect the business destinations (RevPARs, growth is sensitive to the macro-economic indicator such as the nominal GDP, inflation, lending rates, etc), the leisure destinations show a greater sensitivity to non-economic factors such as terror attacks, health related travel warning, etc. Cyclical nature of the hotel industry and increasing competition from already established hotels has impacted performances of industry players. SLDPL's hotel property is located at Jaipur, a city of historical importance, thereby benefitting in terms of higher domestic as well as foreign tourist arrival while NBPL's property is located at Hyderabad, a heritage city which over the years has emerged as a commercial hub with leading companies in manufacturing, IT, finance, pharmaceutical and biotechnology having their manufacturing facilities and corporate offices in the city.

Outlook on Industry
With the outbreak of corona virus and subsequent lockdown, Indian hospitality industry has witnessed decline in occupancies and room rates on account of business as well as leisure trips being cancelled or postponed by domestic and international travelers. Consequently, overall occupancy rate of hotel industry (OR) fell from 70.5% in January 2020 to as low as 11.7% in April 2020. The occupancy rate although improving on a monthly basis, has not reached pre-covid level of business yet. This is mainly due to the ban on FTAs which is not expected to be lifted in the near future. In addition to this, GoI in October 2020 has permitted visa relaxations for all purposes except for tourism which in turn is expected to further affect the recovery in FTAs. For the occupancy across hotels to reach pre-covid levels, it depends how quickly the virus is contained within India and globally and accordingly when the travel restrictions will be eased globally for foreign travel. Meanwhile, although the overall average occupancy rate for FY21 will remain low, it is expected to improve on a quarterly basis in Q4FY21. Also, restriction on outbound tourism is leading to people exploring destinations within the country. With the easing of travel restrictions, people have started stepping out for weekend getaways and staycations and are also using hotel facilities as their workstations. However, the second wave of Covid pandemic is expected to again restrict the pace of recovery in the hospitality sector.

Analytical approach:
Credit Enhancement rating: Guarantor's Assessment. SLDPL has extended unconditional and irrevocable corporate guarantee for bank facilities of NBPL. The company is part of Dangayach group of Jaipur and receives financial support from the group.
Unsupported rating. Standalone. The company is part of Dangayach group of Jaipur and receives financial support from the group.

Applicable criteria
Criteria on assigning Outlook to Credit Ratings
Criteria for Credit Enhanced Debt
CARE's Policy on Default Recognition
Rating Methodology- Hotel Companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology- Consolidation

About the Company
Newtech Buildhome Private Limited (NBPL) was incorporated in August, 2005 by Mr. Hari Mohan Dangayach and his wife Mrs. Kamlesh Dangayach with an objective to carry out hospitality business. NBPL is a part of Dangayach Group (DG) based out of Jaipur (Rajasthan) which has interest in the business of hospitality, real estate and jewellery through different group concerns.

NBPL has developed a 241 room hotel at Hyderabad (Telangana) for which it has entered into operating service agreement with Starwood Hotels and Resorts India Private Limited (Starwood; now part of Marriott) to market and manage the said hotel property under the brand of "Le Meridien". The hotel has 241 rooms, 2 banquet hall, 5 different dining options and other modern amenities including a swimming pool, a gym, spa centre and extensive parking space. Due to delay in receipt of Fire NOC and subsequently occupancy certificate, the hotel became operational from November 2019 as against earlier envisaged date of April 2019.

Financials (Standalone- NBPL)

Brief Financials (Rs. crore)	FY20 (A)
Total operating income	10.32
PBILDT	1.06
PAT	-3.32
Overall gearing (times)	1.15
Interest coverage (times)	0.27

A: Audited

As per provisional results for 9MFY21, the company has reported TOI of Rs.3.77 crore with operating (PBILDT) loss of Rs.1.32 crore.

Financials (Combined- SLDPL & NBPL)

Brief Financials (Rs. crore)	FY19 (UA)	FY20 (UA)
Total operating income	104.70	109.90
PBILDT	31.06	27.69
PAT	3.86	1.96
Overall gearing (times)	1.31	1.25
Interest coverage (times)	3.62	2.45

UA: Unaudited

As per provisional results for 9MFY21, the group has reported TOI of Rs.13.81 crore with operating (PBILDT) loss of Rs.0.83 crore.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	April-2031	93.30	CARE BBB (CE); Negative
Fund-based - ST-Bank Overdraft	-	-	-	4.50	CARE A3+ (CE)
Non-fund-based - ST-Bank Guarantees	-	-	-	7.00	CARE A3+ (CE)
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE BB
Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	0.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (04-Apr-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (04-Apr-17)
3.	Fund-based - LT-Term Loan	LT	93.30	CARE BBB (CE); Negative	1)CARE BBB (CE) (CWN) (06-May-20) 2)CARE BBB (CE); Stable (03-Apr-20)	-	1)CARE BBB (SO); Stable (25-Mar-19)	1)CARE BBB (SO); Stable (16-Feb-18)
4.	Fund-based - ST-Bank Overdraft	ST	4.50	CARE A3+ (CE)	1)CARE A3+ (CE) (CWN) (06-May-20) 2)CARE A3+ (CE) (03-Apr-20)	-	1)CARE A3+ (SO) (25-Mar-19)	1)CARE A3+ (SO) (16-Feb-18)
5.	Non-fund-based - ST-Bank Guarantees	ST	7.00	CARE A3+ (CE)	1)CARE A3+ (CE) (CWN) (06-May-20) 2)CARE A3+ (CE) (03-Apr-20)	-	1)CARE A3+ (SO) (25-Mar-19)	1)CARE A3+ (SO) (16-Feb-18)
6.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BB	1)CARE BB (06-May-20) 2)CARE BB (03-Apr-20)	-	-	-
7.	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A4	1)CARE A4 (06-May-20) 2)CARE A4 (03-Apr-20)	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - ST-Bank Overdraft	Simple
3.	Non-fund-based - ST-Bank Guarantees	Simple
4.	Un Supported Rating-Un Supported Rating (Long Term)	Simple
5.	Un Supported Rating-Un Supported Rating (Short Term)	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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