

## Siesta Hospitality Services Limited

December 15, 2017

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	35.00	[ICRA]BBB- (Stable); Assigned
Fund based- Cash Credit	24.00	[ICRA]BBB- (Stable); Assigned
Unallocated	0.11	[ICRA]BBB-(Stable); Assigned
<b>Total</b>	<b>59.11</b>	

### Rating action

ICRA has assigned a long -term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 35.00 crore of term loan and Rs. 24.00 crore<sup>1</sup> f of fund based facilities of Siesta Hospitality Services Limited (Siesta/ the company)<sup>2</sup>. ICRA has also assigned a long term rating of [ICRA]BBB- (pronounced as ICRA triple B minus) to unallocated/ proposed amount of Rs. 0.11 crore. The outlook on the long-term rating is 'Stable'.

### Rationale

The assigned rating favourably factors in the unique business model of the company, with over 70% of its revenues coming from 3-5 year long contracted hospitality, food & beverage and men & maintenance contracts, which supports revenue stability and growth. A pan India diversified presence with reputed granular client profile and a financial profile characterised by steady growth, healthy operating margins and capital structure, further supports the ratings.

The cost-plus-model in the contracted rooms segment, (contributing 41% of revenues during FY2017) which provides customised business stay solutions to its corporate customers for tenure of 3-5 years, removes risk of variability in occupancy and rates, while providing assured mark-ups. In the *stay segment* (26% of revenues), the company operates three hotels and offers non-contracted rooms. This segment, while exposed to market variability, attempts to capture the overflow of guests in certain high-traffic locations. In the *Men and Maintenance* segment (20% of revenue), the company provides cook and housekeeping to corporates for managing their premises/guest houses, again under contracts. In the Food and beverages segment (~11% of revenues) Seista provides its customers with on-site and off-site food services. ICRA also factors in the pan- India presence of the company, as a customised hospitality solutions provider for corporates, providing an edge over its competitors. The company is also supported by private equity investments received in FY2009 and FY2014, supporting ramp up in growth.

The rating is constrained by the relatively higher working capital intensity/utilisation and sizable debt repayments constraining liquidity. The company had invested in several group ventures, part of which were written-off in FY2016; these unyielding investments have dragged down the profitability (RoCE) to 8.5% in FY2017. Albeit, the asset light model Siesta is susceptible to new entrants on account of low barriers to entry, however existing pan India presence, brand positing and customer relationships challenge new entrants in securing corporate contracts.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</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

## Outlook: Stable

ICRA believes the company will continue to benefit from its business model and extensive experience and hands-on management. The outlook may be revised to 'Positive' if substantial ramp up in growth is managed with improved profitability, and tighter working capital management, leading to strengthening in the financial risk profile. The outlook may be revised to 'Negative' if cash accrual are lower than expected, or any further stretch in the working capital cycle, weakens liquidity.

## Key rating drivers

### Credit strengths

**Unique annuity based business provides assured revenues** – With ~75% of its revenues based on contracts (contracted rooms, food & beverage, man and maintenance), Siesta enjoys a unique annuity based model. The contracts are typically with tenure of 3-5 years, providing assured revenues and reducing the risk of order variability.

**Reputed client profile consisting of large corporate and multi- national companies**- Siesta's clientele consists of several reputed corporate and multi-national companies providing the company with a large base of customers and low customer concentration. The promoter's and key management personnel's established contacts and dedicated sales and marketing team help in securing business.

**Diversified revenue across more than 40 cities**- With more than 100 companies in its clientele, Siesta offers services across more than 40 cities in India. The company offers services in metros such as Mumbai, Delhi, Bangalore, Hyderabad, as well as in tier-1 and tier-2 cities like Bhubneshwar, Nagpur, Pune, Mundra, Jajpur, etc. Due to its ability to provide quality customized services in pan India locations, the company is able to secure repeat contracts from its large customers.

**Moderate financial profile** – Characterised by healthy operating margins (OPM of 19.3% in FY2017) and a healthy capital structure TD/Networth 0.8(as on March 31, 2017), the company's financial profile is comfortable. While there has been variability in operating margins during the past three years with the opening of four hotels (in FY2016) and some high cost manpower hiring, the same has rationalised in FY2017 and YTD FY2018, with improvement in the performance of the hotels.

