Sayaji Hotels Limited

December 27, 2017

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Long term - Term Loans	57.59	[ICRA] BBB-@; under rating watch with negative implications
Long term- Cash Credit Facilities	6.75	[ICRA] BBB-@; under rating watch with negative implications
Long term - Non-fund based facilities	2.70	[ICRA] BBB-@; under rating watch with negative implications
Unallocated	26.84	[ICRA] BBB-@; under rating watch with negative implications
Total	**93.88**	

Material Event

Indore Development Authority (IDA) has cancelled the lease agreement and has served a dislodgement notice to Sayaji Hotels Limited (SHL) last week for the 27,881 sq meter land plot allocated for construction of hotel property at Vijay Nagar, Indore. IDA has cited violation of terms of lease agreement for the severe action. The rating SHL's Indore hotel is one of its prime properties, in terms of revenue and profit contribution, and has been in operation since 1994.

Impact of the Material Event

ICRA has placed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus)[1] outstanding on the Rs. 93.88-crore[2] bank facilities of Sayaji Hotels Limited (SHL or the company) on 'Rating Watch with negative implications'.

The previous detailed rating rationale is available on the following link: Click here

Rationale

The revision in rating outlook takes into account the action initiated by IDA against the company and possibility of disruption in operation in Indore hotel property on account of eviction notice served by the authority. The Indore hotel contributed more than 45% to the company's revenues and nearly half of its operating profits in FY2017 and remains a key asset for SHL. Given the assets' strategic importance, any possibility of disruption may adversely impact company's financial profile.

The ratings, however, continue to take into cognisance the long experience of the promoters in the hospitality sector and established position of brand "Sayaji" in business hotels category in tier-II cities. Further, SHL's diversified presence across six cities mitigates geographic concentration risk and demand risk to a reasonable extent. Although revenues from the Indore hotel account for a major chunk of the company's revenues, the ramp-up in newly operational hotel properties at Raipur, and Vadodra are expected to provide geographical diversification benefits over the medium term. Additionally, the company's increased focus on the high margin food and beverage (F&B) segment and expansion into new markets on management contract basis is likely to support its profit growth over the medium term. The ratings,

[1] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] 100 lakh= 1 crore= 10 million

however, are constrained by the SHL's leveraged capital structure and muted coverage indicators owing to regular debt funded capex towards construction of new properties and/or renovation of existing properties. Additionally, operating in a cyclical industry, the company remains exposed to general economic slowdown and other exogenous shocks.

Outlook

ICRA has moved the outlook from 'stable' to 'under watch with negative implications'. ICRA would continue to monitor the developments regarding the IDA notice and will take an appropriate rating action after getting clarifications from the SHL management on the IDA notice and action being taken, and assessing its impact on the company's credit profile.

Additionally, the ability of the company to rapidly scale up the operations of its new properties as well as improve the revenue per available room (RevPARs) of its old properties while improving the profit margins and capital structure shall remain the SHL's key rating sensitivities.

Key rating drivers

Credit Strengths

- **Experienced promoters with a long track record of operations in the hospitality sector**
- **Multi location presence**: The company has operational hotels at Vadodara, Indore, Pune, Bhopal, Raipur and Kolhapur. SHL also has a property under brand "Effotel" in Indore under one of its subsidiary company.
- **Newly added properties provide growth and diversification opportunities**: The company has launched several properties - at Raipur, Vadodara, Bhopal and Indore (Amber Garden banquet facilities) – in the past 2-2.5 years, with focus on higher margin F&B business segment. Ramp-up of these assets over short to medium term would augment company's revenues and profits, while reducing dependence on existing hotel portfolio.

Credit Weaknesses

- **Subdued profitability metrics and return indicators in FY2017 and H1 FY2018 -** The company incurred net loss of Rs. 4.2 crore and Rs. 9.8 crore in FY2017 and H1 FY2018 respectively due to weak operating revenues coupled with high operating expenses (launch of new properties) and interest outgo (on account of debt funded capex). Nonetheless, scale-up of operations in newly launched properties provide comfort.
- **Moderate financial risk profile due to leveraged capital structure and muted debt protection metrics –** Owning to weak profitability and sizable repayments, the DSCR as on March 31, 2017 remained muted at 0.7 times. Further, SHL has cumulative debt repayments of approx Rs. 15 crore per annum over next 3 years.
- **Cyclical industry, vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, terrorist attacks, disease outbreak etc.)**

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