December 13, 2021

Sayaji Hotels Limited: Rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	60.56	60.56	[ICRA]BBB- &; Placed on watch with developing implications
Long-term – Cash Credit Facilities	8.75	8.75	[ICRA]BBB- &; Placed on watch with developing implications
Long-term – Non-fund Based Facilities	0.5	0.5	[ICRA]BBB- &; Placed on watch with developing implications
Unallocated Facilities	24.07	24.07	[ICRA]BBB- &; Placed on watch with developing implications
Total	**93.88**	**93.88**	

**Instrument details are provided in Annexure-1*

Rationale

The board of directors of Sayaji Hotels Limited (SHL), in their meeting on December 4, 2021, approved a composite scheme of amalgamation and arrangement between SHL and other Group/promoter companies – Ahilya Hotels Limited (AHL), Sayaji Hotels Vadodara Limited (SHVL), Sayaji Hotels (Pune) Limited (SHPL), Sayaji Hotels Management Limited (SHML), and their respective shareholders and creditors. The Scheme inter alia provides for:

a) Amalgamation of AHL with SHL on going concern basis along with reduction of share capital of SHL
b) Demerger, transfer and vesting of demerged undertakings (Indore, Pune, Baroda hotels) from SHL to SHPL and SHVL, on a going concern basis, and the consequent issue of shares by resulting companies to shareholders of SHL
c) Amalgamation of SHML into SHL on a going concern basis

The scheme is subject to requisite statutory and regulatory approvals and sanctions by the respective shareholders and creditors of each of the companies involved.

The rating has been placed on watch as the aforesaid development is likely to impact the credit profile of SHL, the extent of which would be ascertained over a period of time, given the nascent stage of developments and lack of complete information. The proposed scheme of arrangement seeks to realign the businesses currently under SHL and its promoters. Given that key operating hotels (in Indore, Pune, and Vadodara), along with associated debt and other obligations, are proposed to be demerged from SHL and amalgamated with separate entities (SHPL and SHVL), the credit profile of resulting company is likely to undergo a change pursuant to approval and implementation of the current scheme. ICRA would continue to monitor the developments in this regard and take appropriate rating action as and when more clarity emerges.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position and Rating sensitivities: **Click here**

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry Rating approach- Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA considers the consolidated financials of SHL. As of March 31, 2021, the company had five subsidiaries and one associate company, which are all enlisted in Annexure-2.

About the company

Incorporated in 1982, SHL (on a standalone basis) owns/operates a portfolio of 7-properties under its in-house brands - Sayaji and Effotel. Six of the properties - at Vadodara (two properties), Indore (one hotel; also has one Convention Centre – Amber Garden), Pune, Bhopal, Raipur – are owned or leased and one property at Kolhapur (Sayaji) is under management contract. To facilitate rapid expansion of its brands across the country, the SHL's 100% subsidiary, SHML, enters management contracts with asset owners. As on date, SHML has three hotels (at Jamnagar, Rajkot, and Gurgaon) under management and around 15 properties in pipeline which will be added over the next one to two years. SHL also owns a chain of over 158 restaurants (as of March 2021) through its 30.91% owned associate – Barbeque Nations Hospitality Limited (rated [ICRA]A-(Stable)/A2+).

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 September 30, 2021.

Key financial indicators (audited)

Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	215.6	77.6	47.6
PAT (Rs. crore)	-4.5	-18.9	31.6
PAT including share of profit/loss from associate (Rs. Crore)	-20.3	-51.6	19.1
OPBDIT/OI (%)	23.0%	15.5%	22.0%
PAT/OI (%)	-2.1%	-24.4%	66.3%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	1.9	1.0
Total Debt/OPBDIT (times)	4.4	13.1	--
Interest Coverage (times)	2.1	0.5	1.0

Source: Company Annual Reports and quarterly result filings; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020^		Date & Rating in FY2019
					Dec 13, 2021	Jun 1, 2021	Jan 11, 2021 Oct 23, 2020 Sep 7, 2020	Apr 24, 2020	Nov 26, 2019	Aug 30, 2019	Sep 27, 2018
1	Term Loans	Long-term	60.56	52.6	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
2	Fund based bank facilities – Cash Credit	Long-term	8.75	--	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
3	Non-fund Based Facilities	Long-term	0.5	-	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &
4	Unallocated Limits	Long-term	24.07	-	[ICRA]BBB- &	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- &	[ICRA]BBB- &

&= On watch with developing implications

^A PR on reason for delay in periodic surveillance was published on May 31, 2019

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Term Loans	Simple
Long-term – Cash Credit Facilities	Simple
Long-term – Non-fund Based Facilities	Very Simple
Unallocated Facilities	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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Sep 2016	-	Sep 2022	8.00	[ICRA]BBB-&
NA	Term Loan-II	Jan 2017	-	Oct 2025	18.69	[ICRA]BBB-&
NA	Term Loan-III	Feb 2020	-	Jan 2025	10.22	[ICRA]BBB-&
NA	Term Loan-IV	Mar 2018	-	Feb 2026	9.16	[ICRA]BBB-&
NA	Term Loan-V	Oct 2016	-	Feb 2024	5.05	[ICRA]BBB-&
NA	Term Loan-VI	Dec 2020	-	Sep 2026	3.69	[ICRA]BBB-&
NA	Term Loan-VII	Jan 2021	-	Mar 2026	3.80	[ICRA]BBB-&
NA	Term Loan-VIII	Feb 2021	-	Jul 2026	1.95	[ICRA]BBB-&
NA	Cash Credit	Aug 2020	-	-	8.75	[ICRA]BBB-&
NA	Bank Guarantee	Aug 2020	-	-	0.50	[ICRA]BBB-&
NA	Unallocated	-	-	-	24.07	[ICRA]BBB-&

Source: *Company*

Annexure-2: 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 (Vadodara) Limited	100%	Full Consolidation
Barbeque Nations Hospitality Limited	30.9% (held through Sayaji Housekeeping)	Equity method

Source: *Company Annual report FY2021.*

Note: *ICRA has taken a consolidated view of the SHL and its subsidiaries and Associates while assigning the ratings.*

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