Duet India Hotels (Chennai OMR) Private Limited (Revised)

February 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	49.80 (Reduced from 49.83)	CARE BBB+; Positive	Revised from 'CARE BBB- (Rating watch with developing implications)' and removed from 'Rating watch with developing Implications; Positive outlook assigned'
Short-term bank facilities	1.00	CARE A2	Revised from 'CARE A3 (Rating watch with developing implications)' and removed from 'Rating watch with developing implications'

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has considered a combined view on the ACIC Portfolio, which includes Duet India Hotels (Pune) Pvt Ltd (DIHPPL), Duet India Hotels (Jaipur) Pvt Ltd (DIHJPL), Duet India Hotels (Hyderabad) Pvt Ltd (DIHHPL), Duet India Hotels (Chennai) Pvt Ltd (DIHCPL), Duet India Hotels (Chennai OMR) Pvt Ltd (DIHCOPL) and Duet India Hotels (Ahmedabad) Pvt Ltd (DIHAPL). CARE Ratings has considered a combined approach due to common management team, strong operational linkages and operations under a common brand. Ratings also derive comfort from the parent entity and factoring strong operational, management and financial linages from parent company SAMHI Hotels Limited (SHL).

CARE Ratings Limited (CARE Ratings) has removed 'Rating watch with developing implications' and revised ratings for long-term bank facilities of Duet India Hotels (Chennai OMR) Private Limited (DIHCOPL) to CARE BBB+ and outlook to "Positive". The short-term rating has also been revised to 'CARE A2'

CARE Ratings made the rating revision following successful acquisition of the ACIC Portfolio, after a share swap deal, where SHL (Parent) obtained 962 keys across six operating hotels, including Duet India Hotels (Ahmedabad) Private Limited, Duet India Hotels (Pune) Private Limited, Duet India Hotels (Hyderabad) Private Limited, Duet India Hotels (Jaipur) Private Limited, Duet India Hotels (Chennai OMR) Private Limited and Duet India Hotels (Chennai) Private Limited and a parcel of land in Navi Mumbai, Maharashtra on August 10, 2023. CARE Ratings notes SHL's (now the Parent entity of Duet Hotels) listing on BSE and NSE from September 22, 2023, post a book-built Initial Public Offer (IPO), its subsequently improving financial risk profile bolstered by the IPO-fuelled deleveraging efforts and relatively improving debt coverage metrics.

Revision in ratings considers overall improvement in ACIC Portfolio's combined business risk profile, as reflected in healthy revenue growth and significant operating profitability expansion in FY23 (refers to April 01 to March 31) and 9MFY24 (refers to April 01 to Dec 31). Further, healthy demand and limited supply augured well for profitability. Operating margins stood at 26.09% for FY23. Improvements over past years reflect in significantly increasing operating metrics such as average room rent (ARR) and occupancy rates, which stood at around ₹4,764 and 77% respectively in FY23 and ₹5,212 and 74% respectively in 9MFY24.

CARE Ratings expects ACIC Portfolio's operating performance to improve further post integration with SHL and operating margins to be in line with Samhi group's margins over the medium term. Ratings further draw comfort from tie-ups with the reputed Marriott Group of Hotels for branding, marketing, operating properties, and synergies flowing from converting franchise agreements into management contracts and realigning other corporate expenses with SHL's overall portfolio, post-integration.

The positive outlook is from CARE Ratings' belief that the company will continue to gain advantage from positive trends in the hotel industry and synergies from the ACIC acquisition by SHL. Sustained improvement in PBILDT and strong topline growth is expected to contribute to overall improvement in the portfolio's credit profile. However, the above strengths continue to be offset by ACIC's moderate financial risk profile, competition risk and revenue vulnerabilities from the inherent industry cyclicality and economic cycles.

CARE Ratings also considered the legal notice received from MIDC, for terminating lease for its project land in Navi Mumbai. The notice has been challenged by Duet Navi Mumbai through a writ petition in the jurisdiction of the Hon'ble High Court of Bombay. The company has provided for investment value for it, amounting to ₹75.25 crore in FY24.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Integrating ACIC portfolio with SHL and PBILDT margin improving sustainably over 30%.
- Improving credit profile of the parent, SHL.

Negative factors

- Weakening of financial or operational metrics, leading to negative cash accruals.
- Credit profile of the parent declining.

Analytical approach: Combined

CARE Ratings has considered a combined view on the ACIC Portfolio, which includes Duet India Hotels (Pune) Pvt Ltd, Duet India Hotels (Jaipur) Pvt Ltd, Duet India Hotels (Hyderabad) Pvt Ltd, Duet India Hotels (Chennai) Pvt Ltd, Duet India Hotels (Chennai OMR) Pvt Ltd, and Duet India Hotels (Ahmedabad) Pvt Ltd. CARE Ratings has considered a combined approach due to common management team, strong operational linkages and operating under a common brand. Ratings also derive comfort from the parent entity and factoring strong operational, management and financial linages from parent company SHL.

