

3 STAR HOTEL



1.0 INTRODUCTION

Hotel industry is inextricably linked to the tourism industry and the growth in tourism industry fuels the growth in hotel business. Demand for hotel rooms also increases during times of boom in the economy, due to the increase in business travellers. In India, the Ministry of Tourism is the regulatory authority for categorisation of hotels, the purpose of which is to provide contemporary standards of facilities and services available in the hotels and thereby contribute in the overall tourism experience.

Under the regulatory regime, the hotels in India are classified as below.

1. Star Category Hotels: 5 Star Deluxe, 4 Star, 3 Star, 2 Star, 1 Star.

2. Heritage Category Hotels: Heritage Grand, Heritage Classic & Heritage Basic

This project profile is for setting up of a 3 Star Hotel with accommodation capacity of 35 rooms. In addition, the hotel will provide services of conference Hall, Banquet Hall, Multi cuisine restaurant & bar and spa & salon.

constantly increasing due to various factors. CARE research estimates the hotel industry in India to grow at a compounded annual growth rate. Buoyancy in economy, rising discretionary income, growing culture of weekend vacation and increased business travel are likely to propel growth in the hotel industry. Domestic leisure tourists will continue to dominate the domestic demand for hotel rooms in the low, economy and medium segment, whereas the rise in foreign tourist arrivals and business travelers will create demand for upper segment.

When compared with the potential for tourism in the NE region, the number of tourist visiting the region is far below the actual potential. The tourist flow to the region witnessed a fluctuating trend over the years though this has changed for the better with attempts to position the NER for its wide biodiversity. As per one study report, the hotel industry in the North East is growing at the rate of more than 100%. Due to exponential increase in commercial activities and associated business travelers, the demand for hotel accommodation is increasing. The report favours the setting up of a few more 2, 3, 4 and 5 star category hotels.

2.0 MARKET POTENTIAL

The hotel industry in India has witnessed significant growth over the past few years and the demand has been

3.0 COST OF THE PROJECT

The estimated project cost is given below.

(Rs. in lacs)

Particulars	Amount (Rs)
Land & Site Development	5.00
Building & Civil Works	292.32
Equipment	71.18
Misc. Fixed Assets	23.79
Preliminary & Pre-operative Expenses	46.34
Contingencies & Escalation @ 3%	11.77
Working Capital Margin	12.68
TOTAL	463.08

3.1 Land & Site Development: No cost has been considered for land. Expenses on site development are estimated as below.

Particulars	Area	Rate (Rs)	Amount (Rs)
Earth filling, levelling, fencing, gate, boundary wall, drain, etc	LS	LS	500000
Say (Rs. in lacs)			5.00

3.2 Building & Civil Works: Details of building & civil works are given below.

Particulars	Area (Sqm)	Rate (Rs)	Amount (Rs)
Basement	580	9000	5220000
Ground Floor	580	9000	5220000
First Floor	580	9000	5220000
Second Floor	580	9000	5220000
Third Floor	580	9000	5220000
Sub total			26100000
Add: Electrification, water supply and sanitation @ 12%			3132000
TOTAL			29232000
Say (Rs. in lacs)			292.32

3.3 Equipment: Details of equipment are given below.

Particulars	Qty	Rate (Rs)	Amount (Rs)
Lift (Ordinary)	1	800000	800000
TV	40	15000	600000
AC	45	25000	1125000
Geyser	35	7000	245000
Ceiling fans	45	1000	45000
Water cooler	2	35000	70000
Refrigerator	10	12000	120000
Room furnishing	35	50000	1750000
Reception/lobby furnishing	LS	LS	500000
Kitchen & restaurant equipment	LS	LS	500000
Laundry equipment	LS	LS	300000
Spa & Saloon equipment	LS	LS	200000
Miscellaneous items	LS	LS	100000
Sub total			6355000
Add: Installation, transportation, etc @ 12%			762600
TOTAL			7117600
Say (Rs. in lacs)			71.18

3.4 Misc. Fixed Assets: Details of miscellaneous fixed assets are given below.

Particulars	Qty	Rate (Rs)	Amount (Rs)
125 KVA DG Set	1	889000	889000
Transformer installation	1	800000	800000
EPABX system	1	60000	60000
Computers	5	25000	125000
Printer	1	15000	15000
Fire safety equipment	1	90000	90000
Shallow tube well	1	200000	200000
Miscellaneous items	LS	LS	100000
Sub total			2279000
Add: Installation, transportation, etc @ 10%			227900
TOTAL			2379000
Say (Rs. in lacs)			23.79

3.5 Preliminary & Pre-operative Expenses: Details of preliminary & pre-operative expenses are given below.

Particulars	(Rs. In lacs) Amount (Rs)
Travelling expenses	1.00
Professional & other fees	1.00
Interest during implementation	43.34
Miscellaneous expenses	1.00
TOTAL	46.34

3.6 Contingencies & Escalation: Contingencies & escalation has been assumed at 3% of the cost of land & site development, building & civil works, equipment and miscellaneous fixed assets.**3.7 Working Capital:** Details of working capital are given below.

