

March 02, 2023

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

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	30.00	0.10	[ICRA]BBB+; Upgraded from [ICRA]BBB and continues to be on rating watch with developing implications
Long-term – Non-fund Based Limits	0.50	-	-
Unallocated Limits	14.50	44.90	[ICRA]BBB+; Upgraded from [ICRA]BBB and continues to be on rating watch with developing implications
<b>Total</b>	<b>45.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-I;

### Rationale

The upgrade in rating of Sayaji Hotels Limited (SHL) factors in its strong operating performance in 9M FY2023 (aided by robust demand in the hospitality industry), which coupled with proceeds from the company stake sale in associate Barbeque Nations Hospitality Limited (BNHL; rated [ICRA]A-(Stable)/ [ICRA]A2+) has helped the entity in significant deleveraging of its balance sheet and led to a material improvement in its leverage and coverage indicators. As of January 31, 2023, SHL had a total external debt<sup>1</sup> outstanding of ~Rs. 0.10 crore (over ~Rs. 33 crore on March 31, 2022). Even after the stake sale (in March 2022), SHL continued to hold ~30% of equity interest in BNHL, whose market value stands at approximately ~Rs. 820 crore (in February 2023), lending considerable financial flexibility to SHL and provides comfort.

A healthy pick-up in the operating metrics of SHL's portfolio, which saw occupancy levels reach ~90% in November 2022 and improved average room rate (ARR) have resulted in strong cash accruals from business. In 9M FY2023, the company reported revenues of ~Rs. 190 crore, representing a 74% increase over 9M FY2022. Additionally, the cost saving initiatives started during the pandemic have helped SHL in maintaining its operating margins at ~30% in 9M FY2023 (over ~32% in 9M FY2022), higher than pre-pandemic levels (~23% in FY2020). The demand in the industry is expected to continue to remain healthy over the near to medium term and would aid SHL in recording healthy operating performance, going forward.

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 strong brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes that the company has nearly 22 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 55 rooms), the benefits from this portfolio will likely get realised gradually.

The rating, however, remains constrained by the inherent cyclicity 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

<sup>1</sup> Total external debt excludes operating lease liabilities and debt portion of cumulative preference shares subscribed by the promoters.

by SHL's geographically diversified portfolio). While a sharp recovery in social MICE<sup>2</sup>, and subsequent gradual ramp up of corporate MICE activities have supported recovery for the property's operating metrics over the last few quarters, there remains a high dependency within the portfolio on the F&B events (primarily social events like weddings), which account for over ~50% of its total revenues and have traditionally been highly seasonal. Going forward, the company's ability to sustain the improvement in profitability margins of its properties, pace of its future renovation and expansion plans and the consequent impact on its business and financial risk profile will remain key monitorable.

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, also remains a monitorable. Any adverse verdict in the matter can impact its credit profile and remains an event risk. Additionally, as on December 31, 2022, the promoters held ~75% equity stake in the company, of which around ~24.8% was pledged or encumbered. The pledge position has not increased on a YoY basis and would remain 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 an application has been made to the National Company Law Tribunal (NCLT) for the same. 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, who have 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. 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** – Between its three brands, Sayaji, Effotel and Enrise, the company has established itself as a reputed hotel chain primarily in the tier-II and III cities. With more than 1,200 rooms across 12 operational properties in 10 cities, the three brands are rapidly expanding their market presence, leading to improved geographical diversification. 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 of ~30% stake in BNHL** – The market value of SHL's stake in its associate company, BNHL (held through its subsidiary, Sayaji Housekeeping), stands at ~Rs. 820 crore as on date. Against the same, SHL's total debt of ~Rs. 17 crore as of January 31, 2023 (excluding lease liabilities and including debt portion of cumulative preference shares) was marginal, 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-light 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 by leasing 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 six operational managed properties, while 22 other contacts are in the pipeline. These are expected to become

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<sup>2</sup> MICE: Meetings, Incentives, Conferences and Exhibitions

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 macro-economic conditions, tourist movement and several exogenous factors, leading to inherent cyclicality. In addition, the several non-metro markets also face seasonality in guest traffic. As such, global and domestic economic condition will remain a key monitorable for SHL, as part of this industry.

