Sayaji Hotels Limited Revised

September 27, 2018

Summary of rated instrument

Instrument	Rated Amount (Rs. crore)	Rating Action
Long term - Term Loans	68.18	[ICRA]BBB-&; placed under rating watch with developing implications
Long term- Cash Credit Facilities	6.75	[ICRA]BBB-&; placed under rating watch with developing implications
Long term - Non-fund Based Facilities	3.92	[ICRA]BBB-&; placed under rating watch with developing implications
Unallocated	15.03	[ICRA]BBB-&; placed under rating watch with developing implications
Total	**93.88**	

Material Event

The board of directors of Sayaji Hotels Limited (SHL), in their meeting on September 19, 2018, approved a composite scheme of amalgamation of and arrangement between SHL and other Group/promoter companies – Ahilya Hotels Limited (AHL), Sayaji Housekeeping Services Limited (SHKSL), Sayaji Hotels (Pune) Limited (SHPL), Sayaji Hotels Management Limited (SHML), and their respective shareholders and creditors. The Scheme inter alia provides:

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 (Pune, Baroda, management and housekeeping businesses) from SHL to SHPL and SHML, collectively referred to as "resulting companies" on a going concern basis and the consequent issue of shares by resulting companies to shareholders of SHL
c) Reduction in share capital of resulting companies
d) Amalgamation of SHKSL with SHML 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.

Impact of the Material Event

ICRA has placed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus)[1] outstanding on the Rs. 93.88-crore[2] bank facilities of the company on 'Rating Watch with Developing Implications'.

The previous detailed rating rationale is available on the following link: Click here

---

[1] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications
[2] 100 lakh= 1 crore= 10 million

Rationale

The rating action takes into account the proposed scheme of arrangement which seeks to realign the businesses currently under SHL and its promoters. Given that a significant proportion of revenue generating assets (i.e. assets that contributed ~53% of standalone revenues of SHL in FY2018), along with associated debt and other obligations, are proposed to be demerged from SHL and amalgamated with separate entities (SHPL and SHML), the credit profile of resulting company would undergo significant change pursuant to approval and implementation of the current scheme.

The ratings, however, continue to take into cognisance the extensive experience of the promoters in the hospitality sector and established position of the Sayaji brand in business hotels category in tier-II cities. Further, SHL's diversified presence across six cities mitigates risks associated with geographic concentration and demand to a reasonable extent. Although revenues from the Indore hotel account for most of the company's revenues, the ramp-up of the newly operational hotel properties at Raipur and Baroda are expected to provide benefits of geographical diversification over the medium term. Additionally, the company's increased focus on the high margin food and beverage (F&B) segment and expansion into new markets on management contract basis are likely to support its profit growth over the medium term. The ratings, however, are constrained by the SHL's muted profitability, leveraged capital structure and moderate coverage indicators owing to regular debt-funded capex towards construction of new properties and/or renovation of existing ones. ICRA also notes the ongoing legal dispute with Indore Development Authority (IDA) over the alleged violation of lease terms by the company. Any adverse verdict in the matter can severely impact SHL's credit profile and hence, remains an event risk. Additionally, the company's operations in a cyclical industry exposes it to general economic slowdown and other exogenous shocks.

Outlook

The rating has been placed on watch with developing implications.. ICRA would continue to monitor the developments regarding the proposed scheme and will take the appropriate rating action after getting the complete details/clarifications from SHL's management and assessing its impact on the resultant company's credit profile.

Additionally, the ability of the company to rapidly scale up the operations of its new properties as well as improve the revenue per available room (RevPAR) of its old properties while improving the profit margins and capital structure shall remain the key rating sensitivities.

Key rating drivers

Credit Strengths

Consistent performance by existing properties; newly launched properties to provide revenue diversification and boost medium-term growth – All existing properties — Indore, Pune and Bhopal — registered healthy growth in revPARs, backed by robust demand (business as well as tourist movement) and limited supply additions in these markets. The newly launched Raipur and Baroda properties are expected to drive revenue growth and aid in revenue diversification over medium term.

Replacement of high-cost unsecured loans and conversion of rupee loan into foreign currency to boost debt protection indicators – In FY2018, the company realised interest-reduction benefits of converting most of its bank loans into foreign currency-denominated debt. ICRA expects the same to aid in improving cash flows and debt protection indicators over the medium term.

Portfolio expansion through management contract and leasing properties limits capex requirement and project implementation risk – SHL plans to expand its footprint by entering into management contracts with financially weak and/or inexperienced property owners or leasing out their properties located in tier-II and III cities. This would help the company conserve its funds, while allowing the scope for quick scale-up of revenues and profitability.

Public listings of key investee company to unlock value of investment and improve financial flexibility – SHL owns a chain of 96 restaurants (as of December 2017) through its 46.7%-owned associate, Barbeque Nation Hospitality Limited (BHNL; rated [ICRA]A+/stable/A1+). BNHL has already received SEBI approval for proceeding with its IPO in January 2018. The listing of its investee company would enhance the financial flexibility of SHL, which would have the option to monetise its investments in BNHL to reduce or pay off its debts.

Experienced promoters and strong brand recognition of Sayaji in domestic operative geographies – Under its in-house brand, Sayaji, the company has established itself as a reputed upscale hotel chain since the commencement of its first property in 1990. It had launched the four-star Effotel brand in FY2014 for the hotel under its subsidiary, Malwa Hospitality Private Limited, at Indore. With nearly 1,000 rooms across eight operational properties, the brands Sayaji and Effotel are rapidly expanding their market presence.

Credit challenges

Muted operating profitability in FY2018 owning to high overheads for newly launched properties – The consolidated operating profits of the company remained flat at Rs. 34.6 crore (Previous Year: Rs. 34.2 crore) in FY2018 despite a 21% YoY increase in turnover to Rs. 215.8 crore. This was mainly due to high overheads from the recently operational Raipur and Baroda properties.

Leveraged capital structure and moderate debt coverage indicators; debt-funded renovations planned over medium term – The consolidated DSCR and interest coverage as on March 31, 2018 were subdued at 0.9 times and 2.1 times even though the company replaced high cost unsecured loans with bank debt. Further, SHL has availed additional debt in early FY2019 for funding its renovation plans. Coupled with the near-term impact on operating profits of the newly operational Raipur and Vadodara properties, this is expected to keep Debt/OPBITDA ratio at elevated levels in the near term. Nonetheless, with stabilisation of these properties and benefits from reduced interest costs, the debt coverage is expected to improve over the medium term.

Sizable repayment obligations over next three years; track record of demonstrated financial support from promoters provide comfort – The company has large repayments of approximately Rs. 70 crore over the next three years (FY2019–FY2021), excluding the redemption of preference shares of Rs. 15 crore subscribed by the promoters. Rapid scale-up of the newly launched properties and improvement in performance remain crucial for the company to maintain its debt servicing ability. Nonetheless, the track record of funding support from its promoters (via unsecured loans and preference equity) provides comfort.

Corrigendum

Document dated September 27, 2018 has been corrected with revisions as detailed below:

a) Revision on page 1 under the table headed – Summary of rated instrument - wordings of rating action further elaborated.

b) Revisions on page number 2 under the section headings – Rationale and Outlook – wherein wordings of the first line of the both the sections have been modified.

.

ANALYST CONTACTS

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@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:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents