

February 26, 2024

Sayaji Hotels Limited: Rating reaffirmed; removed from Rating Watch with Developing Implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	0.10	-	-
Long-term Unallocated Limits	44.90	45.00	[ICRA]BBB+ (Stable); reaffirmed, removed from Rating Watch with Developing Implications and Stable outlook assigned
Total	45.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

The rating for Sayaji Hotels Limited (SHL) had earlier been placed on Rating Watch with Developing Implications as the extent of impact of an ongoing composite scheme of amalgamation and arrangement between SHL and other Group/promoter companies was uncertain, and contingent upon several approvals and regulatory processes. The rating has been removed from watch post completion of the aforementioned scheme of amalgamation in the current fiscal.

The reaffirmation of the long-term rating factors in the steady operating performance of Sayaji Hotels Limited (SHL) and an expectation of continuation of the performance over the medium term, aided by SHL's established market position, and sustained demand in the hospitality industry. The steady operating performance, coupled with minimal debt (total debt outstanding as on January 31, 2023 - Rs. 0.40, excluding lease liabilities), results in a strong financial risk profile for the entity, which further supports the rating. SHL continues to hold ~30% of equity interest in BNHL, whose market value stands at ~Rs. 720 crore (in February 2024, vs Rs. 820 crore in February 2023), lending considerable financial flexibility to SHL and the same provides comfort.

In July 2023, SHL received the final order from the NCLT approving the scheme of business reorganisation (appointment date of the scheme being April 1, 2022). Consequent to the reorganisation, Sayaji Hotels (Indore) Limited and Sayaji Hotels (Pune) limited were demerged and listed as separate entities. The restructured SHL was left with three properties, namely—Enrise Bhopal, Sayaji Raipur and Sayaji Vadodara). Sayaji Hotels Management Limited (SHML, that operated several properties under management contract) was amalgamated with SHL. While the properties have been demerged, SHL continues to receive revenues from the properties held under management contract (12 operational; another 16 in pipeline) as per the terms of the contract. As such, while the scale of operations for SHL substantially reduced post the reorganisation (restated revenues of ~Rs. 115 crore for FY2023 vs ~Rs. 267 crore pre-reorganisation), the company will continue to benefit from the planned growth through management contracts. Subsequently, SHL also took over operations of Enrise Udaipur, that was earlier operated through management contract, by entering a 20-year lease (effective January 2024).

The operating metrics of SHL's existing portfolio remain healthy, driven by sustained industry demand amidst a lag in supply, which improved average room rate (ARR) and consequent strong cash accruals from business. In 9M FY2024, the company reported revenues of ~Rs. 78 crore, representing a ~8% increase over 9M FY2023 (restated financials). Additionally, the cost-saving initiatives started during the pandemic have helped SHL in maintaining its operating margins at ~32% in 9M FY2024 (over ~30% in 9M FY2023), significantly higher than pre-pandemic levels (~23% in FY2020). Given ICRA's expectations that the demand in the industry is expected to remain healthy over the near to medium term, SHL is likely to record healthy operating performance, going forward.

ICRA continues to favourably factor in the extensive experience of SHL's promoters and their demonstrated track record of funding support, the entity's geographically diversified portfolio, reputed name in the food and beverage (F&B) and banqueting segments, along with strong brand recall of Sayaji and Effotel in the operative micro-markets. ICRA notes that the company has nearly 16 management contracts in the pipeline currently, which are expected to become operational over the next 2-3 years. This is in line with the management's stated strategy of leveraging its brand name and expanding its presence through an asset-light model. However, given that most of these properties have a small inventory (average 55-60 rooms), the benefits from this portfolio will likely get gradually realised.

The rating remains constrained by the inherent cyclicity and seasonality in the hospitality industry, which exposes SHL's revenues to risks associated with any economic slowdown and exogenous shocks (although the same is partially mitigated by SHL's geographically diversified portfolio). While sustenance of demand in the hotel industry and a lag in supply improved the property's operating metrics, there remains a high dependency within the portfolio on the F&B events (primarily social events like weddings), which account for ~45% of its total revenues (9M FY2024) and have traditionally been highly seasonal. Going forward, the company's ability to sustain the improvement in profitability margins of its properties, pace of its future renovation and expansion plans and the consequent impact on its business and financial risk profiles will remain key monitorables.

ICRA notes that as on December 31, 2023, the promoters held ~75% equity stake in the company, of which ~17% was pledged or encumbered. The pledge position has declined on a YoY basis and would remain a monitorable.

The Stable outlook on the company's long-term credit profile reflects ICRA's view that SHL's financial risk profile will remain healthy over the medium term, aided by steady revenue growth and cash accruals, further supported by the significant financial flexibility from the stake held in BNHL.

