

January 11, 2017

## Sayaji Hotels Limited

| Instrument*                             | Rated Amount<br>(in crore)     | Rating Action                                |
|---|--------------------------------|--|
| Term Loans                              | 57.59<br>(reduced from 58.34)  | <b><i>[ICRA]BBB- (Stable) reaffirmed</i></b> |
| Cash Credit Facilities                  | 6.75                           | [ICRA]BBB- (Stable) reaffirmed               |
| LT Scale - Non Fund Based<br>Facilities | 2.70<br>(enhanced from 2.23)   | <b><i>[ICRA]BBB- (Stable) reaffirmed</i></b> |
| Unallocated                             | 26.84<br>(enhanced from 26.56) | <b><i>[ICRA]BBB- (Stable) reaffirmed</i></b> |
| <b>Total</b>                            | <b>93.88</b>                   |  |

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed the long term rating of [ICRA]BBB- (pronounced ICRA triple B minus) <sup>1</sup> for the Rs. 93.88 crore bank facilities of Sayaji Hotels Limited (SHL). The outlook on the long term rating is 'Stable'.

### Detailed Rationale

The reaffirmation of the rating takes into account the strong experience of the promoters in the hospitality sector coupled with Sayaji's brand recognition in business hotel category in Tier-II cities. The rating also factors in the presence of company's hotel properties in four cities, which mitigates geographic concentration risk and demand risk to a reasonable extent. Although revenues from the Indore hotel account for a major chunk of the company's revenues, the recently started operations of the hotel property in Bhopal, banquet hall property in Indore and restaurant in Mumbai are expected to provide geographical diversification benefits over the medium term. Additionally, the company's increased focus on the high margin food and beverage (F&B) segment is likely to support its profit growth over the medium term.

In FY2016, the revenues of the company witnessed a healthy increase of 18.8% owing to improved performance of the Indore hotel as well as healthy growth in revenues of the newly added banquet property in Bhopal. In line with the scale up in operations, the operating profit margin of the company witnessed improvement owing to better absorption of overheads. However, the company's operating performance in H1 FY2017 was impacted by a weak season as well as lower contribution from F&B following sale of Barbeque Nation outlet. This, coupled with losses attributable to 'Mediterra' and Bhopal property being in nascent stage of operations, adversely impacted the company's profitability in H1 FY2017. The rating also remains constrained by the company's leveraged capital structure and weak coverage indicators owing to regular debt funded capex towards construction of new properties and renovation of existing properties. Owing to the company's weak debt servicing ability as cash accruals are likely to be insufficient to repay the debt obligations, the company has received sanction of new loans which is likely to support its liquidity profile to an extent owing to the relatively longer tenure of the new loans. Additionally, operating in a cyclical industry, the company remains exposed to general economic slowdown and other exogenous shocks.

Going forward, the ability of the company to scale up the operations of its new properties as well as improve the RevPARs of its old properties while improving the profit margins shall remain the key rating sensitivity. Also, the ability of the company to improve its financial risk profile shall be monitored by ICRA.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

## Key rating drivers

### Credit Strengths

- Experienced promoters with a long track record of operations in the hospitality sector
- Multi location presence with hotels at Vadodara, Indore and Pune and Bhopal; Although Indore hotel contributes ~55% to the revenues, diversification benefits are expected to accrue as new properties scale up
- Newly added properties at Bhopal, Indore and Mumbai provide growth opportunities in the higher margin F&B business segment as they scale up, thereby improving the company's profitability indicators

### Credit Weakness

- Weak operating performance in H1 FY2017; Decline in revenues coupled with significant reduction in operating profit margin on account of weak season as well as lower contribution from F&B segment
- Cash flows to remain constrained owing to high interest and repayment obligations in FY2017; timely refinancing remains critical
- Weak financial risk profile due to leveraged capital structure and muted debt protection metrics
- Cyclical industry, vulnerable to general economic slowdown and exogenous shocks (geo-political crisis, terrorist attacks, disease outbreak etc.)

### Detailed description of key rating drivers highlighted above:

SHL has a strong presence in the hospitality sector through five hotel properties (two in Indore, one each in Pune, Bhopal and Vadodara) which operate under the brand name Sayaji Hotel, a restaurant in Mumbai, another hotel property under the brand name Effotel (through subsidiary Malwa Hospitality Pvt. Ltd.) and chain of 71 restaurants across India under the brand name Barbeque Nation (through associate Barbeque Nation Hospitality Limited). Although Indore hotel accounted for ~55% of the company's revenues in FY2016, geographical diversification benefits are expected to accrue as the newly operational properties scale up.

With a view to enhance its presence in the higher margin F&B segment, SHL started operations of the Bhopal property in November 2014 to cater to weddings and corporate events segment. Further, the company entered into a lease arrangement for a property at Indore named 'Amber Garden', targeted at the wedding, banqueting and corporate conferences segment. The property started its operations recently in September 2016. The company's restaurant named 'Mediterra' started operations in December 2015. Going forward, healthy contribution from the higher margin banqueting and F&B segment is expected to support the profit margins of the company.

The company's operating performance in H1 FY2017 was impacted by the Kumbh Mahaparv, held during April-May 2016 as weddings and other ceremonies are avoided during the Mahaparv. Also, lower contribution from the F&B segment following sale of Barbeque Nation outlet impacted the company's performance in H1 FY2017. This, coupled with losses attributable to 'Mediterra' and Bhopal property being in nascent stage of operations, adversely impacted the company's profitability in H1 FY2017. As such, the company incurred cash loss of Rs. 0.4 crore in H1 FY2017.

