

Jindal Hotels Limited

September 13, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	41.55 (Reduced from 41.74)	CARE BB+; Negative (Double B Plus; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	8.00	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	49.55 (Rs. Forty-Nine Crore and Fifty-Five Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to its bank facilities of Jindal Hotels Limited (JHL) continue to remain constrained on account of adverse impact of Covid-19 pandemic on its operations resulting in higher than envisaged loss during FY21 (refers to the period April 01 to March 31) and deterioration in its capital structure and debt coverage indicators. The ratings further remain constrained on account of JHL's geographical concentration risk along with its exposure to the risks associated with the cyclical and competitive hospitality industry.

The ratings, however, continue to derive strength from its experienced promoters, established and long track record of operations of its well-located hotel property under the 'Grand Mercure' brand of Accor Group and its tie-ups with reputed corporate clients.

Rating Sensitivities

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

- Sustained growth in its scale of operations with total operating income (TOI) of more than Rs.35 crore along with PBILDT margin of more than 25%
- Improvement in capital structure led by overall gearing ratio to less than 2.00 times along with timely infusion of funds by promoters as and when required
- Reduction in operating cycle below 90 days on a sustained basis

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

- Reduction in occupancy levels over a prolonged period of time, thereby affecting its liquidity & debt coverage indicators
- Decline in TOI by 20% with continuation of operating losses
- Delay in infusion of need based financial support from the promoter group

Outlook: Negative

CARE expects JHL's performance to remain under pressure on account of the Covid-19 pandemic on the operations of the company. The outlook may be revised to 'Stable' in case of sustainable increase in JHL's scale of operations and profitability through improvement in its occupancy and ARR, resulting in higher cash accruals and improvement in liquidity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Reduction in TOI and losses in FY21 due to Covid-19 pandemic:

Performance in FY21 moderated significantly due to prolonged impact of Covid-19 pandemic on the overall hospitality industry. While dip in TOI was lower than envisaged, JHL's losses was higher than envisaged at Rs.10.96 crore due to higher F&B expenses.

As per provisional results for Q1FY22, JHL reported TOI of Rs.3.64 crore and earned PBILDT of Rs.0.08 crore while net loss remained at Rs.2.41 crore.

Deterioration in Capital structure and debt coverage indicators

JHL's overall gearing moderated to 3.08x as on March 31, 2021 (1.80x as on March 31, 2020) on account of erosion of net-worth due to losses and avilment of GECL of Rs.16.76 crore. Further, debt coverage indicators marked by total debt to gross cash accruals (TDGCA) and interest coverage ratio remained weak due to cash losses in FY21.

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

Geographical concentration risk due to single property operations of JHL

JHL is exposed to geographic concentration risk as it operates a single hotel property in Vadodara. There exists stiff competition among premium hotels in Vadodara which all are located in nearby vicinity and focus majorly on catering to corporate clients. Consequently, it is inherently exposed to changes in economic and industrial growth in the region; the same is expected to be further exacerbated by growing shift towards 'work-from-home' as a natural outcome of the pandemic.

Risks associated with the cyclical and competitive hospitality industry

The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, the hotel industry is inherently cyclical in nature with exposure to changes in various factors including tourist arrivals, social and economic changes, disruption due to new technology platforms and changing consumer preferences. Hotels have also stepped up their online promotional efforts, loyalty programs and overall marketing efforts to gain and increase market share, leading to intense competition in the industry. Also, with the outbreak of Covid-19 pandemic, Indian hospitality industry is witnessing a sharp and sudden dip in occupancies and revenue with both business and leisure trips being cancelled/ postponed by domestic and international travellers and future bookings are also getting stalled. Consequently, steps taken by the management to sustain its cash flows shall be a key rating monitorable.

Key Rating Strengths**Experienced promoters along with established and long track record of operations of its well-located hotel property**

Mr. Piyush Shah, Chairman & Managing Director of JHL, is a third-generation entrepreneur and has more than three decades of experience in the hospitality industry. JHL owns a 146 room three-star hotel property 'Surya Palace' at Vadodara, which is operational since 1984. It is operated under the brand name of 'Grand Mercure' under management alliance with Accor group of Hotels (Accor). The hotel is well-located at Sayajigunj near the central business district of Alkapuri in Vadodara and is well connected with major industrial zones and has easy connectivity to the Railway Station, Airport and various city attractions.

