October 23, 2020

Sayaji Hotels Limited: Update

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]BB+ (Negative); Outstanding
Fund-based- Working Capital Facilities	8.75	8.75	[ICRA]BB+ (Negative); Outstanding
Non-fund Based-Working Capital Facilities	0.5	0.5	[ICRA]BB+ (Negative); Outstanding
Long-Term Unallocated Limits	15.68	15.68	[ICRA]BB+ (Negative); Outstanding
Total	**93.88**	**93.88**	

**Instrument details are provided in Annexure-1*

Rationale

In September 2020, ICRA had revised the ratings assigned to bank loans of Sayaji Hotels Limited (SHL) to [ICRA]BB+ (Negative) from [ICRA]BBB-(Negative). The rating action was based on expectations of weakening in the company's credit profile owing to sharp decline in demand due to the disruption caused by the Covid-19 pandemic. The outlook was also retained at Negative given the likelihood of extended impact of the pandemic on the hospitality sector. It was in line with ICRA's outlook on the industry. Given the expected shortfall in cash flow generation, the company's management had indicated plans of opting for restructuring of its debt obligations.

For link to the last Press Release published on ICRA website – Click here.

ICRA notes that SHL has submitted a detailed restructuring plan to all its lenders in September 2020, in accordance with the Reserve Bank of India (RBI) circular dated August 6, 2020 and subsequent guidelines issued on September 7, 2020, after its initial restructuring request placed with lenders on August 1, 2020. The restructuring proposal, *inter alia*, seeks deferment of its debt obligations due between April 2020 and March 2022. As the company had applied for restructuring, it did not service its debt obligation due in September 2020 to one of the lenders (as disclosed in the monthly non-default statement) after making the restructuring request. The same was paid off in October 2020. ICRA has not considered the delay in meeting debt obligation as default, in line with the stance explained in its press release dated September 15, 2020 on loan restructuring and rating implications (Click here). The lenders are currently assessing the company's proposal. ICRA would continue to monitor the developments around the restructuring process and assess its impact on SHL's credit profile and will accordingly take suitable rating action, in case warranted.

Key rating drivers and their description

Credit strengths

Experienced promoters with demonstrated record of funding support – SHL is promoted by the Dhanani family, who has been involved in the hospitality industry for over 30 years. The promoter family has demonstrated a track record of providing funding support to the company 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. In addition, purchase of SHL's non-core investments such as the stake sale in Aries Hotel by the promoters, has supported SHL's 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 addressable 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 III cities. With over 1,200 rooms across 10 operational properties in eight cities, the brands 'Sayaji' and 'Effotel' are rapidly expanding their market presence, leading to healthy geographical diversification. The promoters have launched another brand–Enrise by Sayaji–in the full-service, mid-scale segment in Indore and Pune, and plan to expand this brand in other cities where Sayaji already has an established presence. ICRA expects that this would further increase brand visibility and facilitate the rapid expansion of SHL in diversified markets through an asset-light model.

Portfolio expansion through management contracts limits 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 expansion, through leasing of properties and management contracts. The last few Sayaji properties (land and buildings) in Raipur (Chattisgarh) and Vadodara (Gujarat) have been acquired on lease, while it has expanded its portfolio of properties under management contracts 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 a quick scale-up of revenues and profitability**.**

Credit challenges

Severe impact of Covid-19 on operating metrics and resulting negative operating leverage over the medium term – Given the discretionary nature of consumer 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 pandemic, ICRA expects significant pressure on the industry revPARs, initially through lower occupancies, over the next few quarters. Food and beverage (F&B) and MICE[1] demand are expected to take even longer to recover. As hotels have high operating and financial leverage, it renders them highly susceptible to any reduction in revenues. With a disproportionate dependence on F&B and MICE demand (>50% of revenues), sizeable leverage and debt servicing requirements, the sharp contraction in revenues will have a detrimental impact on SHL's profitability margins. The anticipated benefits from expansion of portfolio under management contract route and the pace of flow-through to profitability are also likely to be gradual than previously anticipated and will remain a monitorable.

Expectation of sharp deterioration in debt coverage indicators in the medium term necessitating timely restructuring of debt– SHL had moderate debt coverage indicators, evidenced by DSCR of 1.1 time and TD/OPBDITA of 4.9 times as on March 31, 2020 (on a standalone basis). It had a consolidated debt of Rs. 91 crore as of March 31, 2020[2] and principal repayment obligation of approximately Rs. 30 crore, cumulatively over FY2021 and FY2022 (excluding the RBI moratorium period)[3]. Given the expectation of a severe impact of the pandemic on its operations and a shortfall in cash flows, the company had availed moratorium on debt servicing, as permitted by the RBI for six months ended August 2020. However, as the recovery in demand is expected to be gradual over the medium term, SHL's debt protection metrices are likely to deteriorate sharply in FY2021 and FY2022. Consequently, it has opted to seek a one-time restructuring, *inter alia*, including deferment of its debt obligations due between April 2020 and March 2022. Timely restructuring of debt and/or funding support from the promoters would be crucial to enable timely repayments and this would be a key monitorable from the rating perspective.