Outlook: Positive

A positive outlook considers that ACIC's credit profile will continue benefitting from integration with SHL, upcycling the hotel industry, planning renovations and rebranding existing hotels. Further, sustained improvement in PBILDT fuelled by strong topline growth and converting franchise agreements into management contracts is expected to bolster the company's liquidity and supporting overall credit profile of the group. However, the outlook may be revised to 'stable' if the expected profitability improvement is not achieved as envisaged over the medium term.

Detailed description of the key rating drivers

Key strengths

Acquisition by SHL, strategic importance and strong operational linkages with the parent:

The ACIC portfolio was promoted by erstwhile promoter Asiya Capital, which was incorporated in 2005 through an Amiri Decree in the Kuwait and is listed on the Kuwait Stock Exchange. SHL acquired the ACIC portfolio on August 10, 2023, through a share swap deal and alongside six operating hotels (adding 962 keys) under Marriott-owned brands, specifically Fairfield by Marriott and Four Points by Sheraton across Hyderabad, Pune, Chennai, Jaipur and Ahmedabad and a land parcel in Navi Mumbai. The erstwhile promoter Asiya Capital is now the largest shareholder in SHL, holding 17.18% as on December 31, 2023. All six entities under ACIC portfolio are now wholly owned subsidiaries of SHL. SHL has a team of people with extensive experience in the hotel and real estate industry, considering their association with internationally renowned companies.

The ACIC Portfolio was strategically acquired by SHL, adding 962 keys to its portfolio. DIHHL is the largest hotel under ACIC portfolio in terms of keys contributed at 232 keys followed by 217 keys in DIHPL, 147 keys in DIHAL, 114 keys in DIHJL and 136 and 116 keys in DIHCL and DIHCOL. In terms of keys, ACIC holds 20% of the total keys of Samhi group. In 9MHY24, the combined revenue from ACIC portfolio contributes 22.23% to SHL's topline and their combined PBILDT contributes 17% to the SHL PBILDT. Transitioning the entire ACIC portfolio's franchise agreements to Samhi's shared service arrangement will be significant growth drivers to SHL's consolidated business profile. CARE Ratings believes ACIC portfolio would remain strategically and operationally integral to SHL's growth plans in the future.

Improving revenue and profitability in FY23 and 9MFY24 following strong operational performance:

SHL, the parent company, reported substantial growth of more than 1.29x in total operating income (TOI) to ₹745.51 crore in FY23 over FY22. This is derived from increased occupancy level from 46% in FY22 to 72% in FY23 on the total room inventory of 3,839 rooms, (before ACIC acquired hotel rooms), approximately 61% increase in average room rate to ₹5,133 in FY23 (PY: ₹3,188). In 9MFY24, SHL acquired the ACIC portfolio through a share swap deal at ₹238.15 per equity share and on August 10, 2023, obtained six operating hotels (adding 962 keys) under Marriott-owned brands, specifically Fairfield by Marriott and Four Points by Sheraton across major cities including Hyderabad, Pune, Chennai, Jaipur and Ahmedabad. The total operating rooms increased from 3839 in FY23 to 4,801, spread across three segments – upper upscale (1,074), upper midscale (2,163) inclusive of ACIC portfolio and midscale (1,564). While acquisition synergies will be appropriately reflective from Q1FY25 onwards, the TOI in 9MFY24 stood at ₹688.84 crore of which ~22.23% was contributed by the ACIC portfolio at an asset level PBILDT margin of 32%.

On standalone basis, ACIC's operational performance combined portfolio improved significantly in FY23 considering improved average occupancy levels and average room rates (ARR) from continued recovery in travel and tourism activity post COVIDimpacted years. The TOI witnessed a strong growth of 100.67% in FY23 from ₹91.48 crore in FY22 to ₹183.57 crore in FY23. In 9MFY24, the company booked TOI of ₹153.12 crore. PBILDT margins improved from 8.26% in FY22 to 26.09% in FY23 and further asset-level EBIDTA for 9MFY24 stood at 32%. Growing operational performance is fuelled by improving ARR, which stands at ₹4,674 in FY23 with occupancy level of 77% from ₹2,934 in FY22 with occupancy level of 57%. ARR further improved to ₹5,212 for 9MFY24 with occupancy level at 74%. This led to increase in RevPar to ₹3,599 in FY23 from ₹1,672 in FY22. Performance is likely to improve further from integration with SHL, creating synergy benefits and impact of repricing and renovation across the ACIC portfolio.

Going forward, increasing in-person engagements by corporates, returning big-ticket conferences and seminars, and corporate offsite trips that encompass MICE activities, are expected to benefit the company's overall performance. With reopening international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. Sustainable operating performance will continue to remain a key monitorable.

Key weaknesses

Regional movements and competition risk

Although the risk is largely mitigated from geographical diversification, hotel-operators, hotel-segments and favourable micro locations of the group's assets, the pace of recovery in economic cycle and stabilising hotel properties in competitive markets will be critical for the company's financial risk profile.

