

November 07, 2024

Caspia Hotels Private Limited: [ICRA]A-(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based facilities – Term loan	164.60	[ICRA]A- (Stable); assigned
Short term non-fund based facilities – Bank Guarantee	1.70	[ICRA]A2+; assigned
Total	166.30	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of SAMHI Hotels Limited (SHL), its subsidiaries and step-down subsidiaries, while assigning the ratings, given the common management team and significant operational and financial linkages among the entities.

The assigned ratings factor in SHL's established market position in the Indian hospitality industry with a diversified portfolio, comprising 32 hotels as of October 2024, spread across 13 cities (largely present in metro/tier-1 cities) and presence across three segments – Upper upscale, upscale and midscale, its established tie-ups with international hospitality chains such as Marriott, Intercontinental Hotel Group (IHG) and Hyatt and strong management team and execution capabilities. In addition, the ratings also factor in the company's steadily improving financial performance over the past few quarters, and anticipated sustenance of the same, given the healthy demand outlook for the hospitality industry over the medium term. Following the conclusion of fund-raising exercise through an initial public offering (IPO) in September 2023, the company has been able to considerably reduce its borrowings to a more sustainable level, which also reflects in the assigned ratings. SHL also acquired a single hotel property with 142 keys in Whitefield, Bengaluru in October 2024 for a consideration of Rs. 205 crore, which was funded through internal accruals.

SHL reported operating income of Rs. 959.2 crore in FY2024 and Rs. 249.9 crore in Q1 FY2025, YoY growth of 29.9% and 31.2% respectively in FY2024 and Q1 FY2025, aided by steady demand traction and a consequent improvement in both the average room rate (ARR) and occupancy levels. Besides improvement in its operating performance, reduction in debt post the IPO and its ability to gradually reduce its borrowing costs from earlier elevated levels, have resulted in improvement in cash accruals. The company reported cash profit of Rs. 33.6 crore in Q3 FY2024, Rs. 39.6 crore in Q4 FY2024 and Rs. 33.4 crore in Q1 FY2025, as against cash losses of Rs. 120.6 crore in H1 FY2024, while the cash accruals pre-ESOP (employee stock option related cost) stood at Rs. 45.1 crore, Rs. 50.7 crore and Rs. 37.9 crore in Q3 FY2024, Q4 FY2024 and Q1 FY2025 respectively.

Going forward, favourable demand outlook for the hospitality industry, stemming from both the anticipated stable demand across segments and the demand-supply gap in terms of capacities across major cities would augur well for the company. SHL's revenues for FY2025 would also be supported by the expected inventory addition in H2 FY2025 and full year-impact of the ACIC portfolio¹, which the company had acquired in August 2023. The company's operating margins (28.1% in FY2024 and 32.8% in Q1 FY2025; 34.4% pre-ESOP and one-time expenses in FY2024) and accruals are also expected to improve going forward, aided by the operating leverage benefits given the higher topline growth, absence of significant quantum of one-time expenses, and lower ESOP cost among others. The company also has strong financial flexibility and adequate liquidity with consolidated free cash and bank balance of around Rs. 150.0 crore (excluding encumbered cash), undrawn working capital

¹ SHL acquired a portfolio of assets from ACIC comprising 6 hotels with 962 rooms and a leasehold land in Navi Mumbai for an equity consideration of Rs. 892.1 crore (through share swap) in August 2023

lines of Rs. 49.0 crore and an undrawn term loan of Rs. 45.0 crore (excluding the Rs. 55.0 crore earmarked for the capex) crore as on March 31, 2024. This apart, there was a debt service reserve account (DSRA) of ~Rs. 64.0 crore as on March 31, 2024.

SHL has had relatively high debt levels over the last several years, impacted by asset heavy expansions, including acquisitions, and weak accruals. The latter was on account of multiple reasons including the Covid-19 pandemic and lower cash flows from acquired properties until stabilisation. However, ICRA notes that the debt levels² and coverage metrics have improved significantly with the reduction in debt post the IPO in FY2024 (Rs. 2,122.7 crore as on March 31, 2024, vis-a-vis Rs. 2,744.0 crore as on March 31, 2023) and refinancing of borrowings at lower costs from earlier elevated levels in the last few months. Accordingly, the company's Total Debt/OPBDITA and Net Debt/OPBDITA stood at 7.9 times and 7.1 times respectively as on March 31, 2024. Adjusted for ESOPs and one-time expenses³, the Net Debt/OPBDITA stood at 5.8 times as on March 31, 2024. ICRA expects the debt metrics to gradually improve, going forward, with better accruals and in the absence of any significant debt-funded capex plans. SHL's core RoCE has also been low in the range of 6-8% in FY2023 and FY2024, below its cost of capital. With anticipated improvement in net cash accruals and lower debt levels compared to the past, ICRA expects the return indicators to improve over the medium term. The extent of improvement, however, remains to be seen.