Key rating drivers and their description

Credit strengths

Experienced promoters and demonstrated record of funding support — SHL is promoted by the Vadodara-based Dhanani family, who have been in the hospitality industry for over three decades. The promoter family has demonstrated a track record of providing funding support for its periodic capex and short-term funding mismatches in the form of unsecured loans and preference share capital. This includes-- purchase of SHL's 51.67% stake in Malwa Hospitality (subsidiary) by the promoters, yielding ~Rs. 7 crore funds (FY2021) and Rs. 15 crore invested through cumulative redeemable preference shares (FY2015, subsequently redeemed in Q3 FY2024) -- which have supported the company's cash flows. All these are indicative of the promoters' commitment to this business and ICRA expects this need-based support to continue, going forward.

Healthy brand recognition in the operative micro-markets; portfolio expansion through asset-light business models limits capex and project implementation risk — SHL, through its three brands-- Sayaji, Effotel and Enrise-- has established itself as a reputed hotel chain primarily in tier-II and III cities. With more than 1,500 rooms (including properties under management contract) across 19 operational properties in 16 cities, the three brands are rapidly expanding their market presence. Over the past few years, the management has shifted its focus from building capex-intensive properties to following an asset-light model of expansion, through leasing of properties, management contracts or brand franchisee. This is expected to provide long-term operational benefits to SHL, as properties can almost immediately be put in operations, with minimal (or no) capex and project implementation risk. Similarly, under the management contract model, SHL would have fixed earnings (~6-7% of revenues of the properties) from the first day, with incentive for earning greater profit (which yields profit share). In line with this expansion strategy, the company signed several management contracts for adding 945+ rooms over the next 2-3 years. The company has a pipeline of around 16 management contracts and ICRA expects that this would further augment brand visibility and facilitate rapid expansion of SHL in diversified markets through an asset-light model over the medium term.

Healthy financial flexibility emanating from holding ~30% stake in BNHL — The market value of SHL’s stake in associate company - BNHL (held through subsidiary, Sayaji Housekeeping Services Limited) stood at ~Rs. 720 crore as on February 20, 2024 (vs ~Rs. 820 crore in February 2023). Against the same, SHL’s total debt excluding lease liabilities is negligible (0.4 crore as of December 2023). The investment in BNHL provides SHL with significant financial flexibility. Additionally, incremental investments in subsidiary companies and associates have remained limited over the past few years and are expected to be marginal (if any) over the medium term.

Credit challenges

Exposed to industry cyclicality, general economic slowdown, and exogenous shocks – Given the discretionary nature of spending, the Indian hospitality industry is susceptible to macroeconomic conditions, tourist movements and several exogenous factors, leading to inherent cyclicality. Several non-metro markets also face seasonality in guest traffic. As such, global and domestic economic conditions will remain key monitorables for SHL, as part of this industry.

Limited scale of operations – Despite the geographically diversified portfolio, the scale of operations for SHL remains limited (revenues for 9M FY2024 at ~Rs. 78 crore), especially post reorganisation, wherein some properties were demerged into separate entities. While the long pipeline of management contracts is expected to provide opportunities for growth and strong financial flexibility, growth through management contracts will likely reduce the pace of revenue growth, especially with the smaller size of properties (average size of management contracts in pipeline is ~60 keys).

Liquidity position: Adequate

SHL’s liquidity is expected to remain adequate, supported by healthy internal accruals and available cash and bank balances (~Rs. 14 crore as on December 31, 2023). Against the funds available, the company has moderate capex commitments (~Rs. 25-30 crore over the next 12 months), minimal interest and zero repayment obligations as of January 2024. SHL’s credit profile is also further supported by significant financial flexibility from market value of this investment in BNHL (~Rs. 720 crore as of February 2024).

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators leading to further improvement coverage metrics and liquidity profile, could be a trigger for improvement in the rating.

Negative factors – Negative pressure on SHL’s rating could arise from slower than anticipated growth in its portfolio’s operating metrics and/or unforeseen and material increase in debt levels leading to weakening of its leverage and coverage indicators and liquidity position. Any significant withdrawal of funds from the company by the promoters leading to weakening of its liquidity profile would also remain a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hotels
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of SHL. As on December 31, 2023, the company had one subsidiary and one associate (enlisted in Annexure-II).

About the company

SHL, incorporated in 1982, owns/operates a portfolio of four properties (308 keys) under its in-house brands – Sayaji and Enrise. (post restructuring effective from August 2023). This includes one property each at Bhopal, Raipur, Vadodara and Udaipur. Additionally, to facilitate rapid expansion of its brands across the country, SHL enters management contracts with asset owners under its three brands – Sayaji, Effotel and Enrise. As on January 31, 2024, SHL operates 15 properties (1,216 keys) across the country through management contracts, while another 16 properties will be added over the next two years.

SHL also has a stake in a chain of 212 restaurants across India through its 29.8% owned associate – Barbeque Nations Hospitality Limited (BNHL, rated [ICRA]A(Stable)/A2+ as of December 2023).

