June 01, 2021

Sayaji Hotels Limited: Rating upgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	68.95	60.56	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+; Outlook revised from Negative to Stable
Long-term – Cash Credit Facilities	8.75	8.75	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+; Outlook revised from Negative to Stable
Long-term – Non-fund Based Facilities	0.5	0.5	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+; Outlook revised from Negative to Stable
Unallocated Facilities	15.68	24.07	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+; Outlook revised from Negative to Stable
Total	**93.88**	**93.88**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in rating of Sayaji Hotels Limited (SHL) factors in the significant improvement in its liquidity position and financial flexibility, following the successful Initial Public Offer (IPO) of its investee company – Barbeque Nations Hospitality Limited (BNPL, rated [ICRA]BBB+(Negative)/ [ICRA]A2) in April 2021. SHL had a net inflow of ~Rs. 43 crore from sale of 10.18 lakh shares in BNPL (as part of Offer for Sale). Furthermore, the market value of its residual stake (30.9%) is more than Rs. 1,000 crore (as on May 27, 2021 at Rs. 877 per share), which lends significant financial flexibility to SHL. Against a total debt outstanding of ~Rs. 80 crore (as of March 31, 2021), at present, it has ~Rs. 43 crore of cash balances. The liquidity is further aided by undrawn GECL[1] loans of Rs. 5.5 crore and undrawn working capital limits.

Notwithstanding SHL's strong financial flexibility, the rating assigned continues to be constrained by the adverse impact of the Covid-19 pandemic on the hospitality sector. There was a sharp decline in the company's revenues in FY2021 (expected to be 65-70% on YoY basis) due to Covid-19 pandemic. However, it used timely and stringent cost containment measures to limit the losses during the year. SHL availed the moratorium on debt servicing extended by the Reserve Bank of India (RBI) for the period of March–August 2020, which helped in conserving cash amid an uncertain operating environment. Further, the company sold its entire stake (of 51.67%) in subsidiary – Malwa Hospitality Private Limited – to the promoter's (Dhanani family,) which led to inflow of Rs. 6.89 crore in Q4 FY2021 and supported cash flows. While the roll-out and pick-up in pace of the vaccination programme remains a positive, possibility of resurgence in infections limits the revenue visibility for the industry (and company). Given the high operating leverage typically associated with hotel companies, muted revenues are likely to keep SHL's cash accruals under pressure and keep its debt coverage (DSCR) and leverage metrics (TD/TNW and TD/OPBDITA) sub-par.

The ratings continue to factor in the extensive experience of SHL's promoters and their demonstrated track record of funding support, its geographically diversified portfolio, reputed name in the F&B and banqueting segment, along with the brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes that the company has entered seven management contracts

[1] *Loans granted under the Governments Emergency Credit Line Guarantee Scheme (ECLGS).*

in March 2021, which are expected to become operational over the next one to two years. This is in line with the management's stated strategy of leveraging its brand name and expanding presence through an asset-light model. Nonetheless, given the expectation of the prolonged impact of Covid-19 pandemic, the benefits from this managed portfolio may take longer to be realised.

SHL's ability to amicably resolve the legal dispute with Indore Development Authority (IDA) for its flagship Indore property, over the alleged violation of lease terms by the company, remains a monitorable. Any adverse verdict in the matter can severely impact its credit profile and remains an event risk. Additionally, as on March 31, 2021, the promoters held 74.9% equity stake in the company, of which around 27.1% was pledged or encumbered, while there has been a healthy decline in the pledging status from the previous year levels (45.1% as on March 31, 2020), the same would remain a monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that despite a likelihood of an extended impact of the Covid-19 pandemic on the global travel and hospitality industry, and consequently its operating metrics, SHL's credit profile is likely to remain at similar levels, aided by the significant financial flexibility emanating from the stake held in BNPL.

Key rating drivers and their description

Credit strengths

Experienced promoters and demonstrated record of funding support – SHL is promoted by the Vadodara-based Dhanani family, which has been involved in the hospitality industry for over three decades. The promoter family has demonstrated a track record of providing funding support for its periodic capex and short-term funding mismatches in the form of unsecured loans and preference share capital (of around Rs. 20.5 crore, excluding accrued interest). In FY2021, purchase of SHL's 51.67% stake in Malwa Hospitality (subsidiary) by the promoters, yielding Rs. 6.89 crore supported the company's cash flows. All these are indicative of the promoters' commitment to this business and ICRA expects this need-based support to continue going forward.

Geographical diversified portfolio and healthy brand recognition of Sayaji in the operative micro-markets – Under its in-house brand, Sayaji and Effotel, the company has established itself as a reputed hotel chain primarily in the tier-II and tier-III cities. With nearly 1,100+ rooms across ten operational properties in nine cities, the brands Sayaji and Effotel are rapidly expanding their market presence, leading to improved geographical diversification. The company has recently signed seven management contracts and ICRA expects that this would further increase brand visibility and facilitate rapid expansion of SHL in diversified markets through an asset-light model.