ICRA notes that the statutory auditor has provided a qualified report over the company's internal financial control for FY2024 related to specific information technology systems. However, ICRA understands that the same pertains to systemic gaps in information technology systems maintained by the operator, and that corrective measures are in progress. In addition, there have also been instance of delays in statutory payments in the past. However, there is no overdue as on date. There were also overdue payments to MSME vendors in the past. ICRA understands that it has reduced substantially and there is nothing materially overdue as on date.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its cash accruals, adequate liquidity position and moderate capex, amidst favourable outlook for the industry.

Key rating drivers and their description

Credit strengths

Experienced management team and strong financial flexibility – The company was founded by Mr. Ashish Jakhwanwala and Mr. Manav Thadani, who have significant experience in the hospitality industry. The company has expanded its inventory from 252 keys in FY2014 to 4,801 keys in FY2024, at a CAGR of 34% over the last 10 years and established itself as a reputed asset-owner in the hospitality segment. SHL also acquired a single hotel property with 142 keys in Whitefield, Bengaluru in October 2024 for a consideration of Rs. 205 crore, which was funded through internal accruals. As on September 30, 2024, its key shareholders include ACIC (17.02%), Government of Singapore (8.1%), Blue Chandra PTE. Limited (3.96%), TT Emerging Markets Unconstrained fund (3.08%) and Abu Dhabi Investment Authority (3.06%) among others, although there is no identifiable promoter. The company enjoys strong financial flexibility and lender/investor comfort and has been able to periodically raise funds and refinance its borrowings. The company recently raised Rs. 1,200.0 crore through an IPO in September 2023. Post the IPO, the company has been able to reduce its weighted average cost of debt to 9.7% in June 2024 from 13.0% in June 2023. ICRA expects the company's strong financial flexibility to continue going forward as well, enabling it to raise funds and refinance borrowings based on business cashflow requirements.

Diversified geographic presence and segment mix – The company has presence in 13 cities (largely present in metro/tier-1 cities) including Bangalore, Pune, Hyderabad, Delhi NCR and Chennai, with no city contributing to more than 20% of the inventory. The geographical diversification reduces the vulnerability of revenues to any localised downturn/unforeseen events or region-specific risks and helps in capitalising on demand growth across the regions. Further, the hotel portfolio is diversified across upper upscale, upscale and midscale segments under various brands including Renaissance, Sheraton, Hyatt Regency,

² The **total** debt includes the lease liabilities of Rs. 46.4 crore as on March 31, 2024

³ The ESOP cost and one-time expenses for FY2024 stood at Rs. 45.9 crore and Rs. 14.6 crore, respectively

Fairfield by Marriott and Holiday Inn Express among others. The diversified segment presence helps the company capture a wide range of customers.

Management tie-ups with well-known international hospitality operators – SHL derives hotel management support from the international hospitality chains, Marriott, IHG and Hyatt, and their well-established global brands. At present, 29 of the 32 properties, are managed by Marriott (53% of its inventory), IHG (31%) and Hyatt (6%), while the other three are also in the process of getting rebranded/being managed by global operators. SHL benefits from global branding, marketing, and advertising networks of the international operators.

Favourable demand outlook; healthy revenue growth and improvement in margins anticipated in FY2025 – SHL reported an operating income of Rs. 959.2 crore and Rs. 249.9 crore in Q1 FY2025, YoY growth of 30% and 31.2% respectively in FY2024 and Q1 FY2025, aided by steady demand traction and a consequent improvement in both the average room rate (ARR) and occupancy levels. Besides improvement in its operating performance, reduction in debt post the IPO and its ability to gradually reduce its borrowing costs from earlier elevated levels, have resulted in improvement in cash accruals. The company reported cash profit of Rs. 33.6 crore in Q3 FY2024, Rs. 39.6 crore in Q4 FY2024 and Rs. 33.4 crore in Q1 FY2025, as against cash losses of Rs. 120.6 crore in H1 FY2024, while the cash accruals pre-ESOP (employee stock option related cost) stood at Rs. 45.1 crore, Rs. 50.7 crore and Rs. 37.9 crore in Q3 FY2024, Q4 FY2024 and Q1 FY2025 respectively. Going forward, favourable demand outlook for the hospitality industry, stemming from both the anticipated stable demand across segments and the demand-supply gap in terms of capacities across major cities would augur well for the company. SHL's revenues for FY2025 would also be supported by the expected inventory addition in H2 FY2025 and full year-impact of the ACIC portfolio⁴, which the company had acquired in August 2023. The company's operating margins (28.1% in FY2024 and 32.8% in Q1 FY2025; 34.4% pre-ESOP and one-time expenses in FY2024) and accruals are also expected to improve going forward, aided by the operating leverage benefits given the higher topline growth, absence of significant quantum of one-time expenses, and lower ESOP cost among others.