Particulars	Period (Days)	(Rs. in lacs) Amount (Rs)		
		Year 1	Year 2	Year 3
Food & Provisions	30	8.82	11.34	13.86
Power & Fuel	30	0.91	1.17	1.44
Salary	30	2.95	2.95	2.95
Total		12.68	15.47	18.25
Working Capital Margin in Year 1 (100%)		12.68		

4.0 MEANS OF FINANCE

The means of finance for the project is estimated as below.

Particulars	Percent	(Rs. in lacs) Amount (Rs)
<u>EQUITY</u>		
A. Equity from Promoters	40%	185.23
B. Subsidy from Central/State Govt.	-	
<u>DEBT</u>		
Term Loan from Banks/FIs	60%	277.85
TOTAL	100%	463.08

5.0 PROFITABILITY STATEMENT

(Rs. in lacs)

Particulars	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7
A. INCOME							
Income at installed capacity	651.53	651.53	651.53	651.53	651.53	651.53	651.53
Capacity utilisation	35%	45%	55%	55%	55%	55%	55%
Income from sales/annum	228.03	293.19	358.34	358.34	358.34	358.34	358.34
B. OPERATING EXPENSES							
Food & Provisions	107.31	137.97	168.63	168.63	168.63	168.63	168.63
Power & Fuel	11.12	14.29	17.47	17.47	17.47	17.47	17.47
Salary	35.88	35.92	35.95	35.99	36.02	36.06	36.10
Repair & Maintenance	3.87	4.26	4.69	5.15	5.67	6.24	6.86
Administrative & Selling Expenses	2.28	2.93	3.58	3.58	3.58	3.58	3.58
Miscellaneous Expenses	1.14	1.47	1.79	1.79	1.79	1.79	1.79
Total Operating Expenses	161.60	196.84	232.11	232.62	233.17	233.77	234.43
Less: working expenses capitalised	12.68	0.00	0.00	0.00	0.00	0.00	0.00
Operating profit	79.12	96.35	126.22	125.72	125.17	124.57	123.91
C. FINANCIAL EXPENSES							
Depreciation	15.03	15.03	15.03	15.03	15.03	15.03	15.03
Interest on Term Loan	37.38	33.26	27.26	21.26	15.25	9.25	3.25
Net Profit	26.70	48.06	83.94	89.44	94.89	100.29	105.63
Net cash accruals	41.73	63.09	98.97	104.46	109.91	115.31	120.65
Principal Repayment	11.11	44.46	44.46	44.46	44.46	44.46	44.46

5.1 Income from sales: Income from sales at installed capacity is estimated as below.**A. Income from Rooms**

Type of Rooms	Quantity	Tariff (Rs)	Days	Amount (Rs)
Standard	20	2000	365	14600000
Deluxe	13	2500	365	11862500
Suite	2	3500	365	2555000
Income from rooms at installed capacity (Rs)				29017500

B. Income from Restaurant

Particulars	Rate/client (Rs)	Clients/day	Days/annum	Amount (Rs)
Food per day	800	70	365	20440000
Tea, snacks, etc per day	400	70	365	10220000
Income from restaurant at installed capacity (Rs)				30660000

C. Income from Conference Hall & Banquet Hall

Days/annum	365
Rate (Rs)	10000
Income from conference hall at installed capacity (Rs)	3650000

D. Other incomes like Spa & Saloon, telephone, laundry, etc

Days/annum	365
Income per day (Rs)	5000
Income from telephone calls, etc at installed capacity (Rs)	1825000
Total Income at installed capacity (Rs)	65152500

