April 26, 2022

Sayaji Hotels Limited: Rating upgraded to [ICRA]BBB&; continues to be on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	60.56	30.00	[ICRA]BBB &; Upgraded from [ICRA]BBB-& and continues to be on watch with developing implications
Long-term – Cash Credit Facilities	8.75	-	-
Long-term – Non-fund Based Limits	0.50	0.50	[ICRA]BBB &; Upgraded from [ICRA]BBB-& and continues to be on watch with developing implications
Unallocated Limits	24.07	14.50	[ICRA]BBB &; Upgraded from [ICRA]BBB-& and continues to be on watch with developing implications
Total	**93.88**	**45.00**	

**Instrument details are provided in Annexure-1; & = On watch with developing implications*

Rationale

The upgrade in rating of Sayaji Hotels Limited (SHL) factors in a better-than-expected improvement in its operating performance in FY2022, following a swift demand recovery after the severe second wave of the pandemic, and expectation of sustenance of this recovery pace in FY2023. The company generated healthy cash flows from operations during the year, which aided the higher-than-expected deleveraging of its balance sheet and resulted in a material improvement in its leverage and coverage indicators. Furthermore, against a total external debt outstanding of ~Rs. 46 crore[1] as of March 31, 2022 (down from ~Rs. 80 crore as of March 31, 2021), the market value of SHL's stake in Barbeque Nation Hospitality Limited (BNHL, rated [ICRA]A-(Stable)/ [ICRA]A2+)[2] stood at ~Rs. 1,460 crore (@Rs. 1,256.55 per share on March 31, 2022 vis-à-vis Rs. 590.4 per share at the time of listing in April 2021), which implies debt-to-market value at an investment ratio of ~4%; this lends considerable financial flexibility to SHL and provides comfort.

The healthy pace of vaccination in India led to abatement of pandemic related fears and easing of restrictions after the second wave of the pandemic in April-May 2021. This was reflected in the healthy pick-up in the operating metrics of SHL's portfolio, which saw occupancy levels rise from the lows of 10% in May 2021 to 83% in December 2021. While a dip in demand was seen in January 2022 due to the Omicron variant, the occupancy again touched 75% in March 2022. The average room rate (ARR) has also been improving on a month-on-month basis, averaging at ~85% of pre-Covid levels for the full fiscal. In 9M FY2022, the company had reported revenues of ~Rs. 110 crore, marking a 2.5 fold increase; moreover, due to the various cost saving initiatives, its operating margins, at 32% in 9M FY2022, were much higher than 23% in FY2020 (pre-pandemic) levels. While these are expected to moderate to some-extent in the near-term (as salary cuts implemented during H1 FY2022 have since been reversed), the same are likely to remain above pre-pandemic levels, going forward. While the pandemic situation

[1] *Excluding operating lease liabilities and debt portion of cumulative preference shares subscribed by the promoters (around Rs.15 crore). However, this includes all unsecured loans and advances from promoters and other parties. This amount further reduced by Rs. 5 crore in April 2022 following pre-payment of advance from Sri Nakoda.*

[2] *29.86% as of December 31, 2021*

continues to evolve, and demand may be potentially impacted temporarily by further waves of Covid-19, if any, ICRA expects the company to return to pre-Covid levels of operations in FY2023.

ICRA continues to favourably factor in the extensive experience of SHL's promoters and their demonstrated track record of funding support, the entity's 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 nearly 18 management contracts in the pipeline currently, which are expected to become operational over the next 1.5-2 years. This is in line with the management's stated strategy of leveraging its brand name and expanding its presence through an asset-light model. However, given that most of these properties have a small inventory (average 55 rooms), the benefits from this portfolio will likely get realised gradually.