Significant financial flexibility emanating from holding 30.9% stake in BNPL – SHL's associate company – BNPL was listed on the stock exchange in April 2021. SHL sold 10.18 lakh shares of BNPL in the latter's offer for sale, which yielded a profit of Rs. 47 crore, augmenting its liquidity position. The market value of SHL's stake in BNPL, viz. 30.9% post IPO, is ~Rs. 1,000 crore (at Rs. 877 per share as on May 27, 2021). While the stake has a lock-in of three years post the IPO, it provides significant financial flexibility to SHL to either renegotiate loan terms with its lenders or refinance the debt.

Portfolio expansion through management contracts limits capex and project implementation risk – Over the past few years, the management has shifted its focus from building capex-intensive properties to following an asset-light model of expansion, through leasing of properties and management contracts. The last few Sayaji properties (land and building) in Raipur, Vadodara and Gurugram have been acquired on lease. Also, it has expanded its portfolio under management contract. At present, it has three operational managed properties - Kolhapur (Maharashtra), Rajkot (Gujarat) and Jamnagar (Gujarat), while six other contacts (at locations - Vizag, Bhuj, Dehradun, Udaipur, Nashik and Morbi) are in the pipeline. These are expected to become operational over the next one to two years. This strategy is expected to help in conserving funds, while allowing the scope for quick scale-up of revenues and profitability.

Credit challenges

Limited medium-term revenue visibility due to demand disruption caused by the second wave of Covid-19 pandemic – SHL is expected to report a sharp decline in revenues and operational cash accruals in FY2021 due to the extensive impact of Covid-19 pandemic. Also, with the recent spike in Covid-19 cases, the recovery in operating and financial performance is likely to be weaker than previously anticipated in FY2022. ICRA expects the hotel operations to remain impacted in the short-to-medium term due to the likelihood of the extended impact of the pandemic on the global travel and hospitality industry. With most of its properties in business-centric locations and having a sizeable dependence on corporate clientele, SHL is unlikely to benefit extensively from any surge in leisure travel. With extension in work-from-home policies by the corporates and continued curbs on corporate events, this segment demand is anticipated to come-back only gradually. Furthermore, with restrictions on large gatherings to prevent the spread of Covid-19, the scale and scope of social MICE events is also expected to be subdued, impacting near-term revenue visibility.

Moderate debt coverage indicators with sizeable medium-term repayments; sizeable cash balances and undrawn loans extended under ECLGS provide comfort – SHL has moderate debt coverage indicators, evidenced by DSCR of over 1.0 times and TD/OPBDITA of 3.35 times as on March 31, 2020. The same deteriorated sharply in H1 FY2021 due to erosion of revenues and operating losses due to Covid-19 pandemic. The company had outstanding external term debt of ~Rs. 80 crore as on March 31, 2021[2] (including Rs. 20 crore, payable to Shri Nakoda towards cancellation of agreement for land at Indore hotel). It has debt repayment obligation of approximately Rs. 26-27 crore in FY2022. While revenue growth expectations remain subdued in the near-term and debt coverage metrics would remain under pressure, the sizeable liquidity in hand, aggregating ~Rs. 43 crore (mainly from sale of stake in BNPL) together with undrawn GECL loans of Rs. 5.5 crore provide comfort on timely servicing of debt obligations. The company is eligible for loans under ECLGS 3.0, which may be used to further support liquidity. Any re-occurrence of pandemic (following the second wave) that adversely impacts its liquidity position remains a key monitorable.

Liquidity position: Adequate

SHL's liquidity is expected to remain **adequate**, supported by sizeable free cash balances of ~Rs. 43 crore (as on April 30, 2021), undrawn GECL loans of ~Rs. 5.5 crore and undrawn fund-based working capital limits of ~Rs 4.5 crore. The company is eligible for loans under ECLGS 3.0, which may be used to further support liquidity. As against the funds available, it has interest and repayment obligations of around Rs. 26-27 crore in FY2022. While the capex commitments are likely to be marginal in FY2022, some loss funding for properties may be required. However, SHL is unlikely to require external funding support for meeting its obligations in the near-term. ICRA also takes cognisance of enhanced financial flexibility of SHL emanating from its status as ~31% stakeholder in BNPL, which puts market value of this investment in excess of Rs. 1,000 crore (at Rs. 877 per share as on May 27, 2021).

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators leading to significant improvement in leverage and coverage metrics and liquidity profile, could be a trigger for improvement in the rating.

Negative factors – Negative pressure on SHL's rating could arise for reasons including a prolonged impact of the second wave of the pandemic leading to slower-than-anticipated recovery in operating metrics and/or unanticipated and significant increase in debt levels leading to weakening of its debt coverage indicators and deterioration in its liquidity position. Any significant withdrawal of funds from the company, by the promoters, leading to weakening of its liquidity profile would also be a monitorable.

