Sayaji Hotels Limited

February 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	57.59	68.18	[ICRA]BBB- (Stable); Reaffirmed
Long-term – Cash Credit Facilities	6.75	6.75	[ICRA]BBB- (Stable); Reaffirmed
Long-term – Non-fund Based Facilities	2.70	3.92	[ICRA]BBB- (Stable); Reaffirmed
Unallocated Facilities	26.84	15.03	[ICRA]BBB- (Stable); Reaffirmed
Total	**93.88**	**93.88**	

Rating action

ICRA has reaffirmed the long-term rating outstanding on the Rs. 68.18-crore[1] (enhanced from Rs. 57.59-crore) term loan facilities, the Rs. 6.75-crore fund-based facilities, the Rs. 3.92-crore (enhanced from Rs. 2.70-crore) non-fund-based facilities and the Rs. 15.03-crore (reduced from Rs. 26.84-crore) unallocated facilities of Sayaji Hotels Limited (SHL or the company) at [ICRA]BBB- (pronounced ICRA triple B minus)[2]. The rating has been removed from 'rating watch with negative implications' and a Stable outlook has been assigned.

Rationale

The reaffirmation of ratings favourably factors in the improvement in operating performance of majority of its properties during 9M FY2018 and reduced interest burden with conversion of sizable Rupee debt into foreign currency. ICRA notes the increase in room inventory and revenues following the launch of its Raipur and Vadodara (Gujarat) properties during FY2018 as well as benefits expected from the favourable outlook for the hospitality industry. Further, likely initial public offer (IPO) of its key investee company, Barbeque Nation Hospitality Limited (BNHL), would improve its financial flexibility. ICRA continues to take cognisance of the extensive experience of the promoters, SHL's geographically diversified portfolio, a major food and beverages (F&B) and banqueting segment offering higher margin business, established customer base and brand recall of 'Sayaji' in the micro-markets it operates in.

The ratings are, however, constrained by the company's muted profitability, leverage capital structure and moderate debt coverage indicators owning to high overheads associated with newly launched properties (during FY2018) and regular debt funded capex towards capacity expansion and/or renovations. ICRA also factors in the inherently high operating leverage of the hospitality industry, which increases the reliance on remunerative revenues per available room (revPARs) to sustain profitability. Inherent cyclicality in the hospitality industry exposes the revenues to risks associated with economic slowdown and exogenous shocks (such as geo-political events and disease outbreaks), although the geographically diversified portfolio of SHL provides some comfort. ICRA also notes the recent and on-going legal dispute with Indore Development Authority (IDA) over the alleged violation of lease terms by the company. Any adverse verdict in the matter can severely impact SHL's credit profile and remains an event risk.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Going forward, the ability of the company to quickly ramp up its newly launched properties, improve the performance of its other operational properties, plan the pace (and manner) of its future renovation and expansion plans so as to limit the impact on its business and financial risk profile, will remain the key rating sensitivities. SHL's ability to amicably resolve the legal dispute with IDA for its flagship Indore property, remains a key rating monitorable.

Outlook: Stable

The ratings were placed under watch with negative implications pending further developments on the notice of dislodgement served to the company by IDA and threat of cancellation of lease agreement for its Indore hotel. Following the interim relief to the company in the form of stay order granted by the Madhya Pradesh High Court (Indore bench), the ratings are being taken off the rating watch. Though an adverse verdict in the matter can severely impact SHL's credit profile, in the absence of an ascertainable timeline for the on-going legal proceedings, a Stable outlook has been assigned. However, ICRA would continue to monitor the developments in the matter, and the outcome of this event would remain an event risk.

ICRA expects SHL to continue to benefit from an established and stabilised hotel portfolio, launch of new properties in growing tier-II markets and favourable demand outlook for the industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, aided by improved average room rate (ARRs) and occupancy levels across properties, or reduction in debt through monetisation of investments, strengthen the financial risk profile. The outlook may be revised to Negative if cash accruals are lower than expected, or if any major debt funded capital expenditure or any further support to subsidiary entity or group/associate companies, weakens the credit profile.

