

2 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 2 Star Hotel having capacity of 24 rooms.

2.0 MARKET POTENTIAL

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

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.

3.0 COST OF THE PROJECT

The estimated project cost is given below.

Particulars	Amount (Rs lacs)
Land & Site Development	5.00
Building & Civil Works	111.55
Equipment	45.14
Misc. Fixed Assets	20.65
Preliminary & Pre-operative Expenses	20.95
Contingencies & Escalation @ 3%	5.47
Working Capital Margin	7.50
TOTAL	216.27

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, 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	140	15000	2100000
Ground Floor	140	9000	1260000
First Floor	165	10000	1650000
Second Floor	165	10000	1650000
Third Floor	165	10000	1650000
Fourth Floor	165	10000	1650000
Sub total			9960000
Add: Electrification, water supply and sanitation @ 12%			1195200
TOTAL			11155200
Say (Rs. in lacs)			111.55

3.3 Equipment: Details of equipment are given below.

Particulars	Qty	Rate (Rs)	Amount (Rs)
Lift (Ordinary)	1	800000	800000
TV	25	15000	375000
AC	25	25000	625000
Geyser	25	7000	175000
Ceiling fans	30	1000	30000
Water cooler	2	35000	70000
Refrigerator	10	12000	120000
Room furnishing	21	35000	735000
Reception/lobby furnishing	LS	LS	500000
Kitchen & restaurant equipment	LS	LS	500000
Miscellaneous items	LS	LS	100000
Sub total			4030000
Add: Installation, transportation, etc @ 12%			483600
TOTAL			4513600
Say (Rs. in lacs)			45.14

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

Particulars	Qty	Rate (Rs)	Amount (Rs)
100 KVA DG Set	1	575000	575000
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			1965000
Add: Installation, transportation, etc @ 10%			196500
TOTAL			2065000
Say (Rs. in lacs)			20.65

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

Particulars	Amount (Rs lacs)
Travelling expenses	1.00
Professional & other fees	1.00
Interest during implementation	17.95
Miscellaneous expenses	1.00
TOTAL	20.95

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.

(Rs. in lacs)

Particulars	Period (Days)	Amount (Rs)		
		Year 1	Year 2	Year 3
Food & Provisions	30	5.18	6.48	7.78
Power & Fuel	30	1.09	1.37	1.64
Salary	30	1.22	1.22	1.23
Total		7.50	9.07	10.64
Working Capital Margin in Year 1 (100%)				
		7.50		

4.0 MEANS OF FINANCE

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

(Rs. in lacs)

Particulars	Percent	Amount (Rs)
<u>EQUITY</u>		
A. Equity from Promoters	40%	85.61
B. Subsidy from Central/State Govt.	-	
<u>DEBT</u>		
Term Loan from Banks/FIs	60%	129.76
TOTAL	100%	216.27

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	309.52	309.52	309.52	309.52	309.52	309.52	309.52
Capacity utilisation	40%	50%	60%	60%	60%	60%	60%
Income from sales/annum	123.81	154.76	185.71	185.71	185.71	185.71	185.71
B. OPERATING EXPENSES							
Food & Provisions	63.07	78.84	94.61	94.61	94.61	94.61	94.61
Power & Fuel	13.30	16.62	19.94	19.94	19.94	19.94	19.94
Salary	14.88	14.89	14.91	14.92	14.94	14.95	14.97
Repair & Maintenance	1.77	1.95	2.15	2.36	2.60	2.86	3.14
Administrative & Selling Expenses	1.24	1.55	1.86	1.86	1.86	1.86	1.86
Miscellaneous Expenses	0.62	0.77	0.93	0.93	0.93	0.93	0.93
Total Operating Expenses	94.88	114.63	134.39	134.62	134.87	135.15	135.45
Less: working expenses capitalised	7.50	0.00	0.00	0.00	0.00	0.00	0.00
Operating profit	36.43	40.13	51.32	51.09	50.84	50.57	50.26
C. FINANCIAL EXPENSES							
Depreciation	7.42	7.42	7.42	7.42	7.42	7.42	7.42
Interest on Term Loan	17.46	15.53	12.73	9.93	7.12	4.32	1.52
Net Profit	11.55	17.19	31.17	33.75	36.30	38.83	41.33
Net cash accruals	18.97	24.60	38.59	41.16	43.72	46.24	48.75
Principal Repayment	5.19	20.76	20.76	20.76	20.76	20.76	20.76

