

The Byke Hospitality Limited

December 13, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	37.69	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Total Bank Facilities	37.69 (₹ Thirty-Seven Crore and Sixty-Nine Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to The Byke Hospitality Limited considers sizeable increase in lease repayments from FY22 and expansion plan through internal accruals which is expected to impact the liquidity profile of the company. The rating derives comfort from vast experience of the promoters in the hospitality industry, improving geographic presence of the company, and improvement in operational performance backed by rebound in the tourism in FY22. The rating strengths are however, tempered by moderation in capital structure, elongated working capital cycle albeit improvement in FY22, continuance in PAT losses during FY22. In addition to these, the company is also exposed to industry cyclicity/seasonality, macro-economic cycles, other uncertain activities (such as any natural calamities and disease outbreaks like COVID-19) and operations in highly competitive industry.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations with topline over Rs.110 crore on sustained basis
- Improvement in PBILDT margins to more than 30% on sustained basis
- Improvement in the liquidity profile of the company

Negative Factors

- Weakening of operational and financial performance of the company and/or increase in debt funded capex leading to overall gearing exceeding 0.7x
- Any further increase in capex funded through internal accruals which may led to deterioration in liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and 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.

Good brand presence and enhancing geographic presence

The Byke is focused on the mid-market/budget traveller with most of the properties located in popular leisure/business destinations in tier1/tier 2 or mini metros. The properties are also known for their vegetarian food. Some of the properties have been awarded in various categories like best food, value for money, consistently great customer reviews etc. The Company's food and beverage (F&B) /event-based revenue has been ~50% contributor to the total revenues from hotel business.

TBHL's portfolio primarily consists of properties on long term leases (10 - 20 years). Out of the 17 properties, only 2 are owned. The Company has all 17 properties operational. The leases have an escalation clause every 3 years. In FY20, TBHL has forayed into management contract-based business model with 1 property totalling to 39 rooms in the pilgrimage sites of Junagadh in Gujarat. The Company will operate these properties on behalf of the owner for a fee and a share of total revenue/ profits followed by a focus on better management, marketing, and distribution capabilities across room sales and F&B/event revenues. Earlier TBHL had most properties in Maharashtra and Goa. However, the company has been expanding its presence mostly in Western and Northern parts of India.

In FY22, TBHL has operationalised two new properties namely The Byke Delotel in Borivali, Mumbai with 40 room keys and The Byke Royal Pearl in North Goa with 54 room keys. The company has further plans of adding new hotels in near future.

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

Improvement in operational performance backed by rebound in the tourism in FY22; albeit scale of operations continues to remain moderate

The operating performance of the company increased to Rs.93.29 crore (PY: Rs.65.61 crore) on account of the increased occupancy rate during FY22 coupled with a healthy improvement in average room rate (ARR). During FY22, the company recorded an occupancy level of 40% (PY: 32%) supported by an ARR of Rs.3001 leading to revival in the scale of operations after two muted years. Further, in H1FY23, the occupancy level was 45% with an ARR of Rs.3190 with revenues of Rs 56.46 crore. According to the management, the company is expecting to cross turnover of Rs.100 crore in FY23 considering pent-up demand for leisure and business travel, festivities, and wedding season in H2FY23.

Though there is an improvement in the scale of operations in FY22, the topline continues to remain below Rs.100 crore for the second consecutive year as the company has not rebounded to pre-covid level.

Key Rating Weaknesses**Moderation in capital structure; albeit improvement in working capital cycle for FY22**

Although the company's long term debt continues to remain minimal, the overall gearing deteriorated to 0.62x (PY: 0.48x) on account of a significant increase in lease liabilities. The increase in lease liabilities is on account of commencement of operations in two new properties in FY22. The total debt (including lease liabilities) accounted to Rs.96.67 crore as on March 31, 2022. Further, the collection period improved to 97 days in FY22 (FY21: 142 days) on account of revival in hospitality business industry post COVID-19 pandemic. The debtors are mostly travel agents mid-sized corporates and the typical collection period in this business is 2-3 months. The operating cycle decreased however continues to remain high at 182 days (PY:258 days) due to high receivables and inventory holding period.

Continuance in PAT losses during FY22

The company continues to incur losses in FY22 on account of insufficient revenue to meet the operating expenses and increasing finance costs. However, the loss has reduced to Rs. 12.82 crore in FY22 vis-à-vis Rs.18.16 crore in FY21 on account of improved operating performance. However, the company has been generating cash profits which stood at Rs 14.18 crore during FY22 (PY: Rs 6.55 crore). Going forward, the company is expected to book profits from FY24 considering the revival in demand for hospitality industry.

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 a high level of competition in the business. 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 (MICE). The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

Liquidity: Adequate

The liquidity profile of TBHL as on date is marked adequate with the company having already paid half of its scheduled repayments of Rs.6.66 crore (including lease liabilities) in H1FY23. As on 17-Nov-22, the company has cash and bank balance of Rs.3.5 crore. However, the liquidity is constrained with 100% utilization of its working capital borrowings and funding of expected capex through internal accruals.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Hotel](#)

About the Company

The Byke Hospitality Ltd. (TBHL) was incorporated in 1990 as Kotawala Financial Consultancy Pvt. Ltd. by Mr. Satyanarayan Sharma. Having entered hospitality business in 2004 with acquisition of two properties in Goa; the company operates 17

properties of which 2 are owned, 14 properties are under long term lease contracts (1042 keys) and 1 property under management contract (39 keys) under the Byke brand as of September 30, 2022. 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".

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total operating income	65.61	93.29	56.46
PBILDT	14.22	23.57	18.30
PAT	-18.24	-12.82	-0.80
Overall gearing (times)	0.48	0.62	NA
Interest coverage (times)	1.66	2.30	3.4

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

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	March 2028	17.69	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	1)CARE BBB; Stable (30-Nov-21)	1)CARE BBB; Stable (24-Nov-20)	1)CARE BBB+; Stable (07-Oct-19)
2	Fund-based - LT-Term Loan	LT	17.69	CARE BBB-; Stable	-	1)CARE BBB; Stable (30-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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

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 instruments: 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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