Gujarat JHM Hotels Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	103.72	CARE BBB; Negative (Triple B; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	1.80	CARE BBB; Negative / CARE A3 (Triple B; Outlook: Negative/ A Three)	Reaffirmed
Short Term Bank Facilities	0.25	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**105.77 (Rs. One Hundred Five Crore and Seventy-Seven Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities of Gujarat JHM Hotels Ltd. (GJHM) continue to derive strength from long standing experience of its parent in the hospitality industry, its established operations with two operational five-star hotel properties in Surat with Operational synergies on account of common brand name 'Marriott', coupled with recovery in occupancy level and operating income in 10MFY22 period (refers to period from April 01 to January 31) albeit sharp decline in operating income during FY21 (refers to period from April 01 to March 31) due to impact of covid-19 leading to lower occupancy levels in the hotel operations. The rating also factors healthy liquid investments & cash balance. The rating is however, tempered, by the moderation in its debt coverage indicators, The ratings are also factors in the issuance of corporate guarantee by GJHM for the loan availed by its subsidiary viz. Auro University (AU; engaged in education sector) for its planned expansion; and its presence in a cyclical and competitive hospitality industry adversely impacted due to Covid-19 pandemic.

Outlook: Negative

The outlook continues to remain negative, on account of likely impact of extended covid on the prospects of travel and tourism and in-turn on the hospitality industry to remain prolonged. Although, there has been recovery in ARR and Occupancy in YTDFY22, sustenance of recovery remains to seen on back of recent surge in covid cases across the world and travel restrictions. The outlook may be revised to 'Stable' if GJHM is able to significantly improve its RevPAR and generate adequate cash accruals to comfortably meet its debt servicing obligations going forward.

Positive Sensitivity: Factors that could lead to positive rating action/upgrade:

- ✓ Sustained growth in its scale of operations with TOI of more than Rs.90 crore along with improvement in its RevPAR
- ✓ Improvement in its PBILDT margins to more than 35% on a sustained basis.
- ✓ Improvement in its capital structure with overall gearing of less than 0.80 times

Negative Sensitivities: Factors that could lead to negative rating action/downgrade

- × TOI remaining below Rs.70 crore on a sustained basis
- × Decline in its RevPAR resulting in its PBILDT margin going below 22% on a sustained basis leading to adverse impact on its debt coverage indicators
- × Any debt funded capex resulting into overall gearing above 2.00x on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Long standing experience of the promoters

GJHM is a part of JHM Hotels group, USA, which operates a multi-brand hotel chain spread over 43 hotels with over 7,200 rooms across the USA and also in India. The group is associated with multiple brands such as Marriott, Starwood, Hilton, and Hyatt in the US hospitality sector. The group owns and manages assets of approximately USD 1 billion internationally. JHM Hotels LLC, a holding company of GJHM, looks after the Indian operations of the group.

JHM group had also set up an education institute at Hazira in FY12, the infrastructure of which was developed by GJHM on its lease hold land. GJHM has retained the ownership of the institute and handed over the operations to a trust managed by JHM group, namely Auro International School of Hospitality Management (Auro).

Established operations of the company with two operational five-star hotel properties in Surat

GJHM has an operational track record of over three decades and its hotel benefits due to location advantage, being situated in a prime residential and commercial area of Surat, thus catering to both business and leisure travellers. It is in proximity to some of the major textile and diamond business establishments of Surat, Hazira port, airport and railway station, making it attractive to business travellers arriving at Surat. The hotel operations and marketing functions of one hotel were managed by

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The Indian Hotels Co. Ltd. (IHCL) till September 2019; however, since October 2019, GJHM has rebranded the hotel to 'Surat Marriot Hotel'. GJHM's second five-star hotel viz. 'Courtyard by Marriott' at Hazira (Surat) commenced commercial operations from November 2017. Operationalization of this hotel has diversified GJHM's revenue stream, which was concentrated to a single hotel property in the past; albeit geographical concentration risk persists as both properties are in the same city. Both the properties are being managed by GJHM itself. Company has 10 windmills with total installed capacity of 8.80 MW, supplying energy produced to the Government of Gujarat, Madhya Pradesh, and Maharashtra, which contributed Rs.2.15 crore to its TOI during FY21 (FY20: Rs.2.89 crore). The decrease in revenue from wind is attributable to revision in rates charged on power sold to Maharashtra coupled with lower performance due to ageing of plants.

