

October 09, 2020

Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited: Rating downgraded; placed on Watch with Negative Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	2.25	2.25	[ICRA]BB@; downgraded from
Long Term – Fund Based/ TL	4.80	4.80	[ICRA]BB+ (Negative) and placed
Long Term – Unallocated	7.95	7.95	on rating watch with negative implications
Total	15.00	15.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the rating of Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited (Somatheeram) follows the continued adverse impact of the novel coronavirus (Covid-19) pandemic on the global travel and tourism industry, which has adversely impacted the company's operation in H1 FY2021. Somatheeram's resort continues to remain closed in H1 FY2021 which has resulted in weakened cash accruals. ICRA expects the hospitality industry to witness one of the longest periods of recovery. ICRA expects significant pressure on the revenue-per-available room (RevPARs) over the next two quarters. The company's revenues and cash accruals are expected to be impacted depending on the time period and severity of measures taken by the Government to contain the pandemic.

The rating continues to be constrained by its modest scale of operations, high revenue dependence on a single property and high dependence on guests from the European countries. 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 cash flows during the year.

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 also positively factors in the attractive location of the property in Kovalam, Kerala, with easy connectivity and the established clientele with a significant number of repeat customers.

Further, the rating has been placed on Watch with Negative implications, following uncertainty related to the timelines associated with the containment of the Covid-19 and revival in global travel and tourism industry. Besides, the company has applied for restructuring its bank lines and the same is under consideration with the bank. ICRA would continue to monitor the developments and resolve the rating watch post conclusion of the restructuring. It would also depend on how the situation evolves in India and globally over the upcoming months and the recovery of the occupancy levels.

Key rating drivers and their description

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

Established clientele with healthy share of repeat customers – Somatheeram's customers are primarily those who are seeking relief from stress-related problems or are recovering from some major surgeries. 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, ICRA notes that over 40% of the business comes from repeat clients with the major portion of them belongs to the high-income category.

Credit challenges

Outbreak of Covid-19 adversely impacted Somatheeram's operations in FY2021 – The Covid-19 pandemic has significantly impacted the influx of foreign tourists, thereby impacting the company's occupancy levels in FY2021. Somatheeram's resort was shut in March 2020 because of travel restrictions and the risk of virus transmission, which kept people indoors. The facility continues to remain non-operational, adversely impacting its business activities and credit risk profile, with reduced profitability and liquidity. The company has applied for restructuring its bank lines with State Bank of India, to tide over the current stress in its liquidity and cash flows.

Modest scale of operations with a single property – Although the company witnessed turnover growth in FY2019, the scale of operations continues to remain modest. The modest scale of operations and high revenue dependence on a single property expose its earnings to any adverse local developments.

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

Fragmented and intensely competitive industry structure; an established brand name mitigates the risk to an extent – The market is extremely fragmented, comprising many Ayurvedic resorts and hospitals. The company faces strong competition from several players offering similar packages and treatments. However, it is a strong brand in Ayurvedic tourism in Kerala. An established brand name and its quality of treatments mitigate competitive threats to an extent.

Liquidity position: Stretched

Somatheeram's liquidity remains Stretched. The undrawn limits, cash and bank balances and fixed deposits are estimated to be around Rs. 4.0 crore as on August 31, 2020. However, the company's resort was non-operational in H1 FY2021 and there is uncertainty related to the commencement of operations in H2 FY2021, given the prolonged impact of the Covid-19 pandemic. As a result, Somatheeram's cash flows are expected to deteriorate further and are likely to exert stress on the company's liquidity position over the next 9 to 12 months. The company has applied for restructuring its bank lines with State Bank of India for postponement of repayments by one year and the same is under consideration with the bank.

Rating sensitivities

Positive triggers – A rating upgrade is unlikely in the near term given that the rating is on Watch with Negative Implications. ICRA may revise the outlook to Stable once the company's operations commence and stabilise.

Negative Triggers – Any prolonged delay in demand recovery due to the fallout of the Covid-19 pandemic and the associated travel restrictions, causing weak demand conditions, could deteriorate the company's credit risk profile and result in a rating downgrade. Any further stretch in the company's liquidity position could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

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 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 its 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.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	21.51	24.44
PAT (Rs. crore)	2.14	4.07
OPBDIT/OI (%)	26.25%	33.89%
PAT/OI (%)	9.96%	16.64%
Total Outside Liabilities/Tangible Net Worth (times)	1.15	0.95
Total Debt/OPBDIT (times)	2.12	0.81
Interest Coverage (times)	3.24	9.10

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating		FY2020	FY2019		FY2018
					09-Oct-2020	08-Apr-2020		12-Mar-2019	05-Apr-2018	
1	Cash Credit	Long Term	2.25	-	[ICRA]BB@	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)
2	Term Loan	Long Term	4.80	3.90	[ICRA]BB@	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)
3	Unallocated	Long Term	7.95	-	[ICRA]BB@	[ICRA]BB+ (Negative)	-	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)

Amount in Rs. crore

@on watch with negative implications

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	2.25	[ICRA]BB@
NA	Term Loan	April 2014	-	FY2026	4.80	[ICRA]BB@
NA	Unallocated	NA	NA	NA	7.95	[ICRA]BB@

Source: Somatheeram Ayurvedic Hospital and Yoga Centre Private Limited
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Analyst Contacts

Ravichandran K

+91 44 4596 4301

ravichandran@icraindia.com

Srinivasan R

+91 44 4596 4315

r.srinivasan@icraindia.com

Rathina Pradeep R

+91 44 4297 4307

rathina.r@icraindia.com

Vinodhini M

+91 44 4297 4313

vinodhini.m@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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