Samhi Hotels Limited

April 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	214.10 (Reduced from 313.80)	CARE BBB (CWN) (Triple B) (Under Credit watch with Negative Implications)	Revised from CARE BBB+ (Triple B Plus); Continues to be on Credit watch with Negative Implications
Long Term / Short Term Bank Facilities	0.68	CARE BBB / CARE A3+ (CWN) (Triple B / A Three Plus) (Under Credit watch with Negative Implications)	Revised from CARE BBB+ / CARE A2 (Triple B Plus / A Two); Continues to be on Credit watch with Negative Implications
Total Bank Facilities	**214.78 (Rs. Two Hundred Fourteen Crore and Seventy-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Samhi Hotels Limited takes into account sharp moderation in the operational and financial performance caused by covid-19 pandemic leading to deterioration in capital structure. Nevertheless, the ratings continue to factor in strategic equity holding from established investment firms, management team's extensive experience in hospitality space, professional and qualified management team, tie-up with international hotel brands for branding, marketing and operating properties.

The above strengths continue to be offset by moderate capital structure, continued net loss, regional movement and competition risk and vulnerability of revenues due to inherent industry cyclicality and economic cycles.

The ratings assigned to the bank facilities of Samhi Hotels Limited (SHL) continue to remain on 'Credit Watch with Negative Implications'. The disruption caused by Covid-19 continues to adversely impact the hospitality and tourism industry. In the backdrop of uncertainty created by resurgence in covid infections, there has been further continuation in unfavorable customer sentiments and elongation in recovery period. Expected fund infusion resulting in de-leveraging of the balance sheet will also remain a key rating monitorable. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Rating Sensitivities

Positive Factors:

- *Faster recovery post the pandemic, demonstrated by sustained improvement in its operational metrics, profitability indicators and improvement in coverage metric*
- *Prepayment of term debt leading to improvement in capital structure with overall gearing of less than 1x*
- *Improvement in the occupancy levels beyond 70% and ARR above Rs. 5,200 in the future years*

Negative Factors:

- *Prolonged impact of the pandemic leading to further weakening in operating and financial metrics, deterioration in debt servicing indicators and liquidity position of the company*
- *Continued negative cash accruals*
- *Delay in infusion of equity leading to further moderation in debt service indicators*
- *Delay in replenishment of DSRA*

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' extensive experience in hospitality sector and strong management team

SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani. The founding team together has strong domain expertise, successful project implementation and management capabilities and long standing global relationships in the hotel industry. SHL has developed a team of highly experienced and technically qualified professionals to handle different departments. The team has people with extensive experience in the hotel and real estate industry through their association with internationally renowned companies.

Demonstrated track record of raising funds; strategic investments from globally established PE firms

The group has been successful in raising funds to the tune of Rs, 1224.6 crore from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI) and Equity International (EI) over the past 8 years till Mar 31, 2020.

These global investment firms hold 96.25% equity in the company viz. Equity International (49.35%), Goldman Sachs (28.88%) and GTI Capital Group (18.02%) as on Mar 31, 2020. During FY20, the investors (GS and GTI) have infused additional Rs. 28.6 cr by rights issue on Sep 21, 2019 for funding the expenses related to IPO and general corporate expenses. Further, SHL has received fund infusion in the form of Non-convertible debentures (NCDs) of Rs.87 cr from promoters on Mar 15, 2021.

Going forward, additional support from the existing/new investors in timely manner would be crucial from the credit perspective.

Tie-up with 8 well established international brands for branding, marketing & operating hotels

SHL is an institutional multi-branded hotel ownership company which has partnered with premier hospitality management companies to leverage their global brands. SHL has entered into hotel management agreement with Marriott under the banner of ‘Courtyard by Marriott’, ‘Fairfield by Marriott’, ‘Four Points by Marriott’, ‘Sheraton by Marriott’ and ‘Renaissance by Marriott’, with Hyatt under the banner ‘Hyatt Place’ and ‘Hyatt Regency’ and IHG under the banner of ‘Holiday Inn Express’. Majority of the SHLs portfolio is positioned in the midscale segment.

Pan-India presence with a portfolio of 4,277 rooms in 29 properties (4,050 rooms in 27 operational properties) with favourable locations of hotels across regions

SHL’s assets are located across key gateway markets in India such as Ahmedabad, Bangalore, Chennai, Coimbatore, Delhi, Goa, Gurgaon, Greater Noida, Hyderabad, Kolkata, Mumbai, Nashik, Pune and Vizag with 89% of its portfolio is in Tier I cities. As on Dec 31, 2020, out of the 29 assets, 18 are owned by SHL and remaining 11 assets are on long term lease varying from 20-35 years (with the exception of one of the leases, which is valid for 99 years).

As on Dec 31, 2020, 52% SHLs assets lie in the south with 2247 keys, 30% in west with 1290 keys, 15% north with 660 keys and 3% east with 120 keys.

A geographically diversified asset portfolio insulates the company from cyclicality specific to a particular region. Further, SHL’s properties are mostly located in central business districts (CBD) or business centre of a city.