Key rating drivers

Credit strengths

Operating metrics improve year-on-year in 9M FY2018; newly launched properties to provide revenue diversification and growth momentum over the medium term – On a consolidated basis, the ARR and occupancy levels for SHL improved from Rs. 3,687 and 66%, respectively, in FY2017 to Rs. 3,874 and 64%, respectively, by 9M FY2018 (barring the Kolhapur property under management contract and newly launched Vadodara property). The company registered steady improvement in its revPARs across almost all its hotels in 9M FY2018. The company began operations at Raipur in April 2017, while the new Sayaji Vadodara started operations from November 2017, taking SHL's total room inventory to 988 keys. All existing properties—Indore, Pune and Bhopal—registered healthy growth in 9M FY2018, led by improvement in both occupancy and ARRs, backed by robust demand (business as well as tourist movement) and limited supply additions in these markets.

Replacement of high cost unsecured loans and conversion of Rupee loan into foreign currency to help improve debt protection indicators - As on March 31, 2016, the company had unsecured loans of Rs. 38.3 crore on its books from promoters and related parties, which reduced to Rs. 11.7 crore as on March 31, 2017 through replacement by lower cost bank debt. Furthermore, during YTD FY2018, the company realised interest reduction benefits of converting majority of its bank loans into foreign currency denominated debt. ICRA expects the same to aid in improving cash flows and debt protection indicators over the medium term.

Portfolio expansion through management contract and leasing properties limits capex requirement and project implementation risk - The two newly launched properties, at Raipur and Vadodara, were acquired on lease basis. The leasing model is expected to provide long-term operational benefits to SHL, as they were immediately made operational, with minimal capex and no project implementation risk. Similarly, under the management contract model (as in the case of Kolhapur), SHL would have fixed earnings, with incentives for earning greater profit (yielding profit share). SHL plans to expand its footprint by entering into management contracts with financially weak and/or inexperienced property owners or leasing out their properties, located in tier-II and III cities. This would help the company conserve its funds, while allowing scope for quick scale-up of revenues and profitability.

Public listings of key investee company to unlock value of investment and improve financial flexibility - SHL owns a chain of 96 restaurants (as of December 2017) through its 46.7% owned associate, BNHL (rated [ICRA]A+/stable/A1+). BNHL has already received SEBI approval for proceeding with its IPO in January 2018. The listing of its investee company would enhance financial flexibility of SHL, which would have the option to monetise its investments in BNHL to reduce or pay off its debts.

Experienced promoters and strong brand recognition of 'Sayaji' in domestic operative geographies – Under its in-house brand, 'Sayaji', the company has established itself as a reputed upscale hotel chain since the commencement of its first property in 1990. It had launched the 4-star 'Effotel' brand in FY2014, for the hotel under its subsidiary, Malwa Hospitality Private Limited, which has also seen healthy recognition and scale-up over the past four years. With nearly 1,000 rooms across eight operational properties, brands 'Sayaji' and 'Effotel' are rapidly expanding their market presence. The strategy to expand into other tier-II markets through management contracts is expected to increase brand visibility in diversified markets at a faster pace.

Credit challenges

Profitability declined in FY2017; high overheads for recently launched properties to constrain returns in FY2018 - The consolidated operating profits of the company declined to Rs. 34.9 crore (PY: Rs. 36.4 crore) in FY2017 due to a weak season experienced by its substantial and high-margin banqueting business. In the absence of any extraordinary income (Rs. 11.5 crore earned in FY2016 on the sale of the Barbeque Nations Pune outlet) and high interest and depreciation costs, the net profitability declined to Rs. 0.9 crore (PY: Rs. 9.8 crore). ICRA expects the cash flows and profitability to be marginally impacted in FY2018, given the overheads on the two newly launched properties.