---

[1] *Demand emanating from Meetings, Incentives, Conferencing and Exhibitions (MICE)*

[2] *Total debt includes Rs. 20 crore, payable to Shri Nakoda towards cancellation of agreement for land at its Indore hotel*

[3] *The repayment of Rs. 20 crore to Shri Nakoda, previously due in FY2021, was renegotiated and classified as non-current liability as on March 31, 2020.*

Liquidity position: Stretched

SHL had external debt outstanding of approximately Rs. 91 crore as on March 31, 2020. The company's liquidity is expected to remain **stretched** in the near term. While it had availed the moratorium on its bank loans under the window provided by the RBI for April–August 2020, SHL has scheduled debt obligations of nearly Rs. 30 crore cumulatively in FY2021-FY2022. The company has formally applied for one-time debt restructuring in September 2020. Given the expectation of subdued performance over the next 12-18 months, timely funding support from the promoters and restructuring of debt by the lenders would be crucial for SHL to meet its debt obligations.

Rating sensitivities

Positive triggers – An upgrade in near-term is unlikely, given the Negative outlook on the industry, driven by the severe impact of the ongoing pandemic on the travel and tourism industry. Nonetheless, a sustained improvement in operational metrics and profitability margins following the pandemic 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 and/or timely restructuring of debt leading to weakening of its debt servicing indicators and liquidity position. Also, 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 list of entities consolidated are provided in 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 over 1,200 rooms across 10 hotel properties. These are in Vadodara (two properties), Indore (two properties), Pune (Maharashtra), Bhopal, Raipur, Kolhapur (Maharashtra), Gurgaon (Haryana) and Rajkot (Gujarat). The properties are operated under its in-house brands, Sayaji and Effotel. 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 contracts. In FY2020, the promoter of SHL has launched another brand, Enrise by Sayaji, under which it operates two properties—one each at Indore and Pune.

The company has been listed on BSE since 1992. It owns a chain of 148 restaurants through its 45.1% owned associate, Barbeque Nation Hospitality Limited, which is owned through SHL's wholly owned subsidiary, Sayaji Housekeeping Services Limited. SHL is promoted by the Vadodara-based Dhanani family, which directly holds 74.9% stake (as on June 30, 2020) in it.

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) Type	Amount Rated (Rs. crore)	Amount Outstanding 31-Mar-20 (Rs. crore)	Date & Rating 23-Oct-20	7-Sep-20	24-Apr-20	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 26-Nov-19	30-Aug-19^	Date & Rating in FY2019 27-Sep-18	Date & Rating in FY2018 16-Feb-18	27-Dec-17
1	Long term - Term Loans	Long Term	68.95	48.52	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[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]BB+ (Negative)	[ICRA]BB+ (Negative)	[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]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (stable)	[ICRA]BBB-&	[ICRA]BBB-&	[ICRA]BBB- (stable)	[ICRA]BBB- @
4	Unallocated	Long term	15.68	--	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[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]BB+ (Negative)
NA	Term Loan 2	Sep-16	NA	Mar-22	12.37	[ICRA]BB+ (Negative)
NA	Term Loan 3	Sep-16	NA	Mar-21	1.43	[ICRA]BB+ (Negative)
NA	Term Loan 4	Jan-17	NA	Jan-25	21.05	[ICRA]BB+ (Negative)
NA	Term Loan 5	Oct-16	NA	Oct-21	7.43	[ICRA]BB+ (Negative)
NA	Term Loan 6	Oct-16	NA	Sep-23	5.72	[ICRA]BB+ (Negative)
NA	Term Loan 7	Oct-16	NA	Sep-20	2.71	[ICRA]BB+ (Negative)
NA	Term Loan 8	Mar-18	NA	Jul-26	8.70	[ICRA]BB+ (Negative)
NA	Term Loan 9	Mar-18	NA	Sep-26	2.44	[ICRA]BB+ (Negative)
NA	Cash Credit	Mar-18	NA	NA	8.75	[ICRA]BB+ (Negative)
NA	Bank Guarantee	Mar-18	NA	NA	0.50	[ICRA]BB+ (Negative)
NA	Unallocated Limits	NA	NA	NA	15.68	[ICRA]BB+ (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sayaji Hotels Limited	100.00% (Rated entity)	-
Malwa Hospitality Private Limited	51.67%	Full Consolidation
Sayaji Housekeeping Services Limited	100.00%	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

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Shamsher Dewan
+91 124 4545328
shansherd@icraindia.com

Ritu Goswami
+91 124 4545826
ritu.goswami@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents