

Gujarat JHM Hotels Limited

November 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	103.72	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Negative (Triple B; Outlook: Negative)
Long Term / Short Term Bank Facilities	1.80	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	Revised from CARE BBB; Negative / CARE A3 (Triple B; Outlook: Negative / A Three)
Short Term Bank Facilities	0.25	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Bank Facilities	105.77 (₹ One Hundred Five Crore and Seventy-Seven Lakh Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Gujarat JHM Hotels Ltd. (GJHL) factors significant growth in its TOI marked by improvement in RevPAR (Revenue Per Available Room) during FY22 (refers to the period April 01 to March 31) and H1FY23 of both five-star hotel properties in Surat and improvement in its profitability leading to better coverage ratios. The revision also factors CARE's expectation of a stronger H2FY23 driven by corporate activities, domestic tourism, and inbound international travel.

The ratings continue to derive strength from long standing experience of its parent in the hospitality industry, operational synergies on account of common brand name 'Marriott' and competitive advantage from its established presence and low competition in Surat.

The above rating strengths, however, continue to remain constrained by GJHL's moderate capital structure and its presence in a cyclical hospitality industry.

Rating sensitivities

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

- Sustained growth in its scale of operations along with geographical diversification and improvement in its Revenue per available room (RevPAR)
- Improvement in its PBILDT margins to more than 40% on a sustained basis.
- Improvement in its capital structure with overall gearing of less than 1.0 times.

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

- TOI reducing below Rs.70 crore on a sustained basis
- Decline in its RevPAR resulting in its PBILDT margin going below 25% on a sustained basis leading to adverse impact on its debt coverage indicators.
- Any debt funded capex resulting into overall gearing above 1.75x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Healthy recovery in RevPAR levels crossing pre-covid levels in H1FY23:

GJHL reported healthy growth in its operating performance after the second wave of COVID-19 and peaked in December 2021. During FY22, RevPAR of Surat Marriott Hotel (SMH) and Courtyard by Marriott (CBM) increased to Rs.3,368 (FY21:1,907) and Rs.2,853 respectively (PY: Rs. 2356). Consequently, GJHL's TOI grew by 62.6% y-o-y to Rs. 91.68 crore (PY: Rs.56.37 crore). The operating performance further improved in H1FY23 marked by RevPAR at SMH and SBM of Rs.4,686 and Rs.3,815 respectively. During H1FY23, occupancy rates at both hotels crossed pre-covid levels to more than 70% at both properties, as compared to around 60-65% in FY20. With the sector entering its seasonally stronger second half, CARE expects the demand to hold aided by strong demand from the wedding segment and visible traction in corporate as well as a surge in Meetings, Incentives, Conferences and Exhibitions (MICE) and direct segments.

As per provisional results for H1FY23, GJHL reported TOI of Rs.58.09 crore, as compared to Rs.38.05 crore in H1FY22.

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

Improvement in profitability and coverage indicators

With increase in TOI and stable PBILDT margin of 34.14% (PY: 34.04%) in FY22, GJHL reported PAT margin of 2.31%, as compared to losses in previous financial years. Apart from hotel operations, GJHL has started receiving rental income of Rs.4 crore from Auro University from FY22 onwards. With stable interest cost, interest coverage ratio and total debt to Gross Cash Accruals has improved to 3.01 times (PY: 1.90 times) and 4.56 times (PY:10.77 times) respectively.

Long standing experience of the promoters

GJHL is a part of JHM Hotels group, USA, which operates a multi-brand hotel chain spread over 43 hotels with over 7,200 rooms across the USA and also in India. The group is associated with multiple brands such as Marriott, Starwood, Hilton, and Hyatt in the US hospitality sector. The group owns and manages assets of approximately USD 1 billion internationally. JHM Hotels LLC, the holding company of GJHL, looks after the Indian operations of the group.

Established operations of the company with operational synergies arising from common management

GJHL has an operational track record of over three decades and has established a strong foothold in Surat's premium hotel market with two properties i.e. SMH and CBM having a room inventory of over 350 keys. While SMH caters to tourists and leisure travellers and is strategically located close to Central Business District (CBD) in proximity to some of the major textile and diamond business establishments of Surat. CBM is located near Hazira port, an evolving industrial zone, making it attractive to business travellers arriving at Surat. Moreover, GJHL has appointed Noma Hotels Private Limited (NHPL; one of the JHM group companies) to manage both of its properties, which yields operational synergies on account of common brand name "Marriott".

