

Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited

March 12, 2019

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	1.34	2.25	[ICRA]BB+ Reaffirmed; Outlook revised from Stable to Positive
Long-term – Fund-based – Term Loan	13.00	10.00	[ICRA]BB+ Reaffirmed; Outlook revised from Stable to Positive
Long-term - Unallocated	0.66	2.75	[ICRA]BB+ Reaffirmed; Outlook revised from Stable to Positive
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook is driven by the expected growth in revenues in FY2019, supported by improved occupancies and average room revenues (ARR). Further, the margins are likely to be healthy aided by economies of scale from increased absorption of fixed expenses. The outlook revision also reflects the likely improvement in the Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited's (Somatheeram) financial profile aided by better operating margins and decline in debt levels.

The rating reaffirmation continues to be constrained by its modest scale of operations and high revenue dependence on a single property, which increases susceptibility of the company's earnings to any adverse local developments. In absence of a formal hedging mechanism, it continues to remain exposed to adverse fluctuations in foreign currency rates, as witnessed in the past, with a clientele comprising mainly European guests. In addition, its earnings and margins remain susceptible to the risks associated with economic slowdown and exogenous shocks (such as geo-political events, natural calamities etc). The rating remains constrained by the highly fragmented and competitive nature of the industry and the seasonality inherent in its business, which results in significant variations in the cash flows during the year. The rating continues to be constrained by the moderate debt service coverage ratio with sizeable near-to-medium-term repayment obligations.

The rating, however, continues to derive comfort from Somatheeram's established brand name in the Ayurvedic tourism industry in India and extensive experience of the promoters in the business, spanning over two decades. The rating reaffirmation favourably factors in the improvement in operating performance in FY2018. The rating also positively factors in the attractive location of the property in Kovalam, Kerala, with easy connectivity and the established clientele with significant proportion of repeat customers. The rating takes comfort from the favourable outlook for the Ayurvedic tourism industry and the expected addition of properties in Munnar and Hampi, which are likely to aid in revenue growth and diversification in the medium term.

Outlook: Positive

The Positive outlook reflects ICRA's expectation that Somatheeram scale of operations and cash accruals will improve going forward. The rating may be upgraded if the company is able to achieve strong growth in revenues and healthy margins, while efficiently managing its liquidity position and comfortably meeting its debt obligations. The outlook may be revised to Stable if revenue growth and profitability are lower-than-expected or if there is any weakening of the financial risk profile due to any debt-funded capital expenditure.

Key rating drivers

Credit strengths

Established brand name and reputation of the promoters in the Ayurvedic tourism industry - The promoters have extensive experience of over two decades in the industry. Somatheeram was formed by Mr. Polly Mathew and three other brothers in 1994. The promoters were earlier involved in managing Somatheeram Beach Resort Private Limited formed in 1980s and Manaltheeram Beach Resort formed in 1996. From 2005, Mr. Polly Mathew's wife and three sons were introduced as Directors into the company. Somatheeram is a strong brand in Ayurvedic tourism in Kerala and in India, having won the Best Ayurvedic Centre award several times from the Department of Tourism, Government of Kerala.

Attractive property location near the Kovalam beach, Kerala - Somatheeram is situated on the Malabar coast in the Kerala. The resort is situated right by the sea in village of Chowara, south of Kovalam, Trivandrum, which is a popular destination among foreign tourists. This aids the company to attract foreign guests seeking Ayurvedic treatments.

Established clientele with healthy share of repeat customers - Somatheeram's customers are primarily those seeking relief from stress-related problems or recovering from some major surgeries. People come seeking cure for diseases, where mainstream medicine does not offer cure. It has very less proportion of customers, who book only the rooms. The sales are generally for packages including Ayurvedic treatment and medicines. About 60% of the customers are from Germany and the rest are primarily from other European countries. While high exposure to Europe, mainly Germany, exposes the company to geographical concentration risk; history of over 40% repeat clients with a major portion belonging to the high-income category, and medical nature of the business mitigates the volatility risk to an extent.

Favourable long-term demand prospects for Ayurvedic tourism in Kerala - Kerala has established itself as a significant contributor to India's Foreign Tourist Arrivals and Foreign Exchange Earnings with a healthy uptrend over the past few years. Kerala is home to a rapidly growing medical tourism industry. The medical tourists from Germany, France, Switzerland and the USA choose Kerala specifically because of the extensive practice of Ayurveda. The largest number of tourists coming to India for Ayurveda is from Germany. The main reason for the treatments having gained popularity includes the eco-friendly/relaxing environment, low cost for foreign tourists, quality of doctors and effectiveness of treatments. The tourists opting for Ayurvedic treatments in Kerala is increasing every year and the demand is likely to rise, going forward.