Revenue vulnerability 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 such as geopolitical crisis, terrorist attacks, and disease outbreaks, among others. Revenue risks are partially mitigated by geographically diversified portfolio in prominent business districts, allowing it to withstand demand vulnerability related to a particular micro-market.

Liquidity: Adequate

ACIC Portfolio's liquidity is supported by modest cash and bank balance amounting to ₹58.02 crore as on December 31, 2023, and a negative working cycle. Against this, repayments worth ₹2.00 crore and ₹18.80 crore are due in FY25 and FY26 respectively. Going forward, liquidity will also be supported from the holding company-SHL. SHL's liquidity is adequate and is supported by modest cash and bank balance amounting to ₹280 crore as on December 31, 2023, and a negative working cycle. The company has DSRA balance of ₹54.7 crore (out of ₹280 crore) as on December 31, 2023, and negligible repayments for Q4FY24. Gross cash accruals (GCA) of SHL was –'ve in FY23, however, it turned positive in Q3FY24 and it expected to increase for the next two years against which the scheduled debt repayments for FY25 is around ~Rs. 90 crore which post the refinancing under arrangement shall reduce and improve the coverage indicators and hence they remain monitorable.

CARE Ratings envisaged no incremental debt for planned capex, which is underway. The outstanding overdraft facility as on December 31, 2023, stood at ₹0.12 crore of the total sanctioned amount of ₹10.00 crore. ACIC portfolio (combined) has Emergency Credit Line Guarantee Scheme (ECLGS) outstanding amount of ₹14.57 crore as on December 31, 2023, of total sanction of ₹64.4 crore.

CARE Ratings has noted that, at present, the cash flow from the Duet Portfolio is not accessible to Samhi Hotels. However, the company is actively pursuing arrangements to establish cash flow fungibility. As of December 31, 2023, the Duet Portfolio has contributed ₹58.02 crore to the company's overall cash and bank balance and to that extent the credit profile of SHL remains unaffected.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hotel

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Leisure services	Hotels and resorts

ACIC portfolio was promoted by erstwhile promoter Asiya Capital, incorporated in 2005 under an Amiri Decree in Kuwait and is listed on the Kuwait Stock Exchange. It is an India-specific vertical to develop hotels. SHL acquired the ACIC portfolio on August 10, 2023, through a share swap deal and acquired six operating hotels (adding 962 keys) under Marriott-owned brands, specifically Fairfield by Marriott and Four Points by Sheraton. The entities acquired include Duet India Hotels (Pune), Duet India Hotels (Jaipur), Duet India Hotels (Hyderabad), Duet India Hotels (Chennai), Duet India Hotels (Chennai OMR), and Duet India Hotels (Ahmedabad), and a land parcel in Navi Mumbai. Asiya Capital is now the largest shareholder in SHL (Holding 17.18% as on December 31, 2023), and all six entities are now wholly owned subsidiaries of SHL from August 10, 2023.

Brief Financials (₹ crore) (Combined)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	91.48	183.57	153.12
PBILDT	7.56	47.89	49.16
PAT	-43.74	-34.24	NA
Overall gearing (times)	0.99	1.10	NA
Interest coverage (times)	0.25	1.10	NA

A: Audited; UA: Unaudited; NA: Not applicable. Note: The above results are the latest financial results available.

About the parent (SHL)

Incorporated on December 28, 2010, SHL is a hotel investment and development company. SHL was founded by Ashish Jakhanwala and Manav Thadani, with focus on owning internationally branded hotels in the business segment, across key cities in India. The company acquired 962 keys across six operating hotels and a land parcel for developing a hotel in Navi Mumbai, Maharashtra, on August 10, 2023, in a share swap deal from Asiya Capital, for which SHL gave about 30% of its equity. The company expanded its portfolio to 4,801 keys as on December 31, 2023, across 31 operating hotels. SHL came up with a book-built IPO of listing dated September 22, 2023, on the BSE and NSE.

Brief Financials (₹ crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	325.62	745.41	688.84
PBILDT	10.79	244.62	181.08
PAT	-443.25	-338.59	-177.89
Overall gearing (times)	-5.66	-3.95	4.20
Interest coverage (times)	0.03	0.47	0.63

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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-Term loan		-	-	September 2030	49.80	CARE BBB+; Positive
Fund-based - ST-Bank overdraft		-	-	-	1.00	CARE A2

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 2023-2024	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
1	Fund-based - LT-Term loan	LT	49.80	CARE BBB+; Positive	1)CARE BBB- (RWD) (30-Aug-23) 2)CARE BBB- (RWD) (17-Apr-23)	1)CARE BBB-; Stable (20-Sep-22)	1)CARE BBB-; Negative (07-Feb-22)	1)CARE BBB-; Negative (05-Feb-21)
2	Fund-based - ST-Bank overdraft	ST	1.00	CARE A2	1)CARE A3 (RWD) (30-Aug-23) 2)CARE A3 (RWD) (17-Apr-23)	-	-	-

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level

1	Fund-based - LT-Term loan	Simple
2	Fund-based - ST-Bank overdraft	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Not applicable

Note on the 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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About us:

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