SHL has been listed on the BSE since 1992. It is promoted by the Vadodara-based Dhanani family, which directly held 74.9% stake in the company as on December 31, 2023.

Key financial indicators (audited)

SHL Consolidated	FY2022	FY2023	9MFY2024*
Operating income	163.6	266.7	78.0
PAT	42.9	30.0	10.0
OPBDIT/OI	29%	30%	32%
PAT/OI	26%	11%	13%
Total outside liabilities/Tangible net worth (times)	0.7	0.4	-
Total debt/OPBDIT (times)	2.7	1.0	-
Interest coverage (times)	2.4	6.8	-

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021	
				Feb 26, 2024	Mar 02, 2023	Apr 26, 2022	Dec 13, 2021	Jun 01, 2021	Jan 11, 2021		
									Oct 23, 2020	Apr 24, 2020	
1 Term loans	Long-term	-	--	-	[ICRA]BBB+ Rating watch with developing implications	[ICRA]BBB Rating watch with developing implications	[ICRA]BBB- Rating watch with developing implications	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	
2 Cash credit	Long-term	-	--	-	-	-	[ICRA]BBB- Rating watch with developing implications	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	
3 Non-fund based facilities	Long-term	-	--	-	-	[ICRA]BBB Rating watch with developing implications	[ICRA]BBB- Rating watch with developing implications	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	
4 Unallocated limits	Long-term	45.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB+ Rating watch with developing implications	[ICRA]BBB Rating watch with developing implications	[ICRA]BBB- Rating watch with developing implications	[ICRA]BBB- (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term –Unallocated Limits	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated Limits	NA	NA	NA	45.0	[ICRA]BBB+(Stable)

Source: Company

Annexure II: 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
Barbeque Nation Hospitality Limited	29.8% (held through Sayaji Housekeeping)	Equity method

Note: ICRA has considered the consolidated financials of SHL while assigning the ratings.

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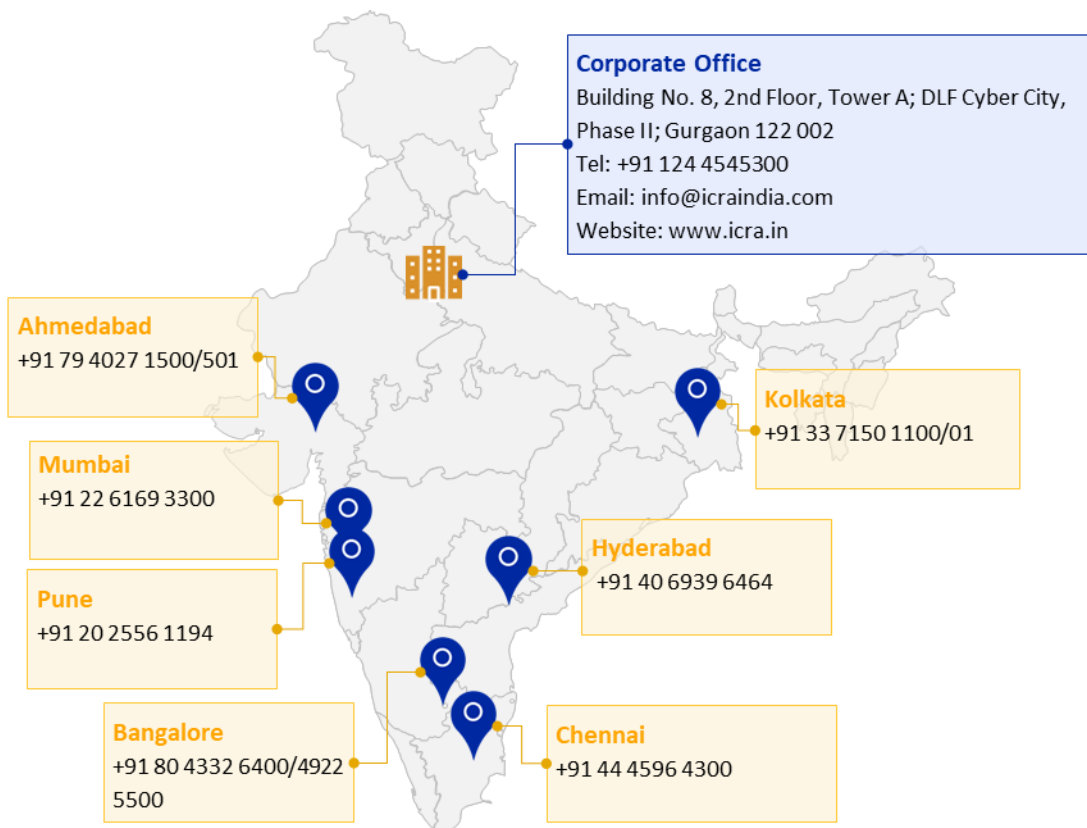
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