

April 07, 2025

Sayaji Hotels Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term-Fund based- Term loan	-	60.00	[ICRA]BBB+(Stable); assigned
Long-term-Fund based- Working Capital	-	15.00	[ICRA]BBB+(Stable); assigned
Long-term Unallocated Limits	45.00	5.00	[ICRA]BBB+(Stable); reaffirmed
Total	45.00	80.00	

*Instrument details are provided in Annexure I

Rationale

The reaffirmation of the long-term rating factors in the steady operating performance of Sayaji Hotels Limited (SHL) and an expectation of continuation of the same over the medium term, aided by SHL's established market position, and sustained demand in the hospitality industry. The steady operating performance, coupled with low debt levels, results in a healthy financial risk profile for the entity, which further supports the rating. SHL continues to hold ~30% of equity interest in Barbeque Nations Hospitality Limited (BNHL), whose market value stands at ~Rs. 306 crore, lending considerable financial flexibility to SHL.

The operating metrics of SHL's existing portfolio remain healthy, driven by sustained industry demand, which resulted in high occupancy levels, as well as improved average room rate (ARR), resulting in healthy cash flows from the business. In 9M FY2025, the company reported revenues of ~Rs. 99 crore, representing ~26% increase over 9M FY2024. Despite higher revenues, the operating profit margins (OPMs) witnessed a decline to 27.1% in 9M FY2025 from ~31.6% in 9M FY2024 as the impact of the repairs and renovation work being undertaken in the Udaipur and Bhopal properties more than offset the cost-saving initiatives undertaken by SHL. That said, the operating profit margins remain significantly higher than the pre-pandemic levels (~23% in FY2020).

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 food and beverage (F&B) and banqueting segments, along with strong brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes that the company has nearly 23 management contracts in the pipeline currently, which are expected to become operational over the next 2-3 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 60-70 rooms), the benefits from this portfolio will likely get gradually realised. The company also plans to add 48 rooms and 50 villas to its Udaipur property at an estimated capital expenditure outgo of Rs. 60 crore, which will be funded by an additional term loan (sanctioned but yet to be availed). ICRA also notes that the company has announced rights issue of Rs. 50 crore to support its expansion plans. The same is expected to be raised by April 2025.

The rating remains constrained by the inherent cyclicity and seasonality in the hospitality industry, which exposes SHL's revenues to risks associated with any economic slowdown and exogenous shocks (although the same is partially mitigated by SHL's geographically diversified portfolio). Going forward, the company's ability to improve the profitability margins of its properties, the pace of its future expansion plans and the consequent impact on its business and financial risk profiles will remain key monitorables.

The Stable outlook on the company's long-term credit profile reflects ICRA's view that SHL will continue to witness steady and profitable scale up across its properties. This coupled with the expected rights issue, will keep debt coverage metrics under control, despite SHL's capex plans to increase the room inventory.

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, who have been 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. This includes-- purchase of SHL's 51.67% stake in Malwa Hospitality (subsidiary) by the promoters, yielding ~Rs. 7 crore funds (FY2021), Rs. 15 crore invested through cumulative redeemable preference shares (FY2015, subsequently redeemed in Q3 FY2024) and Rs. 20 crore invested in the form of unsecured loans to support the expansion at Bhopal and Udaipur properties during FY2025 -- which have 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.

Healthy brand recognition in the operative micro-markets; portfolio expansion through asset-light business models limits capex and project implementation risk – SHL, through its three brands-- Sayaji, Effotel and Enrise-- has established itself as a reputed hotel chain primarily in tier-II and III cities. With more than 2,057 rooms (including properties under management contract) across 27 operational properties in 23 cities, the three brands are rapidly expanding their market presence. 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, management contracts or brand franchisee. This is expected to provide long-term operational benefits to SHL, as properties can almost immediately be put in operations, with minimal (or no) capex and project implementation risk. Similarly, under the management contract model, SHL would have fixed earnings from the first day, with an incentive for earning greater profit. In line with this expansion strategy, the company signed several management contracts for adding 1,500+ rooms over the next two to three years. The company has a pipeline of around 22 management contracts and ICRA expects that this would further augment brand visibility and facilitate rapid expansion of SHL in diversified markets through an asset-light model over the medium term.

Healthy financial flexibility emanating from holding ~30% stake in BNHL – The market value of SHL's stake in associate company - BNHL (held through subsidiary, Sayaji Housekeeping Services Limited) stood at ~Rs. 306 crore (as on March 25, 2025 (vs 720 crore as on February 20, 2024). Against the same, SHL's total debt excluding lease liabilities and promoter loan is negligible (0.6 crore as of December 2024). The investment in BNHL provides SHL with 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.