The rating, however, remains constrained by the inherent cyclicality and seasonality in the hospitality industry, which exposes SHL's revenues to risks associated with economic slowdown and exogenous shocks (although the same is partially mitigated by SHL's geographically diversified portfolio). SHL portfolio is highly dependent on F&B/events (primarily social events like weddings) business, which account for over 50% of its total revenues and have traditionally been highly seasonal. While social MICE (mainly weddings) has supported recovery for the property's operating metrices in FY2022, ramp-up of corporate MICE activities has been gradual. Furthermore, while the deleveraging exercise undertaken in FY2022 has improved its financial metrices, SHL has sizable repayment obligations in FY2023, which could keep its leverage and coverage metrices under check in the near-term. Going forward, the company's ability to sustain the improvement in profitability margins of its properties (especially Indore), pace (and manner) of its future renovation and expansion plans to limit the impact on its business and financial risk profile will remain the key monitorables.

SHL's ability to amicably resolve the ongoing 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 impact its credit profile and remains an event risk. Additionally, as on March 31, 2022, the promoters held 74.9% equity stake in the company, of which around 27.1% was pledged or encumbered. This position remains unchanged on a YoY basis and would remain a monitorable.

The rating continues to be on watch, pending approval/implementation of a proposed scheme of arrangement, which seeks to realign the businesses currently under SHL and its promoters. As per the company management, approvals have been received from the lenders and stock exchanges and application to the National Company Law Tribunal (NCLT) is to be made shortly. ICRA would continue to monitor the developments in this regard and take appropriate rating action as and when more clarity emerges.

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 ~Rs. 20.5 crore, excluding accrued interest). In FY2021, purchase of SHL's 51.67% stake in Malwa Hospitality (subsidiary) was undertaken by the promoters, yielding ~Rs. 7 crore funds, which 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 in the operative micro-markets - Under its inhouse brand, Sayaji and Effotel, the company has established itself as a reputed hotel chain primarily in the tier-II and III cities. With nearly 1,100 rooms across ten operational properties in nine cities, the Sayaji and Effotel brands are rapidly expanding their market presence, leading to improved geographical diversification. The company has a pipeline of around 18 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 over the medium term.

Healthy financial flexibility from holding ~30% stake in BNHL – The market value of SHL's stake in associate company, BNHL (held through subsidiary, Sayaji Housekeeping), stands at ~Rs. 1,400 crore as on date. Against the same, SHL's total debt excluding lease liabilities (~Rs. 60 crore, including debt portion of cumulative preference shares), was marginal, at ~4% as on March 31, 2022, providing it significant financial flexibility. Additionally, incremental investments in subsidiary companies and associates have remained limited over the past few years and are expected to be marginal (if any) over the medium term.

Portfolio expansion through asset-lite business models 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 SHL's 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 18 other contacts are in the pipeline. These are expected to become operational over the medium term. This strategy is expected to help in conserving funds, while allowing quick scale-up of brand visibility, revenues, and profits.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks - Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, the several non-metro markets also face seasonality in guest traffic. Over the past two years, the performance of SHL (and the entire hotel industry) has been significantly impacted by the Covid-19 pandemic. While improving vaccination coverage remains positive, any prolonged and severe resurgence in infections could derail the recovery in revPARs and will remain a key monitorable in the near-term.

Moderate debt metrics; however, improvement excepted in the same, going forward - SHL has moderate debt coverage indicators, evidenced by TD/OPBDITA of over 3.0 times as on September 30, 2021. The company had outstanding external debt of ~Rs. 80 crore as on March 31, 2021[3] (including Rs. 20 crore, payable to Shri Nakoda towards cancellation of agreement for land at the Indore hotel), but pre-paid several of its loans to bring down the overall debt to ~Rs. 46 crore by March 2022. Of the same, almost 50% (Rs. 22-23 crore) is likely to be repaid in FY2023 (of which Rs. 5 crore pertaining to Shri Nakoda has already been pre-paid in April 2022). With a relatively steady revenue growth expectation, no plans of any major debt funded capex and adequate liquidity in hand, the company is expected to easily service its reduced debt obligations. Resultantly, the leverage and coverage metrices are likely to improve going forward.

Liquidity position: Adequate

SHL's liquidity is expected to remain **adequate**, supported by free cash and bank balances of ~Rs. 23 crore (as of March 31, 2022) and expectation of improved accruals stemming from business recovery. SHL's credit profile is further supported by significant financial flexibility emanating from market value of this investment in BNHL (~Rs. 1,400 crore). Against the funds available, the company has interest and repayment obligations of around Rs. 22-23 crore in FY2023 (including unsecured loans) and marginal capex commitments. Given its strong credit profile, ICRA does not anticipate SHL to face any major financing constraints or refinancing risk.