Key Rating Weaknesses

Moderation in financial profile in FY21

In FY20, there has been growth of 27.5% in the total operating income of the company mainly on account of increase in room revenues. The PBILDT margin has remained largely in-line with FY19 at 26.53% as compared to 27.25% in FY19. The company has reported one-time exceptional losses of Rs.141 cr, largely pertaining to impairment losses. Therefore, SHL continued to report losses at PAT level accompanied by cash losses during the year. On account of erosion in net worth caused by net losses, there has been deterioration in solvency ratios with overall gearing at 5.16x as on Mar 31, 2020 (PY: 2.76x).

Further, due to outbreak of Covid-19 pandemic and the subsequent impact of the same, total income has witnessed significant deterioration and stood at Rs.126 crore during 10MFY21 accompanied by PBILDT level loss of 54.80 crore. The management has adopted various cost containment measures such as lowering headcount, Finance clustering etc. for reduction of PBILDT losses.

Deterioration in operational metrics in FY21, albeit gradual recovery from Q3FY21 onwards

Following the nation-wise lockdown imposed in Q1FY21, there has been deterioration in the operational metrics of all hotels in the portfolio. The average occupancy levels had plummeted to an all-time low during Q1FY21. Consequently, ARR and RevPAR were also severely impacted. Apart from the room revenue, SHL lost significantly on the food & beverages (F&B) portion which generally contributes around 30% of the total revenue. Consequently, during 9MFY21, the occupancy levels stood at 22% with ARR of Rs.2,704 as against 61% and Rs.4,602 in FY20 respectively. Further, there have been early signs of recovery as demonstrated by gradual increase in the occupancy level, which stood at 52.5% in Feb-21 as against 15% in Q1FY21.

Regional movements and competition risk

Although the risk is largely mitigated owing to diversification in terms of geographies, hotel-operators and hotel-segments and favourable micro locations of the group’s assets, going forward the pace of the recovery in the economic cycle and stabilization of the hotel properties in competitive markets will be critical for the company’s financial risk profile.

Vulnerability of revenues due to inherent industry cyclicality, economic cycles and exogenous events
Operating performance of the properties remain vulnerable to seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, the risk to revenues is partially mitigated by SHL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.
Liquidity: Adequate
SHL had availed moratorium of 6 months on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. Accordingly, some of the scheduled repayments in FY21 were deferred till Aug 31, 2020. Owing to the operational losses in FY21, the repayment obligations have been partly met through utilization of DSRA.
Nevertheless, the liquidity profile continues to remain marked by negative working capital cycle, healthy cash & bank balance of Rs.103 cr and moderate current ratio.
The shareholders have infused NCDs worth Rs.87 cr in Mar-21. Also, the company has available Emergency Credit Guarantee Lines sanctions (ECGLS) facilities of Rs.320 cr to be availed in FY21 and FY22. Therefore, SHL has adequate liquidity buffer available for meeting its debt servicing obligation in the near term.

Industry scenario
With the COVID-19 pandemic spread across the globe, the hospitality and leisure industry – dependent entirely on travel, business and tourism- is among the sectors directly impacted by it. Its performance in CY20 has been hit hard on account of cancellations on bookings, absence of fresh footfalls on account of travel advisories and, thereafter, the nationwide lockdown. Though, there has been gradual recovery from Q3FY21 onwards, the end of the crisis still remains uncertain.
Further, hotel projects are characterized by long gestation periods and therefore, hotel entities with recent expansions or groups with a higher portfolio of new assets compared to mature ones have faced additional heat on their already weak financials accompanied by high debt repayments and squeezed profitability.

Analytical approach: Consolidated financials of SHL

Applicable Criteria

- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Criteria for Short-term Instruments
- Rating Methodology – Hotel Industry
- CARE's methodology for Service Industry
- CARE's methodology for financial ratios (Non-Financial Sector)
- CARE's methodology for Factoring Linkages in Ratings

About the Company
Incorporated on December 28, 2010, SHL is a hotel investment and development company. SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani with focus on ownership of internationally branded hotels in the business segment, across key cities in India. The group has received investments from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI) and Equity International (EI). SHL, along with its subsidiaries, has developed a portfolio of around 4,277 rooms across 29 properties in 14 Indian cities under 8 premium international brands.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income (excluding extraordinary gains)	486.14	619.99
PBILDT	132.48	164.48
PAT	(304.60)	-344.02
Overall gearing (times)	2.76	5.16
Interest coverage (times)	0.78	0.15

A: Audited
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

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-Term Loan	-	-	-	209.10	CARE BBB (CWN)
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.68	CARE BBB / CARE A3+ (CWN)
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB (CWN)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (04-Apr-17)
2.	Fund-based - LT-Term Loan	LT	209.10	CARE BBB (CWN)	1)CARE BBB+ (CWN) (13-May-20)	1)CARE BBB+; Stable (10-Feb-20)	1)CARE BBB+; Stable (06-Sep-18)	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	0.68	CARE BBB / CARE A3+ (CWN)	1)CARE BBB+ / CARE A2 (CWN) (13-May-20)	1)CARE BBB+; Stable / CARE A2 (10-Feb-20)	1)CARE BBB+; Stable / CARE A2 (06-Sep-18)	-
4.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB (CWN)	1)CARE BBB+ (CWN) (13-May-20)	1)CARE BBB+; Stable (10-Feb-20)	1)CARE BBB+; Stable (06-Sep-18)	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Sep-18)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - LT/ ST-BG/LC	Simple

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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