

The Byke Hospitality Limited

February 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	20.00	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total	20.00 (Rs. Twenty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term ratings assigned to the bank facilities of The Byke Hospitality Ltd. (TBHL) takes into account moderation in financial flexibility of the company due to sharp reduction in its market capitalization in recent times. The rating revision also considers slowdown in the room chartering business of the company in Q3FY19 due to increase in competitive scenario.

CARE notes that TBHL, in order to tackle the changed market conditions, is expected to scale down its room chartering segment and eventually exit the same. The company will continue focus on the leased and owned hotels segment.

The rating continue to derive strength from experience of the promoters in the hospitality industry with qualified and experienced management team, comfortable capital structure and the improving geographic presence of the company.

The rating strengths continue to be tempered by inventory risk associated with room-chartering business, geo-political risks and seasonal & cyclical nature of the business which is the inherent risk in hospitality business.

TBHL's ability to exit the room chartering segment while maintaining its operating metrics and capital structure remains the key rating sensitivity.

Outlook: Negative

The business and financial risk profile of TBHL is expected to remain under stress over medium term on account of low revenue visibility in the room chartering business. The outlook will be revised to stable when the business of the company from other segments expands.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management

The promoter of the company - Mr. Anil Patodia – has over two decades of experience in hospitality sector and is presently playing key role in expansion of the company's business. Additionally, the company's directors & senior management possess several decades of experience in the fields of hotel management, finance & administration.

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Improving geographic presence in Hotel business

The company currently has nineteen properties on owned/ leased/ managed basis in fourteen locations with total room inventory of 1104 rooms. At the same time the company's properties are registered on various online portals like Make My Trip, Expedia etc. Stabilization of operations in the new properties and improving occupancy and average room rates in the midst of expansion would be rating monitorable.

Moderate financial and liquidity profile with low gearing

The company has consistently maintained a healthy capital structure with minimal debt on its balance sheet. Gearing stood at 0.11x as on March 31, 2018 (as against 0.06x as on March 31, 2017) with total debt of Rs.20.16 crore. The increased gearing ratio is on account of higher working capital requirement. The involvement of the company in room chartering segment necessitates capital to fund short term advances to hoteliers as well as credit extension to agents and hence the operating cycle of the company is comparatively high. The utilization of fund based working capital limits is also high at around 85-90% and provides limited liquidity back-up.

Key Rating Weaknesses

Business slowdown in room chartering business

In room chartering business, TBHL does bulk-booking of room inventory in advance from third parties based on its demand estimations during off-season and later sublets them to tourists. While the company had a sound track-record

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

with occupancy rates of more than 90% in room chartering business earlier; during Q3FY19 on account of increased competition and aggressive pricing by app-based room aggregators the company has posted significant losses in the segment which affected its profitability. However going forward the company will scale down its room chartering business and eventually exit the same.

High susceptibility to economic cycles and operations in highly competitive industry

The hospitality industry is highly fragmented with many local and international players operating across different hotel segments leading to high level of competition in the business; this competition has been further driven by app-based room aggregators that are following aggressive pricing models to gain market share. However, the company, on account of its brand name and reputation has been successful in maintaining stable and comfortable occupancy rates. The performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism industry (which in turn is dependent on the overall economy and disposable incomes), competitiveness of Indian tourism, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions. The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Hotel Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Company

The Byke Hospitality Ltd. (TBHL) was incorporated in 1990 as Kotawala Financial Consultancy Pvt Ltd by Mr. Styanarayan Sharma (presently Director). Having entered into hospitality business in 2004 with acquisition of two properties in Goa; the company at present has nineteen properties at fourteen different locations with total room inventory of 1104 rooms. The company's current promoters took over stake from earlier promoters in FY11 which is when the company was rechristened as TBHL and has since been operating all its properties under the brand name of "The Byke". Additionally, the company is also engaged in the room chartering business wherein it does bulk-booking of room inventory in advance from third parties during off-season and sublets them to tourists during season period via strong agent network.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	270.12	178.18*
PBILDT	62.38	69.61
PAT	31.70	35.82
Overall gearing (times)	0.06	0.11
Interest coverage (times)	54.57	78.13

A: Audited

*The company has started reporting of room chartering revenues on net basis since April 01, 2017.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (13-Dec-17)	1)CARE A- (10-Oct-16)	1)CARE BBB (21-Sep-15)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Negative	1)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE A- (10-Oct-16)	1)CARE BBB (21-Sep-15)

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