April 24, 2020

Sayaji Hotels Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term -Term Loans	68.95	68.95	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Fund-based- Working Capital Facilities	8.75	8.75	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Non-fund Based-Working Capital Facilities	0.5	0.5	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Long-Term Unallocated Limits	15.68	15.68	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Total	**93.88**	**93.88**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook to Negative for Sayaji Hotels Limited (SHL) follows the impact of the novel coronavirus (Covid-19) outbreak on the global travel and tourism industry and is in line with ICRA's Negative outlook for the sector.

Hotel occupancies across most hotels, barring those corralled into supporting the Government's isolation and containment measure, and those being used for work-from-alternative office spaces have crashed across the country, following the pan-India 21-day lockdown (extended till May 3, 2020) announced by the Government of India (GoI) on March 24, 2020. This is in line with the situation of the hospitality industry globally. ICRA expects the hospitality industry to have one of the longest periods of recovery, contributed by widespread business slowdown over the next couple of quarters. This would exert significant pressure on the revenue-per-available room (revPARs), initially through occupancies. While some deferred travel, particularly for business, will eventually come back following some semblance of normalcy, room nights are essentially perishable commodities. Given the high operating leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on the industry's ability to service its debt.

For SHL, the sub-optimal operations at the hotels due to Covid-19 outbreak are expected to lead to operational losses in the near-term and weaker-than-estimated cash flows in FY2021. The average occupancy had plummeted to 5-10% by mid-March 2020. Following the initial travel restrictions imposed, all the hotel properties were shut before the nationwide lockdown. The company has moderate debt coverage indicators (interest cover of 2.3 times and DSCR of 1.2 times as on March 31, 2019) and has around Rs. 50 crore of repayment obligations (including interest expenses) in FY2021. Given the significant operating leverage and debt servicing requirement, the company has initiated several cost curtailments. Nonetheless, the sharp scale-down in revenues is likely to weaken its credit profile, the extent of which will remain contingent upon the pace of recovery following the pandemic.

Incremental unsecured loans from promoters in FY2019, purchase of non-core assets from SHL (Aries Hotels investment) and deferment of preference share redemption due in FY2020[1] evidences promoters' commitment to the business. However, the high cost of this debt, coupled with high repayment obligations over the next two years are expected to inhibit any improvement in the company's debt metrics. Given the likely impact of Covid-19 on the hospitality industry in the near term, SHL will remain dependent on timely fund infusion from the promoters to support its debt obligations and likely loss funding. Going forward, the factor of safety between cash accruals, net of loss funding during the shutdown, available lines of credit and repayment requirements will be the key rating monitorable. The company's ability to stabilise its new inventory, revive the profitability of its mature properties (especially Indore), pace its future renovation and expansion plans to limit the impact on its business and financial risk profile, will remain the key rating sensitivities.

The ratings factor in the extensive experience of SHL's promoters and their demonstrated track record of funding support, its geographically diversified portfolio, renowned F&B and banqueting segment and brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes the increase in the company's portfolio in FY2020 with the launch of a new brand–Enrise–at Indore (36 keys), Effotel Gurgaon (50 keys) and Sayaji Rajkot (75+ keys) under its management contract. The same has been in line with the management's stated strategy of leveraging its brands and expanding presence through an asset-light model. The benefits from this managed portfolio (now comprising three properties and over 250 rooms) are expected to accrue over the medium term as the properties ramp up. ICRA continues to take cognisance of SHL's investments in Barbeque Nation Hospitality Limited (BNHL rated [ICRA] A-(Negative)/[ICRA] A2+), whose planned public listing would significantly improve SHL's financial flexibility.

Key rating drivers and their description

Credit strengths

Experienced promoters with demonstrated record of funding support – SHL is promoted by the Dhanani family, which has been a part of the hospitality industry for over 30 years. The promoter family demonstrated a track record of providing funding support to the company for its periodic capex and short-term funding mismatches. As of September 2019, promoters had extended unsecured loans of over Rs. 10 crore, in addition to preference share capital of around Rs. 20.5 crore to the company. Purchase of non-core investments of SHL by the promoters, like the stake sale in Aries Hotel, supported its cash flows in FY2020. All these are indicative of the promoters' commitment to its business and ICRA expects this need-based support to continue.