### Credit weaknesses

**Low barriers to entry, threat of new entrants for the company**- While the company enjoys assured revenues based on its unique annuity model, the asset light nature and moderate requirement of funds for the business offers low barriers to entry. However, with Siesta as an established player in the industry, securing contracts remains challenging for the new entrants.

**Relatively higher working capital intensity** - With an average working capital utilisation of 93.3% of sanctioned limits for the 12-months period ending in June 30, 2017, working capital intensity for the company remains high. The company's debtor days stood at a high of 112 (FY2017). During FY2016, the company had undertaken a one-time write-off of its doubtful debtors to the tune of Rs. 7.5 crore in FY2016 and currently has ~Rs. 2.3 crore of debtors under litigation.

**Investments in group companies drags profitability** - Siesta has invested in several group concerns in the past (investments in group concerns stood at ~19.0% of total assets in FY2015) however, due to their weak performance and drag on RoCE, the company had undertaken a write-off to the tune of Rs. 21.7 crore in FY2016 impacting the bottom line. RoCE declined from 15.3% in FY2014 to a low of 8.2% in FY2017. Further during FY2018, the company proposes to merge its dormant subsidiary Seista Restaurants with itself, writing off ~Rs. 8.7 crore of investments. The company's

investment in the hotel segment (three hotels) have further dragged RoCE (~Rs. 50 crore); the company is not expected to invest in any other asset heavy vertical or group ventures going ahead.

**Low tenure of borrowing; high debt repayments-** Siesta has long-term loans to the tune of Rs. 41.5 crore as on March 31, 2017, expected to be repaid by FY2020. The shorter tenure of loans (5 years) leads to high debt repayments of Rs 16.5.crore and Rs.13.1 crore in FY2018 and FY2019 respectively. Siesta's DSCR stood at 0.9.x, while its total debt/ EBDITA and interest coverage stood at 3.3 times and 2.0 times respectively. The company has cash (as collateral for its debt) of Rs. 8.3 crore as on March 31, 2017 which the company proposes to use to pre-pay debt in FY2018.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

### About the company:

Siesta is engaged in providing corporate residences at various locations across the country, with amenities as preferred by the corporate. The company's operations are divided across four segments- i) Composite (classified as dedicated rooms); ii) Stay (non-dedicated rooms); iii) Men and maintenance; iv) Food & Beverages. The company enters into contract with its customers across all the segments, around 75% of the revenues of the company is contracted. The company follows a cost plus model, passing the cost involved to its customers. The company has a pan India presence with an ability to offer more than 2,000 rooms across 40 plus cities. Large presence aids Siesta to secure a large base of customers. The company has many reputed multi-national companies in its customer portfolio.

### Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	97.3	104.1
PAT (Rs. crore)	-31.6	1.5
OPBDIT/ OI (%)	16.4%	19.3%
RoCE (%)	-21.7%	8.2%
Total Debt/ TNW (times)	0.8	0.8
Total Debt/ OPBDIT (times)	4.1	3.3
Interest coverage (times)	2.0	2.0
NWC/ OI (%)	37.0%	34.0%

### Status of non-cooperation with previous CRA:

CARE in its rating rationale published on March 31, 2017 had reviewed the ratings assigned to the bank facilities of the company as issuer did not cooperate. The ratings were revised to CARE BB+; issuer not cooperating.

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (as on March 31, 2017) (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Term Loan	35.00	28.9	[ICRA]BBB- (Stable)	-	-	-
2	Cash Credit	24.00	-	[ICRA]BBB- (Stable)	-	-	-
3	Unallocated	0.11	-	[ICRA]BBB- (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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	Aug-2016	NA	Aug- 2018	9.50	[ICRA]BBB- (Stable)
NA	Term Loan 2	Feb-2016	NA	Feb- 2021	2.60	[ICRA]BBB- (Stable)
NA	Term Loan 3	Aug-2017	NA	Aug-2019	2.50	[ICRA]BBB- (Stable)
NA	Term Loan 4	Aug-2015	NA	Aug-2020	20.40	[ICRA]BBB- (Stable)
NA	Cash Credit	NA	NA	-	24.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	-	0.11	[ICRA]BBB-(Stable)

Source: Siesta

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