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 movements and several exogenous factors, leading to inherent cyclicality. Several non-metro markets also face seasonality in guest traffic. As such, global and domestic economic conditions will remain key monitorables for SHL, as part of this industry.

Limited scale of operations – Despite the geographically diversified portfolio, the scale of operations for SHL remains limited (revenues for 9M FY2025 at ~Rs. 99 crore), especially post reorganisation, wherein some properties were demerged into separate entities. While the long pipeline of management contracts is expected to provide opportunities for growth and strong financial flexibility, growth through management contracts will likely reduce the pace of revenue growth, especially with the smaller size of properties (average size of management contracts in pipeline is ~60 keys).

Environmental and social risks

Environmental considerations: Akin to other hotel players, 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 mitigant in these circumstances and may not be a material driver of credit. The company has also been actively taking measures to improve its environmental impact through various measures. Overall, the company has relatively low environmental risk.

Social considerations: The company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) from time to time and relies heavily on human capital. The Covid-19 pandemic is an example of social risk given its substantial implications on health and safety. SHL is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

SHL's liquidity is expected to remain adequate, supported by healthy cash flows and available cash and liquid investments (~Rs. 4.0 crore as on December 31, 2024). Further, proceeds from rights issue of Rs. 50 crore which is expected to be received by April 2025 and proposed loan of Rs. 75.0 crore will aid liquidity. Against the funds available, in FY2026, the company has capex commitments of ~Rs. 70-75 crore, interest obligation (on proposed term loan) of ~Rs. 2.4 crore, debt repayment obligation of Rs. 4.3 crore (on proposed term loan) and repayment obligation of ~Rs. 20.0 core of promoter loan.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics, scale of operations and profitability indicators leading to further improvement 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 growth 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 on a sustained basis. 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 9 Bold	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SHL. As on December 31, 2024, the company had one subsidiary and one associate (enlisted in Annexure-II).

About the company

Incorporated in 1982, SHL operates a portfolio of 6-properties (398 keys) under its in-house brands – Sayaji and Enrise. This includes one property each at Bhopal, Raipur, Vadodara, Udaipur, Indore and Jawai. SHL enters into management contracts with asset owners under its three brands – Sayaji, Effotel and Enrise to facilitate the rapid expansion of its brands across the country. Additionally, the company enters into contracts under the franchisee model. As on date, SHL operates 17 properties (1,376 keys) across the country through management contracts and 5 properties (337 keys) under the franchisee model. It plans to add another 24 properties till FY2027.

SHL also has a stake in a chain of 226 restaurants across India through its 29.69% owned associate – Barbeque Nations Hospitality Limited (BNHL, rated [ICRA]A(Stable)/A2+ as of December 2023).

SHL has been listed on BSE since 1992. It is promoted by the Vadodara-based Dhanani family, which directly held a 65.8% stake in the company as on January 31, 2025.

Key financial indicators (audited)

SHL (consolidated)	FY2023	FY2024	9MFY2025*
Operating income	115.0	111.8	98.6
PAT	30.0	18.3	8.6
OPBDIT/OI	29%	33%	27%
PAT/OI	26%	16%	9%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	0.7
Total debt/OPBDIT (times)	2.4	1.5	2.6
Interest coverage (times)	4.2	2.3	4.0

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2026)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Apr 07, 2025	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	
				-	Feb 26, 2024	Mar 02, 2023	Apr 26, 2022
1 Fund Based - Term loans	Long-term	60.00	[ICRA]BBB+ (Stable)	-	-	[ICRA]BBB+ Rating watch with developing implications	[ICRA]BBB Rating watch with developing implications
2 Fund Based - Working Capital	Long-term	15.00	[ICRA]BBB+ (Stable)	-	-	-	-
3 Non-fund based facilities	Long-term	-	--	-	-	-	[ICRA]BBB Rating watch with developing implications
4 Unallocated limits	Long-term	5.0	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ Rating watch with developing implications	[ICRA]BBB Rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term-Fund based- Term loan	Simple

Long-term-Fund based- Working Capital	Simple
Long term – Unallocated Limits	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 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	Term Loan	NA (proposed)	8.75%	NA	60.00	[ICRA]BBB+(Stable)
NA	Working Capital	NA (proposed)	8.75%	NA	15.00	[ICRA]BBB+(Stable)
NA	Unallocated Limits	NA	NA	NA	5.00	[ICRA]BBB+(Stable)

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	SHL Ownership	Consolidation Approach
Sayaji Hotels Limited	Rated entity	Full Consolidation
Sayaji Housekeeping Services Limited	100%	Full Consolidation
Barbeque Nation Hospitality Limited	29.69% (held through Sayaji Housekeeping Services Limited)	Equity method

Note: ICRA has considered the consolidated financials of SHL while assigning the ratings.

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