Operational synergies on account of common brand name 'Marriott'
GJHM, on account of JHM group's experience in the hospitality industry along with track record of managing around 30 Marriott brand hotels in USA, has been granted the permission to manage its existing property after being rebranded under 'Marriott' brand. GJHM had undertaken an exercise to rebrand its existing hotel property in Surat from 'Gateway' to 'Marriot' brand. Earlier the project scope included renovating ~100 rooms at a total cost of ~Rs.51 crore which was revised to renovating the entire 209 rooms wherein it incurred cost of around Rs.82 crore. GJHM completed the rebranding of entire hotel property and commenced operations under the new brand from October 2019. GJHM has appointed Noma Hotels Private Limited (NHPL; one of the group companies) to manage both of its properties. NHPL is expected to manage both the properties from FY22 onwards. GJHM is expected to have operational synergies between this property and the new five-star hotel recently constructed at Hazira on account of common brand 'Marriott', and thus improving cost efficiency through sharing of resources.

Key Rating Weaknesses
Improvement in scale of operations led by improved Occupancy and ARR in 10MFY22
On account of impact of covid-19 leading to closure of hotel from March 22, 2020, up to August 27, 2020, due to lockdown imposed by governments followed by IT professionals continued to work from home during FY21 led to sharp decline in occupancy levels from 62% in FY20 to 53% coupled with decline in Average room rent to Rs 3901 (P.Y. Rs 6020) and RevPAR. of Rs 2065 (P.Y. Rs 3689) in FY21. In view of the aforementioned factors, FY21 witnessed decline in revenue to Rs 57.51 from Rs 82.50 crore coupled with loss at Rs 12.99 crore in FY21 as against loss of Rs 9.69 crore in FY20. With steady improvement in the occupancy level above 65% from July 2021 onwards, the company had achieved total operating income of Rs. 72.01 crore during 10MFY22 (April to January 2022).

Moderation in capital structure and debt coverage indicators
Capital structure of the company deteriorated, as marked by the overall gearing of 1.41x as on March 31, 2021 (1.18x as on March 31, 2019) on account of covid loan of Rs.6 crore during FY21 coupled with decline in Networth as a result of continued losses due to covid led impact. Further during the current year (FY22) the company has availed ECLGS of Rs.21.38 crore. As on March 31, 2020, total debt of the company amounted to Rs.109.48 crore (PY:Rs.106.64 crore) comprising of rupee term loan of Rs.95.22 (PY:Rs.89.38 crore, ROI @ 7.55% to 8.8% p.a), unsecured loan from the holding company of Rs.14.26 crore (PY:Rs.14.26 crore) (ROI: Libor+4.50% p.a.), fund based working capital limit in the form of cash credit facility of NIL (PY: Rs.1.10 crore) and balance Rs. 6036/-(Rs.1.90 crore) in the form of overdraft (backed by the fixed deposits of promoters). Consequently, debt coverage indicators also moderated marked by interest coverage of 1.98x in FY21 (2.09x in FY19) and TD/GCA of 10.77x as on March 31, 2021 (9.03x as on March 31, 2020).

Corporate guarantee for the loan availed by AU
AU, an operational education institute, has an ongoing project wherein capex of Rs.67.50 crore was envisaged to be incurred during FY21-FY23 funded through undisbursed term loan of Rs.52.50 crore (sanctioned amount of Rs.60 crore) and balance from promoter funds & its internal accruals. AU's premises are situated on the land owned by GJHM and accordingly, GJHM has agreed to provide its corporate guarantee in favour of the lender of AU for its term loan of Rs.60 crore. Accordingly, adjusted overall gearing (including the guaranteed debt) of GJHM is likely to deteriorate further. However, AU has availed a total loan of Rs.7.5 crore and has cancelled the balance as the management had slowed down its expansion and plans to fund from internal accruals of AU for expansion if any.However, AU is an operational educational institute with steady revenue stream and largely no debt until now; accordingly, there is moderate likelihood of actual support required from GJHM for AU's debt servicing under the corporate guaranteed obligation.
High level of competition and cyclical nature of hospitality industry adversely impacted by the second wave of Covid pandemic:
The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, cyclical nature of the hotel industry and increasing competition from already established hotels has impacted operating performance of the industry players. GJHM's strategic location and strong brand partially insulate it from the effects of macro factors; however, it remains vulnerable to the cyclicality of the hospitality industry. The occupancy rate although improving on a monthly basis, has not reached pre-covid level of business yet. This is mainly due to the ban on FTAs (foreign tourist arrivals) which is not expected to be lifted in the near future. In addition to this, GOI in October 2020 has permitted visa relaxations for all purposes except for tourism which in turn is expected to further affect the recovery in FTAs. For the occupancy across hotels to reach pre-covid levels, it depends how quickly the virus is contained within India and globally and accordingly when the travel restrictions will be eased globally for foreign travel. Meanwhile, domestic tourism is expected to aid the revival of hotel industry. Domestic business travellers, which forms the major portion of the GJHM's customer mix, supported the occupancy and ARR of GJHM in 10MFY22 (Surat hotel: 65% and Rs.4990/- & Hazira hotel: 61% and ARR at Rs.4313/-).