Credit challenges

Moderate coverage metrics – SHL has had relatively high debt levels over the last several years, impacted by asset heavy expansions, including acquisitions, and weak accruals. The latter was on account of multiple reasons including the Covid-19 pandemic and lower cash flows from acquired properties until stabilisation. However, ICRA notes that the debt levels and coverage metrics have improved significantly with the reduction in debt⁵ post the IPO in FY2024 (Rs. 2,122.7 crore as on March 31, 2024, vis-a-vis Rs. 2,744.0 crore as on March 31, 2023) and refinancing of borrowings at lower costs from earlier elevated levels in the last few months. Accordingly, the company's Total Debt/OPBDITA and Net Debt/OPBDITA stood at 7.9 times and 7.1 times respectively as on March 31, 2024. Adjusted for ESOPs and one-time expenses⁶, the Net Debt/OPBITDA stood at 5.8 times as on March 31, 2024. ICRA expects the debt metrics to gradually improve, going forward, with better accruals and in the absence of any significant debt-funded capex plans. The elongated tenor of the company's long-term loans at 10-12 years, and its strong financial flexibility and refinancing capabilities would also benefit the company.

Relatively weak return indicators – SHL's core RoCE has also been low in the range of 6-8% in FY2023 and FY2024, below its cost of capital. With anticipated improvement in net cash accruals and lower debt levels compared to the past, ICRA expects the return indicators to improve over the medium term. The extent of improvement, however, remains to be seen.

Vulnerability of hotel revenues to inherent industry cyclicity, economic uncertainties, and exogenous events – The operating performance of the properties remains vulnerable to industry cyclicity/seasonality, macro-economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk to revenues is partially mitigated by SHL's geographically diversified portfolio, which allow it to withstand any demand vulnerability related to a micro-market or specific town/city to an extent.

⁴ SHL acquired a portfolio of assets from ACIC comprising 6 hotels with 962 rooms and a leasehold land in Navi Mumbai for an equity consideration of Rs. 892.1 crore (through share swap) in August 2023

⁵ The total debt includes the lease liabilities of Rs. 46.4 crore as on March 31, 2024

⁶ The ESOP cost and one-time expenses for FY2024 stood at Rs. 45.9 crore and Rs. 14.6 crore, respectively

Environment and Social Risks

Environmental considerations: Akin to other hotel companies, SHL is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The company has been taking measures to improve its environmental impact by reducing energy, water, and plastic consumption, and by increasing green initiatives among others.

Social considerations: SHL, akin to other hotel companies, would need to adapt to evolving social fabric (including changing consumer preferences and social trends) over time and it relies heavily on human capital. SHL is also vulnerable to data security and data privacy issues, like other hotels. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

SHL's liquidity position is adequate with consolidated free cash and bank balance of around Rs. 150.0 crore (excluding encumbered cash), undrawn working capital lines of Rs. 49.0 crore and an undrawn term loan of Rs. 45.0 crore (excluding the Rs. 55.0 crore earmarked for the capex) crore as on March 31, 2024. This apart, there was a DSRA (three months of principal and interest) of ~Rs. 64.0 crore as on March 31, 2024. Also, Rs. 25.0 crore of lien has been released as on date and another Rs. 11.0 crore is expected to be released in the near term. ICRA also expects healthy cash accruals from the business, going forward. Against this, SHL has a scheduled principal repayment obligation of ~Rs. 26.7 crore in H2 FY2025 and ~Rs. 139.8 crore in FY2026 for its existing loans. However, the company expects to refinance part of its borrowings at a lower interest rate and longer tenor going forward. The company had acquired a single hotel property in Bengaluru in October 2024 for Rs. 205 crore through internal accruals. Apart from this, the company has a capex commitment of about Rs. 100.0 crore per annum over the medium term, largely expected to be funded through internal accruals. The impact of acquisition, if any, will be evaluated on a case-to-case basis.