Hotel operations managed by Accor Group of Hotels under 'Grand Mercure' and established tie-up with corporate clients

JHL has entered into a 10-year agreement starting from June 2017 with Accor, which is one of the largest hotel operators in Europe managing around 700,000 rooms spread over 4,800 hotels across 100 countries. Accor, with its global brand presence and well-established marketing set up, has helped JHL enhance its corporate clientele as well as in attracting tourists through its marketing channel and its loyalty programs. Furthermore, JHL has an established tie-up with a sizeable number of corporate clients located in and around Vadodara and has hosted several national as well as international events and seminars. Furthermore, JHL is also focused on being a favored location for wedding and corporate events for its banqueting and conference room facilities.

Liquidity: Stretched

JHL has stretched liquidity due to cash losses during FY21. However, JHL has cushion available in the form of unutilized OD limit of Rs.5.40 crore and cash balance of Rs.3.32 crore (incl. lien marked FD of Rs.1.20 crore out of GECL loan of Rs.16.76 crore) as on March 31, 2021. In case of any exigency, the promoters are committed to infuse funds for the operational and financial requirements of the company. During September 2020, JHL issued 6,50,000 share warrant of Rs.10 each at a price of Rs.20 each for cash aggregating to Rs.1.30 crore.

JHL has opted for one-time restructuring plan for its term loan installments from February 28, 2021 onwards wherein principal payment of term loan has been deferred by 24 months (i.e. from February 28, 2021 to January 31, 2023). JHL is supposed to pay only interest component of Rs.0.30 crore per month on its principal outstanding of Rs.41.55 crore during this 2 years' period.

Analytical Approach: Standalone**Applicable Criteria**

[Criteria on assigning Rating Outlook and Credit Watch](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Hotel Industry](#)

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

[Liquidity analysis of Non-financial Sector Entities](#)

About the Company

Incorporated in 1984, Vadodara, Gujarat based Jindal Hotels Limited (JHL) is promoted by Mr. Piyush Shah. JHL has entered into a management agreement with Accor and is operational under the branding of "Grand Mercure Vadodara

Surya Palace". The renovation of the hotel as per the standards in the agreement was completed in July 2017. JHL's property is located at one of the premium locations of Vadodara, i.e. Sayajigunj, close to the central business district. The property has 146 rooms ranging from Deluxe category to Executive suits. The hotel also has other facilities including 6 banquet halls, spa, gymnasium, swimming pool, conference rooms and a multi cuisine restaurant.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	37.81	15.67
PBILDT	10.83	(1.09)
PAT	0.68	(10.96)
Overall gearing (times)	1.80	3.08
Interest coverage (times)	2.30	NM

A: Audited, NM: Not Meaningful

As per provisional results for Q1FY22, JHL reported TOI of Rs.3.64 crore and earned PBILDT of Rs.0.08 crore while net loss remained at Rs.2.41 crore.

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: Please refer Annexure-3

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

Bank lender details: Please refer Annexure-5

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
Term Loan-Long Term	-	-	-	41.55	CARE BB+; Negative
Fund-based - ST-Bank Overdraft	-	-	-	8.00	CARE A4+

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	41.55	CARE BB+; Negative	-	1)CARE BB+; Negative (20-Aug-20) 2)CARE BBB-(CWN) (05-May-20)	1)CARE BBB-; Positive (30-Jul-19)	1)CARE BBB-; Positive (12-Sep-18) 2)CARE BBB-; Positive (06-Sep-18)
2.	Fund-based - ST-Bank Overdraft	ST	8.00	CARE A4+	-	1)CARE A4+ (20-Aug-20) 2)CARE A3 (CWN) (05-May-20)	1)CARE A3 (30-Jul-19)	1)CARE A3 (12-Sep-18) 2)CARE A3 (06-Sep-18)

Annexure 3: Covenants of rated instrument/facility: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Bank Overdraft	Simple
2.	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details

[Click here to view Bank Lender Details](#)

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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