Liquidity Analysis - Adequate

GJHM's liquidity remains adequate on account of a negative operating cycle, which also results in low utilization level of its fund-based working capital limit, averaging at 3% for the trailing 12 months ended January 2022. GJHM also has an overdraft limit of Rs.8.40 crore backed by the fixed deposit of the promoters. GJHM's cash flow from operations remained healthy at Rs.19.30 crore in FY21 (PY: Rs.21.51 crore). Further, its cash accruals are expected to be sufficient vis-à-vis its term loan repayment obligations in next 2-3 years. Further, as on February 23, 2022, the company has a liquid investment of Rs.23 crore (Rs 10.5 crores in bonds, Rs 5 crore in the form of DSRA with Kotak & 8 Crores FD). Moreover, the company has repaid Rs.11.64 crore up to January 31, 2022, as against Rs.12.51 crore of scheduled repayment in FY22.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Nonfinancial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hotel

About the Company

Promoted by Rama family of JHM Hotels group of USA in 1985, Gujarat JHM Hotels Ltd (GJHM) owns and operates two five-star hotel properties, 'Marriot Hotel' (earlier 'Gateway Hotel') comprising 209 rooms, two restaurants and five banquets, at Surat, Gujarat and 'Courtyard by Marriott' comprising of 133 rooms, a banquet hall and three restaurants at Hazira, near Surat, Gujarat. JHM Hotels group has a considerable presence in the hospitality sector and operates a multi-brand hotel chain at key destinations in USA since 1973. GJHM through its wholly owned subsidiary viz. Auro University also owns the infrastructure facilities developed for an educational institute at Hazira, Surat. Also, GJHM has wind power generation capacity of 8.80 MW.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22(UA)
Total operating income	82.50	57.21	35.55
PBILDT	22.60	20.01	11.59
PAT	-9.69	-12.99	(4.41)
Overall gearing (times)	1.18	1.41	NA
Interest coverage (times)	2.09	1.98	2.79

A: Audited, UA: Unaudited, NA: Not Available

Company has achieved a turnover of Rs 72 crores in 10MFY22.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term		-	-	January 2027	101.72	CARE BBB; Negative
Fund-based - LT-Cash Credit		-	-	-	2.00	CARE BBB; Negative
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	1.80	CARE BBB; Negative / CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	0.25	CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	101.72	CARE BBB; Negative	1)CARE BBB; Negative (26-May-21)	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	-	1)CARE BBB+; Stable (26-Feb-19) 2)CARE BBB+; Stable (18-Dec-18)
2	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB; Negative	1)CARE BBB; Negative (26-May-21)	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	-	1)CARE BBB+; Stable (26-Feb-19) 2)CARE BBB+; Stable (18-Dec-18)
3	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	1.80	CARE BBB; Negative / CARE A3	1)CARE BBB; Negative / CARE A3 (26-May-21)	1)CARE BBB+; Negative / CARE A3+ (31-Mar-21) 2)CARE BBB+ / CARE A3+ (CWN) (01-Apr-20)	-	-
4	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A3	1)CARE A3 (26-May-21)	1)CARE A3+ (31-Mar-21) 2)CARE A3+ (CWN) (01-Apr-20)	-	-

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Derivative Limits	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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