Rating sensitivities

Positive factors – Sustained improvement in revenues and accruals, leading to significant improvement in debt coverage metrics and return indicators could be a trigger for a rating upgrade.

Negative factors – Negative pressure on SHL's ratings could arise from any demand slowdown and weakening of operating metrics leading to sustained pressure on its earnings and profitability or significant capex/acquisitions, leading to weakening of debt coverage metrics and liquidity position. Specific metrics for a downgrade include Total Debt / OPBDITA being greater than 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company

About the company

Caspia Hotels Private Limited (CHPL) is a wholly owned subsidiary of SAMHI Hotels Limited (SHL). CHPL has three properties – Renaissance (Ahmedabad; 155 keys), Fairfield by Marriott (Coimbatore; 126 keys) and Four Points by Sheraton (Visakhapatnam; 123 rooms). All the three properties are under management contract by Marriott International Inc.

SHL was founded by Mr. Ashish Jakhwanwala and Mr. Manav Thadani, both with significant experience and knowledge of the Indian hospitality industry. The company has historically raised equity from GTI Capital Group, International Finance

Corporation and Goldman Sachs. The company has 32 hotel properties with 4,943 keys across multiple cities. SHL has hotels across 13 cities, with top cities like Pune and Bangalore housing 18% of its inventory each, followed by Hyderabad with 17% of its inventory. The company operates across multiple segment and in the upper upscale segment accounts for 43% of its revenues followed by 42% from upscale and 15% from the midscale in FY2024. SHL has been associated with eight international brands with Marriott, InterContinental Hotels Group (IHG) and Hyatt. SHL came up with a book-built IPO of listing in September 2023, on BSE and NSE.

Key financial indicators

Consolidated (Audited)	FY2023	FY2024
Operating income	738.6	959.2
PAT	-338.6	-234.6
OPBDIT/OI	33.1%	28.1%
PAT/OI	-45.8%	-24.5%
Total outside liabilities/Tangible net worth (times)	-3.8	2.3
Total debt/OPBDIT (times)	11.2	7.9
Interest coverage (times)	0.5	0.8

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with numbers reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Nov 07, 2024	-	-	-
1 Fund-based facilities – Term loan	Long term	164.60	[ICRA]A- (Stable)	-	-	-
2 Non-fund based facilities – Bank Guarantee	Short-term	1.70	[ICRA]A2+			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based facilities – Term loan	Simple
Short term non-fund based facilities – Bank Guarantee	Very Simple

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund-based facilities – Term loan	FY2025	9.5-10%	FY2037	164.60	[ICRA]A- (Stable)
NA	Short term non-fund based facilities – Bank Guarantee	NA	NA	NA	1.70	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Argon Hotels Private Limited	100.0%	Full consolidation
Ascent Hotels Private Limited	100.0%	Full consolidation
Barque Hotels Private Limited	100.0%	Full consolidation
CAPSIA Hotels Private Limited	100.0%	Full consolidation
SAMHI Hotels (Ahmedabad) Private Limited	100.0%	Full consolidation
SAMHI Hotels (Gurgaon) Private Limited	100.0%	Full consolidation
SAMHI JV Business Hotels Private Limited	100.0%	Full consolidation
Duet India Hotels (Ahmedabad) Private Limited	100.0%	Full consolidation
Duet India Hotels (Chennai OMR) Private Limited	100.0%	Full consolidation
Duet India Hotels (Chennai) Private Limited	100.0%	Full consolidation
Duet India Hotels (Hyderabad) Private Limited	100.0%	Full consolidation
Duet India Hotels (Pune) Private Limited	100.0%	Full consolidation
ACIC Advisory Private Limited	100.0%	Full consolidation
Innmar Tourism and Hotels Private Limited	100.0%	Full consolidation
Step-down subsidiaries		
Paulmech Hospitality Private Limited	100.0%	Full consolidation
Duet India Hotels (Jaipur) Private Limited	100.0%	Full consolidation
Duet India Hotels (Bangalore) Private Limited	100.0%	Full consolidation
Duet India Hotels (Navi Mumbai) Private Limited	100.0%	Full consolidation

Source: Company; As on October 31, 2024

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Branches



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