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)
Economy	15	1200	365	6570000
Deluxe	7	1800	365	4599000
Suite	2	2500	365	1825000
Income from rooms at installed capacity (Rs)				12994000

B. Income from Restaurant

Particulars	Rate/ client (Rs)	Clients/ day	Days/ annum	Amount (Rs)
Food per day	600	48	365	10512000
Tea, snacks, etc per day	300	48	365	5256000
Income from restaurant at installed capacity (Rs)				15768000

C. Income from Conference Hall

<u>3. Income from Conference Hall</u>	
Days/annum	365
Rate (Rs)	5000
Income from conference hall at installed capacity (Rs)	1825000

D. Other incomes like telephone

Days/annum	365
Income per day (Rs)	1000

Income from telephone calls, etc at installed capacity (Rs)	365000
Total Income at installed capacity (Rs)	30952000

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	47	0.80	37.60	12	451.20
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)					1173.20
Average load			70%		
Days/annum			365		
Rate per unit (Rs)			5.00		
Expenses on power per annum (Rs)			1498763		

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)	3323763

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	30000	360000
Managers	2	15000	360000
Receptionist	2	7000	168000
Housekeepers	2	5000	120000
Waiters	5	5000	300000
Unskilled workers/helpers	5	3000	180000
Expenses on salary in the 1st year (Rs)			1488000

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	111.55	1%	1.12
Equipment	45.14	1%	0.45
Misc. Fixed Assets	20.65	1%	0.21
Expenses on repair & maintenance in year 1			1.77

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	111.55	3.34%	3.73
Equipment	45.14	5.28%	2.38
Misc. Fixed Assets	20.65	6.33%	1.31
TOTAL			7.42

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	129.76	124.57	103.81	83.05	62.28	41.52	20.76
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest (13.5%)	1.46	1.40	1.17	0.93	0.70	0.47	0.23
	Closing balance	129.76	122.84	102.08	81.32	60.55	39.79	19.03
Month 2	Opening balance	129.76	122.84	102.08	81.32	60.55	39.79	19.03
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.38	1.15	0.91	0.68	0.45	0.21
	Closing balance	129.76	121.11	100.35	79.59	58.82	38.06	17.30
Month 3	Opening balance	129.76	121.11	100.35	79.59	58.82	38.06	17.30
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.36	1.13	0.90	0.66	0.43	0.19
	Closing balance	129.76	119.38	98.62	77.86	57.09	36.33	15.57
Month 4	Opening balance	129.76	119.38	98.62	77.86	57.09	36.33	15.57
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.34	1.11	0.88	0.64	0.41	0.18
	Closing balance	129.76	117.65	96.89	76.13	55.36	34.60	13.84
Month 5	Opening balance	129.76	117.65	96.89	76.13	55.36	34.60	13.84
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.32	1.09	0.86	0.62	0.39	0.16
	Closing balance	129.76	115.92	95.16	74.40	53.63	32.87	12.11
Month 6	Opening balance	129.76	115.92	95.16	74.40	53.63	32.87	12.11
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.30	1.07	0.84	0.60	0.37	0.14
	Closing balance	129.76	114.19	93.43	72.67	51.90	31.14	10.38
Month 7	Opening balance	129.76	114.19	93.43	72.67	51.90	31.14	10.38
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.28	1.05	0.82	0.58	0.35	0.12
	Closing balance	129.76	112.46	91.70	70.94	50.17	29.41	8.65
Month 8	Opening balance	129.76	112.46	91.70	70.94	50.17	29.41	8.65
	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.27	1.03	0.80	0.56	0.33	0.10
	Closing balance	129.76	110.73	89.97	69.21	48.44	27.68	6.92
Month 9	Opening balance	129.76	110.73	89.97	69.21	48.44	27.68	6.92

