Samhi Hotels Limited

April 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	260.44 (Enhanced from 214.10)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	0.68	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)	Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned
Total Facilities	**261.12 (Rs. Two Hundred Sixty-One Crore and Twelve Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Samhi Hotels Limited (SHL) takes into account the management team's extensive experience in hospitality space, strategic equity holding from established and renowned investment firms, professional and qualified management team, tie-up with various international hotel brands for branding, marketing and operating properties. The above strengths continue to be offset by subdued operational and financial performance in FY21 (refers to the period from April 01 to March 31), impacted by Covid-19 pandemic leading to deterioration in capital structure along with 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) were earlier placed on 'Credit Watch with Negative Implications' due to the disruption caused by Covid-19 which 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 unfavourable customer sentiments and elongation in recovery period.

CARE has removed the rating assigned to the bank facilities of SHL from 'Credit watch with negative implications' following the improved operational and financial performance during 9MFY22 (refers to the period from April 01 to December 31) along with recovery seen by the company in the occupancy levels and the continues support from the promoters in the form fund infusion through the NCDs along with expected recovery after the opening up of the international travel.

Rating Sensitivities

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

- 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 occupancy level-beyond 75% with ARR above Rs 5,000 in future years.

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

- Delay in infusion of equity leading to further moderation in debt service indicators.
- Further weakening in financial and operational metrics leading to continued negative cash accruals.
- Delays 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.

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

Demonstrated track record of raising funds; strategic investments from globally established PE firms
The group has been successful in raising funds in form of equity shares/ NCD/ CCD, to the tune of Rs. 1655.60 crore from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI), Equity International (EI) and other financial institutions over the past 9 years till December 31, 2021. 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, 2021. During FY21, the investors (GS and GTI) infused additional funds to the tune of Rs 87 crores in the form of NCDs to support the operations of the company and also to cover various general corporate expenses. The infusion mitigated the funding risk to some extent considering the track record of aggressive organic and inorganic expansion of the group 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 4,170 rooms in 28 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, 2021, out of the 28 assets, 18 are owned by SHL and remaining 10 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, 2021, 51% SHLs assets lie in the south with 2,114 keys, 31% in west with 1276 keys, 16% 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
Modest financial risk profile marked by deterioration in operational metrics albeit gradual recovery from Q2FY22 onwards
The total revenue of the group declined in FY21 by about 71% mainly due to covid-19 outbreak which led to nation-wide lockdown and severally impacted the occupancy levels of the group leading to reduction in revenue. Further, the group has incurred operational losses due to reduction in scale of operations. Apart from the room revenue, SHL lost significantly on the food & beverages (F&B) portion which generally contributes around 30% of the total revenue. Continued net losses for the past several years has led to erosion of net-worth, which significantly impacted the revenue, further affecting the, the overall gearing and financial matric ratios. The overall gearing was negative for FY21 at -69.91x as compared to 5.14x as on March 31, 2020. The management has adopted various cost containment measures such as lowering headcount, finance clustering etc. for reduction of PBILDT losses. The occupancy level has almost doubled in 9MFY22 to about 44% from 28% in FY21 which has further increased to about 60-70% during the past two months.

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.

Analytical approach: Consolidation

Liquidity: Adequate
Samhi Hotels Limited (group) has adequate liquidity profile marked by cash and bank balance of about Rs 175 crores as on December 31, 2021. In addition to this the group has DSRA balance of Rs 16.33 crore as on February 28, 2022. The company has negative working capital cycle of 73 days in FY21. The current ratio of the company remains low at 0.29x as on March 31, 2021. The group has taken NCDs to the tune of Rs 295 crores both from promoters as well as the financial institutions during 9MFY22 in order to support the liquidity and the operations of the company. Further, the group has unutilized balance of Rs. 153.90 crore of Emergency Credit Line Guarantee Scheme (ECLGS) and other bank limits, announced by the central government. Therefore, SHL has adequate liquidity buffer available for meeting its debt servicing obligation in the near term.

Applicable Criteria:
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial Sector Entities
Rating Methodology – Hotel Industry
CARE's methodology for services industry
CARE's methodology for factoring linkages in ratings
Financial ratios - Non- Financial Sector

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)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	619.22	177.43	230.52
PBILDT	163.73	-62.15	3.80
PAT	-344.02	-446.34	NA
Overall gearing (times)	5.14	-69.91	NA
Interest coverage (times)	0.65	-0.22	NA

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: 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
Fund-based - LT-Term Loan		-	-	March 2030	255.44	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	0.68	CARE BBB; Stable / CARE A3+
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BBB; Stable

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	Fund-based - LT-Term Loan	LT	255.44	CARE BBB; Stable	1)CARE BBB (CWN) (06-Apr-21)	1)CARE BBB+ (CWN) (13-May-20)	1)CARE BBB+; Stable (10-Feb-20)	1)CARE BBB+; Stable (06-Sep-18)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	0.68	CARE BBB; Stable / CARE A3+	1)CARE BBB / CARE A3+ (CWN) (06-Apr-21)	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)
3	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB; Stable	1)CARE BBB (CWN) (06-Apr-21)	1)CARE BBB+ (CWN) (13-May-20)	1)CARE BBB+; Stable (10-Feb-20)	1)CARE BBB+; Stable (06-Sep-18)
4	Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (06-Sep-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-BG/LC	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 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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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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