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[2] *Excludes debt (of approximately Rs. 8 crore) under Malwa Hospitality as of March 31, 2021, as SHL's stake in this erstwhile subsidiary was sold-off to the promoters in Q3FY2021.*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Consolidation and Rating approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA considers the consolidated financials of SHL. As of March 31, 2020, the company had five subsidiaries and one associate company, which are all enlisted in Annexure-2.

About the company

Incorporated in 1982, SHL owns/operates a portfolio of 10-properties under its in-house brands - Sayaji and Effotel. Of the ten properties, seven are owned or leased properties at Vadodara (two properties), Indore (one hotel; also has one Convention Centre – Amber Garden), Pune, Bhopal, Raipur, and Gurgaon. The company operated three properties under management contract at Kolhapur (Sayaji), Rajkot (Sayaji) and Jamnagar (Sayaji). SHL has six more managed properties in pipeline – at Vizag, Bhuj, Dehradun, Udaipur, Nashik and Morbi – which are expected to be added over the next one to two years.

SHL has been listed on BSE since 1992. It owns a chain of over 155 restaurants (as of March 2021) through its 30.91% owned associate – Barbeque Nations Hospitality Limited (rated [ICRA]BBB+(Negative)/A2). It is promoted by the Vadodara-based Dhanani family, which directly held 74.9% stake in the company as on March 31, 2021.

Key financial indicators (audited)

Consolidated	FY2019	FY2020	9M FY2021
Operating Income (Rs. crore)	244.4	240.7	43.3
PAT (Rs. crore)*	-1.0	-4.5	-12.6
PAT including share of profit/loss from associate (Rs. Crore)	-14.3	-20.3	-15.3
OPBDIT/OI (%)	17.6%	24.2%	12.2%
PAT/OI (%)	-0.4%	-1.9%	-29.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	3.7	
Total Debt/OPBDIT (times)	3.4	4.1	
Interest Coverage (times)	2.3	2.0	

Source: Company Annual Reports; ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020^		Date & Rating in FY2019
					Jun 1, 2021	Jan 11, 2021 Oct 23, 2020 Sep 7, 2020	Apr 24, 2020	Nov 26, 2019	Aug 30, 2019	Sep 27, 2018
1	Term Loans	Long-term	60.56	54.9	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
2	Fund based bank facilities – Cash Credit	Long-term	8.75	--	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
3	Non-fund Based Facilities	Long-term	0.5	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
4	Unallocated Limits	Long-term	24.07	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &

&= On watch with developing implications

^A PR on reason for delay in periodic surveillance was published on May 31, 2019

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term Loans	Simple
Long-term – Cash Credit Facilities	Simple
Long-term – Non-fund Based Facilities	Very Simple
Unallocated Facilities	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 analysing 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	Sep 2016	NA	Sep 2022	8.00	[ICRA]BBB-(Stable)
NA	Term Loan-II	Jan 2017	NA	Oct 2025	18.69	[ICRA]BBB-(Stable)
NA	Term Loan-III	Feb 2020	NA	Jan 2025	10.22	[ICRA]BBB-(Stable)
NA	Term Loan-IV	Mar 2018	NA	Feb 2026	9.16	[ICRA]BBB-(Stable)
NA	Term Loan-V	Oct 2016	NA	Feb 2024	5.05	[ICRA]BBB-(Stable)
NA	Term Loan-VI	Dec 2020	NA	*	3.69	[ICRA]BBB-(Stable)
NA	Term Loan-VII	Jan 2021	NA	Mar 2026	3.8	[ICRA]BBB-(Stable)
NA	Term Loan-VIII	Feb 2021	NA	*	1.95	[ICRA]BBB-(Stable)
NA	Cash Credit	Aug 2020	NA	-	8.75	[ICRA]BBB-(Stable)
NA	Bank Guarantee	Aug 2020	NA	-	0.5	[ICRA]BBB-(Stable)
NA	Unallocated	-	-	-	24.07	[ICRA]BBB-(Stable)

Source: *Company; * Loan yet to be disbursed; maturity date to be 60 months from date of disbursement*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SHL Ownership	Consolidation Approach
Sayaji Hotels Limited	Rated entity	Full Consolidation
Malwa Hospitality Private Limited*	51.57%	Full Consolidation
Sayaji Housekeeping Services Limited	100%	Full Consolidation
Sayaji Hotels Management Limited	100%	Full Consolidation
Sayaji Hotels (Pune) Limited	100%	Full Consolidation
Sayaji Hotels (Vadodara) Limited	100%	Full Consolidation
Barbeque Nations Hospitality Limited	Associate	Equity method

Source: *Company Annual report FY2020. * SHL sold its entire stake in Malwa Hospitality to its promoters in Q3FY2021 following which the company has ceased to be a subsidiary.*

Note: *ICRA has taken a consolidated view of the SHL and its subsidiaries and Associates while assigning the ratings.*

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