5.2 Food & Provisions: Expenses on food & provisions has been assumed @ 40% of income from restaurant.

5.3 Power & Fuel: Expenses on power & fuel is estimated as below.

A. Expenses on power

Particulars	Quantity	Power (Kw)	Total (Kw)	hrs/day	kwh/day
AC for restaurant, rooms & hall	1	50.00	50.00	12	600.00
General Lighting, TV, fans, etc	35	0.80	28.00	12	336.00
Lift, computers, etc	1	10.00	10.00	10	100.00
Water pump	1	5.00	5.00	2	10.00
Miscellaneous			1.00	12	12.00
Total power requirement/day (Kw)					1058.00
Average load			70%		
Days/annum			365		
Rate per unit (Rs)			5.00		
Expenses on power per annum (Rs)			1351595		

B: Estimate of Diesel required for Generator

Hrs/day	2
Diesel consumption (litres/hr)	50
Days/annum	365
Diesel Price per liter	50
Expenses on diesel (Rs)	1825000
Expenses on power & fuel at installed capacity (Rs)	3176595

5.4 Salary: Expenses on salary in the 1st year is estimated as given below. It is assumed that salary expenses will increase @ 0.1% every subsequent year.

Particulars of Employees	Numbers	Salary/Month (Rs)	Cost/annum (Rs)
General Manager	1	50000	600000
Managers	3	20000	720000
Accounts Officer	1	20000	240000
Receptionist	3	15000	540000
Spa & Saloon staffs	5	8000	480000
Housekeepers	2	8000	192000
Waiters	6	8000	576000
Unskilled workers/helpers	5	4000	240000
Expenses on salary in the 1st year (Rs)			3588000

5.5 Repair & Maintenance: Expenses on repair & maintenance in the 1st year is estimated as given below. It is assumed that expenses on repair & maintenance will increase @ 10% every subsequent year.

(Rs. in lacs)

Particulars	Cost (Rs)	Rate	Amount (Rs)
Building & Civil Works	292.32	1%	2.92
Equipment	71.18	1%	0.71
Misc. Fixed Assets	23.79	1%	0.24
Expenses on repair & maintenance in year 1			3.87

5.6 Administrative & Selling Expenses: Administrative & selling expenses have been assumed at 1% of sales.

5.7 Miscellaneous Expenses: Miscellaneous expenses have been assumed at 0.5% of sales.

5.8 Depreciation: Depreciation has been calculated by straight line method. The details of calculation are given below.

(Rs in lacs)

Description	Cost (Rs)	Rate	Amount/ annum (Rs)
Building & Civil Works	292.32	3.34%	9.76
Equipment	71.18	5.28%	3.76
Misc. Fixed Assets	23.79	6.33%	1.51
TOTAL			15.03

5.9 Interest on Term Loan & Principal Repayment: Interest rate has been assumed at 13.5%. Duration of Loan repayment has been considered for a period of 7 years including moratorium period of 9 months with equal monthly instalments. The details of calculation are given below.

(Rs in lacs)

	Year	1	2	3	4	5	6	7
Month 1	Opening balance	277.85	266.74	222.28	177.82	133.37	88.91	44.46
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest (13.5%)	3.13	3.00	2.50	2.00	1.50	1.00	0.50
	Closing balance	277.85	263.03	218.58	174.12	129.66	85.21	40.75
Month 2	Opening balance	277.85	263.03	218.58	174.12	129.66	85.21	40.75
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.96	2.46	1.96	1.46	0.96	0.46
	Closing balance	277.85	259.33	214.87	170.42	125.96	81.50	37.05
Month 3	Opening balance	277.85	259.33	214.87	170.42	125.96	81.50	37.05
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.92	2.42	1.92	1.42	0.92	0.42
	Closing balance	277.85	255.62	211.17	166.71	122.25	77.80	33.34
Month 4	Opening balance	277.85	255.62	211.17	166.71	122.25	77.80	33.34
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.88	2.38	1.88	1.38	0.88	0.38
	Closing balance	277.85	251.92	207.46	163.01	118.55	74.09	29.64
Month 5	Opening balance	277.85	251.92	207.46	163.01	118.55	74.09	29.64
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.83	2.33	1.83	1.33	0.83	0.33
	Closing balance	277.85	248.21	203.76	159.30	114.85	70.39	25.93
Month 6	Opening balance	277.85	248.21	203.76	159.30	114.85	70.39	25.93
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.79	2.29	1.79	1.29	0.79	0.29