Healthy geographical diversification; strong brand recognition of Sayaji in 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 1,200+ rooms across eleven operational properties in eight cities, the brands Sayaji and Effotel are rapidly expanding the market presence leading to healthy geographical diversification. It has launched another brand–Enrise–in the mid-scale segment in Indore and plans to expand this brand in other cities, where it already has an established presence. ICRA expects that this would further aid in increased brand visibility and rapid expansion of SHL in diversified markets through an asset-light model.

Portfolio expansion through management contracts limit capex and project implementation risk – Over the past three years, the management has shifted its focus from building capex-intensive properties to following an asset-light model of

[1]*Preference shares of Rs. 20.5 crore (debt and equity component) as of March 31, 2019 have been subscribed to by the promoter family and were due for redemption, inclusive of dividend payments of 5 years in arrears, in FY2020. This redemption was deferred by 5 years in H1 FY2020.*

expansion, through leasing of properties and management contracts. The last three Sayaji properties (land and building) – Raipur, Vadodara and Indore – have been acquired on lease, while it has expanded its portfolio of properties under management contract with the launch of Effotel-Gurugram and Sayaji-Rajkot in FY2020. This strategy is expected to help in conserving funds, while allowing the scope for quick scale-up of revenues and profitability**.**

Credit challenges

Expected impact of Covid-19 on operating metrics and resulting negative operating leverage – Given the discretionary nature of spending, the travel and tourism industry has always been highly susceptible to exogenous shocks such as wars, terror attacks, diseases and meltdowns. Following the Covid-19 outbreak, ICRA expects significant pressure on the industry revPARs, initially through lower occupancies, over the next few quarters. As hotels have high operating and financial leverage, it renders the same highly susceptible to any reduction in revenues. With sizeable leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on the SHL's profitability margins. Anticipated benefits from expansion of portfolio under management contract and the pace of flow to profitability are a key monitorable.

Moderate debt coverage indicators with sizeable medium-term repayment – SHL has moderate debt coverage indicators, evidenced by interest cover of 2.3 times and DSCR of 1.2 times as on March 31, 2019. The company availed incremental debt of Rs. 10 crore in Q4 FY2020, as a reimbursement for Pune and Vadodara (renovations) and has principal repayment obligation of approximately Rs. 40 crore in FY2021 and Rs. 58 crore cumulatively over FY2021 and FY2022. Amidst expectation of muted earnings, this would keep the debt coverage metrics under pressure over the medium term. ICRA expects refinancing of debt and/or funding support from the promoters to ensure timely repayments and this would also remain a key monitorable from the rating perspective.

Liquidity position: Stretched

SHL's liquidity is expected to be **stretched** in the near term. The company had cash and liquid investments and undrawn credit lines of approximately Rs. 12.3 crore as of March 2020 end. As against outstanding external debt of approximately Rs. 91 crore (as on March 31, 2020), SHL has repayment obligations of ~Rs. 40 crore in FY2021. Given the adverse impact of Covid-19 on the travel and tourism industry, the cash flows are expected to be strained over the near term. ICRA expects the liquidity would be sufficient to cover the reduced operating costs over the next few months, however, timely funding support from the promoters and/or timely refinancing of debt would be crucial.

Rating sensitivities

Positive triggers – An upgrade in near-term is unlikely, given the Negative outlook on the industry due to the likely expectation of severe impact of Covid-19 outbreak on the travel and tourism business. Nonetheless, a sustained improvement in operational metrics and profitability margins following the pandemic and/or infusion of equity or sale of assets leading to reduction in leverage metrics and improvement in liquidity position could be a trigger for a change in the outlook.

Negative triggers – Negative pressure on SHL's rating could arise for reasons including prolonged impact of the pandemic leading to slower-than-anticipated recovery in operating metrics, delay in funding support from the promoters, weakening of its debt servicing indicators and liquidity position. 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 key monitorable. Any adverse verdict in the matter can severely impact SHL's credit profile and remains an event risk.

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	None
Consolidation / Standalone	The rating is based on consolidated financial statements of the issuer. The consolidated entities are listed under Annexure-2.