Improvement in performance in FY2018 - Somatheeram's operating income (OI) witnessed a healthy growth of ~29% and improved to Rs. 21.51 crore in FY2018 from Rs. 16.64 crore in FY2017. The occupancies and ARR witnessed an improvement with good demand from customers. Further, the operating margins improved to 26.25% in FY2018 from 12.67% in FY2017 aided by absorption of expenses resulting from higher scale of operations, coupled with higher proportion of direct bookings. The improvement in operating profits also resulted in an improved interest coverage ratio.

Credit challenges

Modest scale of operations with a single property - Although, the company witnessed growth in turnover in FY2018, the scale of operations continues to remain modest. The modest scale of operations and high revenue dependence on a single property exposes its earnings to any adverse local developments. The expected addition of properties in Munnar and Hampi would mitigate the risk, going forward.

Earnings and margins susceptible to global economic conditions and foreign currency fluctuation risk due to foreigner clientele - The company's profitability is susceptible to adverse changes in foreign currency rates as it generates a major portion of its revenues in Euro. It gets limited natural hedge to the extent of liabilities towards debt in foreign currency. In the past, its revenues and operating margins witnessed a sharp decline due to adverse forex movements.

Moderate capital structure with sizeable repayment obligations - The company increased its term loan borrowings in FY2017 to fund its capital expenditures. Albeit improvement, the capital structure remained moderate with gearing of 0.87 times as on March 31, 2018. Further, owing to the ballooning nature of repayments, it has sizeable near-to-medium-term repayment obligations resulting in moderate debt service coverage ratio.

Inherent seasonality in business results in significant variation in cash flows during the year - The arrival of foreign tourists is seasonal and the company usually witnesses low occupancy level between May to October. Consequent to the higher rates and higher occupancy during the season period, Somatheeram derives about 70% of its revenues during the second half of the financial year due to which there are significant variations in the cash flows during the year.

Fragmented and intensely competitive industry structure despite established brand name mitigating the risk to an extent - The market is extremely fragmented, comprising a large number of Ayurvedic resorts and hospitals. The company faces strong competition from several players offering similar packages and treatments like that of Somatheeram's. However, it is a strong brand in Ayurvedic tourism in Kerala and the established brand name and its quality of treatments mitigate competitive threats to an extent.

Liquidity position

The company had external term loans of Rs. 12.09 crore on its books as on March 31, 2018, of which Rs. 2.84 crore is to be repaid in FY2019. The external term loans have a long tenure and are scheduled to be fully repaid by FY2026. At present, the yearly repayment obligations stands at ~Rs. 2.50-3.00 crore as against net accruals of Rs. 3.29 crore in FY2018. It has buffer from cash and bank balance of Rs. 2.57 crore and current investments in FDs stood at Rs. 1.33 crore as on March 31, 2018.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone financial statements of the issuer.

About the company

Incorporated in 1994, Somatheeram is a strong brand in the Ayurvedic tourism segment and runs an Ayurvedic resort in Chowara, South of Kovalam, Trivandrum. The resort has 80 cottages, including 10 rooms in the nearby property 'Samana' and has other amenities like a private beach, swimming pool, yoga centres, etc in its property. The company offers several Ayurvedic treatment packages such as those for slimming, rejuvenation, anti-ageing, skin diseases and body purification to name a few. It has about 16 doctors for Ayurvedic treatments, 51 therapists and three yoga masters, apart from 200 administrative staff. Bookings are made online on the company's website and through the marketing arm in

Germany or through agents. Almost the entire clientele is from overseas, with over 60% of them from Germany, primarily from the high-income category.

Apart from Somatheeram, the promoters have interest in four other entities - two private limited companies and two partnership firms. Two of these entities are shell entities without any operations, one operates an Ayurvedic shop inside the Somatheeram campus, and the other owns cardamom plantations in Munnar.

In FY2018, the company reported a net profit of Rs. 2.14 crore on an OI of Rs. 21.51 crore compared to a net loss of Rs. 0.11 crore on an OI of Rs. 16.64 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	16.64	21.51
PAT (Rs. crore)	-0.11	2.14
OPBDITA/OI (%)	12.67%	26.25%
RoCE (%)	6.37%	16.24%
Total Debt/TNW (times)	1.06	0.87
Total Debt/OPBDITA (times)	5.92	2.14
Interest Coverage (times)	2.26	6.14

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore) as on March 31, 2018	Date & Rating March 2019	Date & Rating in FY2018 April 2018	Date & Rating in FY2017 April 2017	Date & Rating in FY2016 -
1 Term Loan	Long Term	10.00	9.37	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-
2 Cash Credit	Long Term	2.25	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-
3 Unallocated	Long Term	2.75	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[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

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	April 2014	-	FY2026	10.00	[ICRA]BB+ (Positive)
NA	Cash Credit	-	-	-	2.25	[ICRA]BB+ (Positive)
NA	Unallocated	-	-	-	2.75	[ICRA]BB+ (Positive)

Source: Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited

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