	Repayment	0.00	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.25	1.01	0.78	0.54	0.31	0.08
	Closing balance	129.76	109.00	88.24	67.48	46.71	25.95	5.19
Month 10	Opening balance	129.76	109.00	88.24	67.48	46.71	25.95	5.19
	Repayment	1.73	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.46	1.23	0.99	0.76	0.53	0.29	0.06
	Closing balance	128.03	107.27	86.51	65.75	44.98	24.22	3.46
Month 11	Opening balance	128.03	107.27	86.51	65.75	44.98	24.22	3.46
	Repayment	1.73	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.44	1.21	0.97	0.74	0.51	0.27	0.04
	Closing balance	126.30	105.54	84.78	64.02	43.25	22.49	1.73
Month 12	Opening balance	126.30	105.54	84.78	64.02	43.25	22.49	1.73
	Repayment	1.73	1.73	1.73	1.73	1.73	1.73	1.73
	Interest	1.42	1.19	0.95	0.72	0.49	0.25	0.02
	Closing balance	124.57	103.81	83.05	62.28	41.52	20.76	0.00
	Principal Repayment	5.19	20.76	20.76	20.76	20.76	20.76	20.76
	Interest	17.46	15.53	12.73	9.93	7.12	4.32	1.52

6.0 DEBT SERVICE COVERAGE RATIO (DSCR)

(Rs. in lacs)

Year	1	2	3	4	5	6	7	TOTAL
Profit After Tax (Net Profit)	11.55	17.19	31.17	33.75	36.30	38.83	41.33	
Depreciation	7.42	7.42	7.42	7.42	7.42	7.42	7.42	
Interest	17.46	15.53	12.73	9.93	7.12	4.32	1.52	
Total	36.43	40.13	51.32	51.09	50.84	50.57	50.26	330.64
Interest	17.46	15.53	12.73	9.93	7.12	4.32	1.52	
Loan repayment	5.19	20.76	20.76	20.76	20.76	20.76	20.76	
Total	22.65	36.29	33.49	30.69	27.89	25.08	22.28	198.37
DSCR	1.61	1.11	1.53	1.66	1.82	2.02	2.26	

Average DSCR = 1.67

7.0 BREAK EVEN POINT (BEP)

(Rs. in lacs)

Year	1	2	3
A. Net sales	123.81	154.76	185.71
B. Variable cost			
Food & Provisions	63.07	78.84	94.61
Power & Fuel	13.30	16.62	19.94
Administrative & Selling Expenses	1.24	1.55	1.86
Miscellaneous Expenses	0.62	0.77	0.93
Total variable cost	78.22	97.78	117.34
C. Contribution (A-B)	45.58	56.98	68.38
D. Fixed & Semi-fixed Costs			
Salary	14.88	14.89	14.91
Repair & maintenance	1.77	1.95	2.15
Interest on Term Loan	17.46	15.53	12.73
Depreciation	7.42	7.42	7.42

Total fixed cost	41.53	39.79	37.20
E. BREAK EVEN POINT	91.10%	69.84%	54.41%
F. BEP at operating capacity	36.44%	34.92%	32.64%
G. Cash BEP	29.93%	28.41%	26.14%

8.0 INTERNAL RATE OF RETURN (IRR)

(Rs. in lacs)

Year	0	1	2	3	4	5	6	7
CASH OUTFLOW								
Capital Expenditure	182.34	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Working Capital	0.00	7.50	1.57	1.57	0.00	0.00	0.00	0.00
Total (A)	182.34	7.50	1.57	1.57	0.00	0.00	0.00	0.00
CASH INFLOW								
Profit After Tax		11.55	17.19	31.17	33.75	36.30	38.83	41.33
Add: Depreciation		7.42	7.42	7.42	7.42	7.42	7.42	7.42
Add: Interest		17.46	15.53	12.73	9.93	7.12	4.32	1.52
Add: Salvage Value								
Total (B)	0.00	36.43	40.13	51.32	51.09	50.84	50.57	50.26
NET FLOW (B-A)	-182.34	28.93	38.56	49.75	51.09	50.84	50.57	50.26

IRR = 15%