	Closing balance	277.85	244.51	200.05	155.60	111.14	66.68	22.23
Month 7	Opening balance	277.85	244.51	200.05	155.60	111.14	66.68	22.23
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.75	2.25	1.75	1.25	0.75	0.25
	Closing balance	277.85	240.80	196.35	151.89	107.44	62.98	18.52
Month 8	Opening balance	277.85	240.80	196.35	151.89	107.44	62.98	18.52
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.71	2.21	1.71	1.21	0.71	0.21
	Closing balance	277.85	237.10	192.64	148.19	103.73	59.27	14.82
Month 9	Opening balance	277.85	237.10	192.64	148.19	103.73	59.27	14.82
	Repayment	0.00	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.67	2.17	1.67	1.17	0.67	0.17
	Closing balance	277.85	233.39	188.94	144.48	100.03	55.57	11.11
Month 10	Opening balance	277.85	233.39	188.94	144.48	100.03	55.57	11.11
	Repayment	3.70	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.13	2.63	2.13	1.63	1.13	0.63	0.13
	Closing balance	274.15	229.69	185.23	140.78	96.32	51.87	7.41
Month 11	Opening balance	274.15	229.69	185.23	140.78	96.32	51.87	7.41
	Repayment	3.70	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.08	2.58	2.08	1.58	1.08	0.58	0.08
	Closing balance	270.44	225.99	181.53	137.07	92.62	48.16	3.70
Month 12	Opening balance	270.44	225.99	181.53	137.07	92.62	48.16	3.70
	Repayment	3.70	3.70	3.70	3.70	3.70	3.70	3.70
	Interest	3.04	2.54	2.04	1.54	1.04	0.54	0.04
	Closing balance	266.74	222.28	177.82	133.37	88.91	44.46	0.00
Principal Repayment		11.11	44.46	44.46	44.46	44.46	44.46	44.46
Interest		37.38	33.26	27.26	21.26	15.25	9.25	3.25

6.0 DEBT SERVICE COVERAGE RATIO (DSCR)

(Rs. in lacs)

Year	1	2	3	4	5	6	7	TOTAL
Net Profit	26.70	48.06	83.94	89.44	94.89	100.29	105.63	
Depreciation	15.03	15.03	15.03	15.03	15.03	15.03	15.03	
Interest	37.38	33.26	27.26	21.26	15.25	9.25	3.25	
Total	79.12	96.35	126.22	125.72	125.17	124.57	123.91	801.05
Interest	37.38	33.26	27.26	21.26	15.25	9.25	3.25	
Loan repayment	11.11	44.46	44.46	44.46	44.46	44.46	44.46	
Total	48.50	77.71	71.71	65.71	59.71	53.71	47.71	424.76
DSCR	1.63	1.24	1.76	1.91	2.10	2.32	2.60	

Average DSCR = 1.89

7.0 BREAK EVEN POINT (BEP)

(Rs. in lacs)

Year	1	2	3
A. Net sales	228.03	293.19	358.34
B. Variable cost			
Food & Provisions	107.31	137.97	168.63

Power & Fuel	11.12	14.29	17.47
Administrative & Selling Expenses	2.28	2.93	3.58
Miscellaneous Expenses	1.14	1.47	1.79
Total variable cost	121.85	156.66	191.48
C. Contribution (A-B)	106.19	136.52	166.86
D. Fixed & Semi-fixed Costs			
Salary	35.88	35.92	35.95
Repair & maintenance	3.87	4.26	4.69
Interest on Term Loan	37.38	33.26	27.26
Depreciation	15.03	15.03	15.03
Total fixed cost	92.17	88.46	82.92
E. BREAK EVEN POINT	86.80%	64.80%	49.70%
F. BEP at operating capacity	30.38%	29.16%	27.33%
G. Cash BEP	25.43%	24.21%	22.38%

8.0 INTERNAL RATE OF RETURN (IRR)

(Rs. in lacs)

Year	0	1	2	3	4	5	6	7
CASH OUTFLOW								
Capital Expenditure	392.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Working Capital	0.00	12.68	2.78	2.78	0.00	0.00	0.00	0.00
Total (A)	392.29	12.68	2.78	2.78	0.00	0.00	0.00	0.00
CASH INFLOW								
Profit After Tax		26.70	48.06	83.94	89.44	94.89	100.29	105.63
Add: Depreciation		15.03	15.03	15.03	15.03	15.03	15.03	15.03
Add: Interest		37.38	33.26	27.26	21.26	15.25	9.25	3.25
Add: Salvage Value								
Total (B)	0.00	79.12	96.35	126.22	125.72	125.17	124.57	123.91
NET FLOW (B-A)	-392.29	66.43	93.56	123.44	125.72	125.17	124.57	123.91

IRR = 19%