In such a scenario, despite an anticipated healthy performance in H2 FY2017 owing to the onset of festive and wedding season September onwards, the company's cash accruals are likely to be insufficient to service its repayment obligations. However, the company has received sanction of new loans which is likely to support its liquidity profile to an extent owing to the relatively longer tenure of the new loans. Additionally, operating in a cyclical industry, the company remains vulnerable to general economic slowdown and other exogenous shocks.

**Analytical approach:**
**Links to applicable Criteria**

- Corporate Credit Rating –A Note on Methodology
- Rating Methodology for Hotel Industry

**About the Company:**

Sayaji Hotels Limited (SHL), incorporated in 1982, operates hotel properties at Vadodara (3-Star), Indore (5-Star), Pune (4-Star) and Bhopal under the brand name 'Sayaji Hotel'; a banquet hall property named 'Amber Garden' in Indore and a restaurant named 'Mediterra' in Mumbai. The company is also involved in a management tie-up for a hotel property in Kolhapur.

SHL also owns a chain of 71 restaurants (as of March 2016) through its 47.41% owned associate Barbeque Nation Hospitality Limited (BNHL, owned through SHL's wholly owned subsidiary Sayaji Housekeeping Services Limited). The company also operates another hotel unit named 'Effotel' in Indore through its 51.66% owned subsidiary Malwa Hospitality Private Limited (MHPL).

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

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

| S.No | Name of Instrument        | Current Rating (2016) |                                 |                      | Chronology of Rating History for the past 3 years |                               |                     |                     |                               |
|------|---------------------------|-----------------------|---------------------------------|----------------------|---|-------------------------------|---------------------|---------------------|-------------------------------|
|      |                           | Type                  | Amount outstanding (Rs. Crores) | Date & Rating        | Month-year & Rating in FY2016                     | Month-year & Rating in FY2015 |                     |                     | Month-year & Rating in FY2014 |
|      |                           |                       |                                 | Jan 2017             | December 2015                                     | March 2015                    | January 2015        | July 2014           | May 2013                      |
| 1    | Term Loans                | Long Term             | 57.59                           | [ICRA] BBB- (Stable) | [ICRA] BBB- (Stable)                              | [ICRA] BBB- (Stable)          | [ICRA] BB+ (Stable) | [ICRA] BB+ (Stable) | [ICRA] BB (Stable)            |
| 2    | Cash Credit Facilities    | Long Term             | 6.75                            | [ICRA] BBB- (Stable) | [ICRA] BBB- (Stable)                              | [ICRA] BBB- (Stable)          | [ICRA] BB+ (Stable) | [ICRA] BB+ (Stable) | [ICRA] BB (Stable)            |
| 3    | Non Fund Based Facilities | Long Term             | 2.70                            | [ICRA] BBB- (Stable) | [ICRA] BBB- (Stable)                              | [ICRA] BBB- (Stable)          | [ICRA] BB+ (Stable) | [ICRA] BB+ (Stable) | [ICRA] BB (Stable)            |
| 4    | Unallocated               | Long Term             | 26.84                           | [ICRA] BBB- (Stable) | [ICRA] BBB- (Stable)                              | [ICRA] BBB- (Stable)          | [ICRA] BB+ (Stable) | [ICRA] BB+ (Stable) | -                             |

**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](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

| <b>Name of the instrument</b> | <b>Date of issuance</b> | <b>Coupon rate</b> | <b>Maturity Date</b> | <b>Size of the issue (Rs. Cr)</b> | <b>Current Rating and Outlook</b> |
|-------------------------------|-------------------------|--------------------|----------------------|-----------------------------------|-----------------------------------|
| Term Loan 1                   | FY2011                  | -                  | FY2018               | 2.01                              | [ICRA]BBB- (Stable)               |
| Term Loan 2                   | FY2008                  | -                  | FY2017               | 1.88                              | [ICRA]BBB- (Stable)               |
| Term Loan 3                   | FY2017                  | -                  | FY2022               | 17.34                             | [ICRA]BBB- (Stable)               |
| Term Loan 4                   | FY2013                  | -                  | FY2018               | 2.95                              | [ICRA]BBB- (Stable)               |
| Term Loan 5                   | FY2017                  | -                  | FY2024               | 16.16                             | [ICRA]BBB- (Stable)               |
| Term Loan 6                   | FY2015                  | -                  | FY2021               | 17.25                             | [ICRA]BBB- (Stable)               |
| Cash Credit Facilities        | -                       | -                  | -                    | 6.75                              | [ICRA]BBB- (Stable)               |
| Non Fund Based Facilities     | -                       | -                  | -                    | 2.70                              | [ICRA]BBB- (Stable)               |
| Unallocated                   | -                       | -                  | -                    | 26.84                             | [ICRA]BBB- (Stable)               |

**Name and Contact Details of the Rating Analyst(s):**

**Subrata Ray**  
+91 22 2433 1086  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Anupama Arora**  
+91 124 4545 303  
[anupama@icraindia.com](mailto:anupama@icraindia.com)

**Charu Batra**  
+91 124 4545 356  
[charu.batra@icraindia.com](mailto:charu.batra@icraindia.com)

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)



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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500