About the company

Incorporated in 1982, SHL commenced operations of its first hotel property at Vadodara in 1990. As on date, it has a portfolio of 1,200+ rooms across eleven hotel properties. These are in Vadodara (two properties), Indore (three properties), Pune, Bhopal, Raipur, Kolhapur, Gurgaon and Rajkot. The properties are operated under its in-house brands –Sayaji, Effotel and Enrise (launched in FY2020). The company has a banquet hall property, Amber Garden, in Indore. The Effotel Indore hotel is owned through its 51.67% owned subsidiary Malwa Hospitality Private Limited (MHPL), while the properties at Kolhapur, Gurgaon and Rajkot (cumulative room inventory of 250 keys) are under management contract.

The company has been listed on BSE since 1992. It owns a chain of 138 restaurants (as of November 2019) through its 45.7% owned associate - BNHL, which is owned through SHL's wholly owned subsidiary Sayaji Housekeeping Services Limited). SHL is promoted by the Indore-based Dhanani family, which directly held 74.9% stake as on December31, 2019.

Key financial indicators (Audited)

Consolidated	FY2018	FY2019	9M FY2020*
Operating Income (Rs. crore)	215.8	244.4	176.2
PAT (Rs. crore)	(5.8)	(1.0)	(8.2)
OPBDIT/OI (%)	16.0%	17.6%	23.8%
RoCE (%)	4.7%	7.1%	--
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.3	--
Total Debt/OPBDIT (times)	4.3	3.4	--
Interest Coverage (times)	2.1	2.3	1.8
DSCR (times)	1.0	1.3	--

*Source: Annual reports; ICRA research; * Published interim results post Ind-AS 116 adjustment*
PAT: Profit after Tax excluding share of profit/loss from associate/JVs; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding 31-Mar-20 (Rs. crore)	Date & Rating	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					24-Apr-20	26-Nov-19	30-Aug-19^	27-Sep-18	16-Feb-18	27-Dec-17
1	Long term - Term Loans	Long Term	68.95	48.52	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&; on watch with developing implications	[ICRA]BBB-&; on watch with developing implications	[ICRA]BBB- (stable)	[ICRA]BBB- @; on watch with negative implications
2	Long term- Cash Credit Facilities	Long Term	8.75	--	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @
3	Long term - Non-fund-based facilities	Long Term	0.5	--	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @
4	Unallocated	Long term	15.68	--	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @

^ PR for delay in periodic surveillance published in May 2019

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-15	NA	Jul-21	7.10	[ICRA]BBB- (Negative)
NA	Term Loan 2	Sep-16	NA	Mar-22	12.37	[ICRA]BBB- (Negative)
NA	Term Loan 3	Sep-16	NA	Mar-21	1.43	[ICRA]BBB- (Negative)
NA	Term Loan 4	Jan-17	NA	Jan-25	21.05	[ICRA]BBB- (Negative)
NA	Term Loan 5	Oct-16	NA	Oct-21	7.43	[ICRA]BBB- (Negative)
NA	Term Loan 6	Oct-16	NA	Sep-23	5.72	[ICRA]BBB- (Negative)
NA	Term Loan 7	Oct-16	NA	Sep-20	2.71	[ICRA]BBB- (Negative)
NA	Term Loan 8	Mar-18	NA	Jul-26	8.70	[ICRA]BBB- (Negative)
NA	Term Loan 9	Mar-18	NA	Sep-26	2.44	[ICRA]BBB- (Negative)
NA	Cash Credit	Mar-18	NA	NA	8.75	[ICRA]BBB- (Negative)
NA	Bank Guarantee	Mar-18	NA	NA	0.50	[ICRA]BBB- (Negative)
NA	Unallocated Limits	NA	NA	NA	15.68	[ICRA]BBB- (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sayaji Hotels Limited	100.00% (Rated entity)	Full Consolidation
Malwa Hospitality Private Limited	51.67%	Full Consolidation
Sayaji Housekeeping Services Limited	100.00%	Full Consolidation
Aries Hotels Private Limited	52.37%	Full Consolidation
Barbeque Nations Hospitality Limited	45.73%	Equity Method
Sayaji Hotels Management Limited	100.00%	Full Consolidation
Sayaji Hotels (Pune) Limited	100.00%	Full Consolidation
Sayaji Hotels (Vadodara) Limited	100.00%	Full Consolidation

Source: SHL's Annual report FY2019 and company discussion

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