**Limited scale of operations** – Despite the geographically diversified portfolio, the scale of operations for SHL remain limited (revenues for 9M FY2023 at ~Rs. 190 crore). While the long pipeline of management contracts is expected to provide opportunities for growth, the same is likely to be offset by the planned demerger of owned/ leased properties under the pending scheme of reorganisation. Further, while it provides a good deal of financial flexibility, growth through management contracts will likely reduce the pace of revenue growth, especially with the smaller size of properties.

### Liquidity position: Adequate

SHL's liquidity is expected to remain adequate, supported by healthy internal accruals. SHL's credit profile is further supported by significant financial flexibility emanating from market value of this investment in BNHL (~Rs. 820 crore as of February 22, 2023). Against the funds available, the company has marginal capex commitments, minimal interest and zero repayment obligations as of January 2023.

### Rating sensitivities

**Positive factors** – A sustained improvement in operational metrics 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. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a> <a href="#">Rating approach- Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SHL. As on December 31, 2022, the company had four subsidiaries and two associates who 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 (Kohlapur) is under management contract. To facilitate rapid expansion of its brands across the country, SHL’s 100% subsidiary, Sayaji Hotels Management Limited, enters management contracts with asset owners under its three brands—Sayaji, Effotel and Enrise. As on date, SHML has seven hotels (at Jamnagar, Rajkot, Dehradun, Rewa, Pune, Aurangabad and Nashik) under management contract and around 22 properties in the pipeline, to be added over the next two years. SHL also had a stake in a chain of ~200 restaurants across India through its 29.8% owned associate, Barbeque Nations Hospitality Limited (rated [ICRA]A(Stable)/A2+) as of December 31, 2022.

SHL has been listed on BSE since 1992. It is promoted by the Vadodara-based Dhanani family, which directly held 74.9% stake in the company as on December 31, 2022.

## Key financial indicators (audited)

SHL Consolidated	FY2021	FY2022	9MFY2023
Operating income	77.6	163.6	191.4
PAT	-18.4	42.9	29.6
OPBDIT/OI	15.5%	29.2%	29.8%
PAT/OI	23.7%	26.3%	15.4%
Total outside liabilities/Tangible net worth (times)	1.9	0.7	NA
Total debt/OPBDIT (times)	15.4	2.7	NA
Interest coverage (times)	0.5	2.4	6.2

Source: Company; NA- Not available. All ratios are as per ICRA calculations.

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the past 3 years							
		Amount Rated (Rs. Crore)	Amount Outstanding as of January 31, 2023 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
				2-Mar-23	26-Apr-22	13-Dec-21	1-Jun-21	11-Jan-21 23-Oct-20 7-Sep-20	24-Apr-20	26-Nov-19	30-Aug-19
1	Term Loans	0.1	0.1	[ICRA]BBB+ &	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &
2	Cash Credit	--	--	--	--	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &
3	Non-fund Based Facilities	--	--	--	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &
4	Unallocated Limits	44.9	44.9	[ICRA]BBB+ &	[ICRA]BBB &	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &

& = On rating watch with developing implications

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	FY2025	--	Oct 2025	0.10	[ICRA]BBB+; rating watch with developing implication
NA	Unallocated	NA	NA	NA	44.90	[ICRA]BBB+; rating watch with developing implication

Source: Company

**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
Sayaji Hotels Management Limited	100%	Full Consolidation
Sayaji Hotels (Pune) Limited	100%	Full Consolidation
Sayaji Hotels (Indore) Limited	100%	Full Consolidation
Barbeque Nation Hospitality Limited	29.8% (held through Sayaji Housekeeping)	Equity method
Intellistay Hotels Private Limited	48.0%	Equity method

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

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