Leveraged capital structure and moderate debt coverage indicators; debt funded renovations planned over medium term – The consolidated DSCR and interest coverage as on March 31, 2017 were subdued at 0.9 time and 1.9 times, even as the company replaced high cost unsecured loans with bank debt. Further, SHL intends to avail additional debt in the short-term for funding its renovation plans. Coupled with near term impact on operating profits of the newly operational Raipur and Vadodara properties, this is expected to keep Debt/OPBITDA ratio at elevated levels in the near term. Nonetheless, with stabilisation of these properties and benefits from reduced interest costs, the debt coverage is expected to improve over the medium term.

Sizable repayment obligations over the next three years; track record of demonstrated financial support from promoters provide comfort – The company has large repayments of approximately Rs. 70 crore over the next three years (FY2019–FY2021), excluding the redemption of preference shares of Rs. 15 crore subscribed by the promoters. Rapid-scale-up of newly launched properties and improvement in performance remain crucial for the company to maintain its debt servicing ability. Nonetheless, the track record of funding support from its promoters (via unsecured loans and preference equity) provides comfort.

Vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events - Operating performance of the properties remain vulnerable to seasonality, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, SHL's geographically diversified portfolio mitigates the same to some extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.
Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Entities in the Hotel Industry
Rating Outlook and Rating Watch
Approach for Financial Ratio Analysis

About the company

Incorporated in 1982, Sayaji Hotels Limited commenced operations of its first hotel property at Vadodara in 1990. Today, it has a portfolio of seven hotel properties across Vadodara (Gujarat; two properties), Indore, Pune (Maharashtra), Bhopal, Raipur and Kolhapur (Maharashtra), under its in-house brands, 'Sayaji' and 'Effotel'. SHL also has a banquet hall property, 'Amber Garden', in Indore. The company has been listed on the BSE since 1992. Furthermore, it owns a chain of 96 restaurants (as of December 2017) through its 46.7% owned associate, BNHL (rated [ICRA]A+/stable/A1+), owned through SHL's wholly owned subsidiary, Sayaji Housekeeping Services Limited. The company also operates another hotel unit under the 'Effotel' brand in Indore through its 51.66% owned subsidiary, Malwa Hospitality Private Limited.

Key financial indicators (Audited)

SHL Consolidated	FY 2016	FY 2017
Operating Income (Rs. crore)	180.5	179.3
PAT (Rs. crore)	5.9	-4.2
OPBDIT/ OI (%)	20.1%	19.5%
RoCE (%)	9.5%	5.2%
Total Debt/ TNW (times)	1.5	1.4
Total Debt/ OPBDIT (times)	4.2	4.4
Interest Coverage (times)	2.4	1.9
NWC/ OI (%)	10.7%	8.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability-Capital Work-in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015^
	Instrument	Type			Feb-18	Dec-17	Jan-17	Dec-15	Mar-15
1	Long term - Term Loans	Long Term	68.18	68.18	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (@)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**
2	Long term- Cash Credit Facilities	Long Term	6.75	NA	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (@)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**
3	Long term - Non-fund-based facilities	Long Term	3.92	NA	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (@)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**
4	Unallocated	Long term	15.03	NA	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (@)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**	**[ICRA]BBB- (stable)**

^ Ratings of [ICRA]BB+(stable) were reaffirmed in January 2015 and July 2014 during FY2015.

(@) Under watch with negative implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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 1	Jan 2015	NA	Jul 2021	12.00	[ICRA]BBB-(stable)
NA	Term Loan 2	Sep 2016	NA	Mar 2022	16.06	[ICRA]BBB-(stable)
NA	Term Loan 3	Jan 2017	NA	Jan 2025	24.10	[ICRA]BBB-(stable)
NA	Term Loan 4	Oct 2016	NA	Sep 2024	16.02	[ICRA]BBB-(stable)
NA	Cash Credit	NA	NA	NA	6.75	[ICRA]BBB-(stable)
NA	Bank Guarantee	NA	NA	NA	2.00	[ICRA]BBB-(stable)
NA	Treasury Limits	NA	NA	NA	1.92	[ICRA]BBB-(stable)
NA	Unallocated Limits	NA	NA	NA	15.03	[ICRA]BBB-(stable)

Source: SHL

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