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[3] *Excludes debt (of approximately Rs. 8 crore) under Malwa Hospitality as on March 31, 2021, as SHL's stake in this erstwhile subsidiary was sold-off to the promoters in Q3 FY2021.*

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 from slower than anticipated recovery in its portfolio's operating metrics and/or unforeseen and material increase in debt levels leading to weakening of its leverage and coverage indicators and liquidity position. Any significant withdrawal of funds from the company by the promoters leading to weakening of its liquidity profile would also remain a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating approach- Consolidation
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA considers the consolidated financials of SHL. As of December 31, 2021, the company had four subsidiaries and two associate companies, which are all enlisted in Annexure-2.

About the company

Incorporated in 1982, SHL (on a standalone basis) owns/operates a portfolio of seven properties under its in-house brands—Sayaji and Effotel. Six of the properties—at Vadodara (two properties), Indore (one hotel; as well as a convention centre, Amber Garden), Pune, Bhopal, Raipur—are owned or leased and one property at Kolhapur (Sayaji) is under management contract. To facilitate rapid expansion of its brands across the country, SHL's 100% subsidiary, SHML, enters into management contracts with asset owners under its three brands, Sayaji, Effotel and Enrise. As on date, SHML has six hotels (at Jamnagar, Rajkot, Indore, Pune and Nashik) under management and around 18 properties in the pipeline, which will be added over the next one to two years. SHL also owns a chain of 166 restaurants through its 29.9% owned associate, BNHL (rated [ICRA]A-(Stable)/A2+) as of December 31, 2021.

SHL has been listed on BSE since 1992. It is promoted by the Vadodara-based Dhanani family, who directly held 74.9% stake in the company as on December 31, 2021.

Key financial indicators (audited)

Consolidated	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	215.6	77.6	109.9
PAT (Rs. crore)	-4.5	-18.9	46.6
PAT including share of profit/loss from associate (Rs. Crore)	-20.3	-51.6	37.9
OPBDIT/OI (%)	23.0%	15.5%	32.0%
PAT/OI (%)	-2.1%	-24.4%	42.4%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	1.9	-
Total Debt/OPBDIT (times)	4.8	14.7	--
Interest Coverage (times)	2.1	0.5	2.3

Source: Company Annual Reports and quarterly result filings; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 1, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020		
					Apr 26, 2022	Dec 13, 2021	Jun 1, 2021	Jan 11, 2021 Oct 23, 2020 Sep 7, 2020	Apr 24, 2020	Nov 26, 2019	Aug 30, 2019	
1	Term Loans	Long-term	30.00	30.00	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	
2	Cash Credit	Long-term	--	--	-	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	
3	Non-fund Based Facilities	Long-term	0.5	-	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	
4	Unallocated Limits	Long-term	14.50	-	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	

& = On watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term Loans	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/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Jan 2017	-	Oct 2025	15.85	[ICRA]BBB&
NA	Term Loan-II	Feb 2020	-	Jan 2025	8.4	[ICRA]BBB&
NA	Term Loan-III	Jan 2021	-	Mar 2026	3.8	[ICRA]BBB&
NA	Term Loan-IV	Feb 2021	-	Jul 2026	1.95	[ICRA]BBB&
NA	Bank Guarantee	Aug 2020	-	-	0.50	[ICRA]BBB&
NA	Unallocated	-	-	-	14.50	[ICRA]BBB&

Source: Company; & = On watch with developing implications

Annexure-2: List of entities considered for consolidated analysis

Company Name	SHL Ownership	Consolidation Approach
Sayaji Hotels Limited	- Rated entity	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 (Indore) Limited (erstwhile Sayaji Hotels (Vadodara) Limited)	100%	Full Consolidation
Barbeque Nations Hospitality Limited	29.9% (held through Sayaji Housekeeping)	Equity method
Intellistay Hotels Private Limited	48.0%	Equity method

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

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