Key rating weaknesses

Moderate capital structure

GJHL had high total debt of Rs.119.40 crore, due to debt-funded capex in the past and additional debt availed under ECLGS scheme, resulting in high scheduled debt repayment obligations and moderate financial risk profile. Moreover, cumulative losses of around Rs.22 crore in FY20-FY21 has also impacted the company's tangible net worth. Consequently, GJHL's overall gearing remained moderate at 1.49x as on March 31, 2022 (PY: 1.41x).

Macro-economic factors and seasonal uncertainty

The company is exposed to the changes in the macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors which leads to inherent cyclicity in the hospitality industry.

These risks can impact the occupancy rate of the company and thereby the company's profitability. Further, industry is highly competitive in nature with presence of large number of organized and unorganized players in the market along with online aggregators. These risks have been partially mitigated by the company with rebranding of its hotel to 'Courtyard Marriott' which has a strong brand image.

Liquidity: Adequate

GJHL's liquidity remains adequate on account of a negative operating cycle, negligible utilisation of its fund-based working capital limits, averaging at 0.4% for the trailing 12 months ended September 2022. GJHL has also sanctioned overdraft limit of Rs.8.00 crore backed by the fixed deposit of the promoters which remained unutilized by GJHL.

Apart from above, GJHL had liquid investments in form of bonds (TATA Motors Ltd & Uttar Pradesh Power Corporation Limited) of Rs. 13.87 and cash and bank balance of Rs. 0.02 crore as on October 30, 2022. GJHL's cash flow from operations remained healthy at Rs.29.76 crore in FY22 (PY: Rs. 20.42 crore). GJHL has also maintained DSRA of Rs. 4.78 crores in FY22. Further, its cash accruals are expected to be sufficient (in range of Rs. 30-40 crore) vis-à-vis its term loan repayment obligations (Rs. 20-25 crore) in next 3 years. CARE expects overall liquidity to improve with healthy growth in occupancy levels at both properties and absence of any major capex/ renovations in the near-to medium-term.

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](#)

[Short Term Instruments](#)

[Hotel](#)

[Policy on Withdrawal of Ratings](#)

About the company

Promoted by Rama family of JHM Hotels group of USA in 1985, Gujarat JHM Hotels Ltd (GJHL) owns and operates two five star hotel properties, 'Surat Marriot Hotel' (earlier 'Gateway Hotel') comprising 209 rooms, two restaurants and five banquets, at Surat, Gujarat and 'Courtyard by Marriott' comprising of 133 rooms, a banquet hall and three restaurants at Hazira, near Surat, Gujarat. JHM Hotels group has a considerable presence in the hospitality sector and operates a multi-brand hotel chain at key destinations in USA since 1973. GJHL through its wholly owned subsidiary viz. Auro University also owns the infrastructure facilities developed for an educational institute at Hazira, Surat. Also, GJHL has wind power generation capacity of 8.80 MW.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (UA)
Total operating income	56.37	91.68	58.09
PBILDT	19.18	31.30	22.05
PAT	-12.99	2.12	NA
Overall gearing (times)	1.41	1.49	NA
Interest coverage (times)	1.90	3.01	4.28

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: 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		-	-	-	2.00	CARE BBB+; Stable
Non-fund-based - LT/ST-Derivative Limits		-	-	-	1.80	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Forward Contract		-	-	-	0.25	CARE A3+
Term Loan-Long Term		-	-	September 2027	101.72	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	Term Loan-Long Term	LT	101.72	CARE BBB+; Stable	-	1)CARE BBB; Negative (04-Mar-22) 2)CARE BBB; Negative (26-May-21)	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	-
2	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB+;	-	1)CARE BBB;	1)CARE BBB+;	-

				Stable		Negative (04-Mar-22) 2)CARE BBB; Negative (26-May-21)	Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	
3	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	1.80	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB; Negative / CARE A3 (04-Mar-22) 2)CARE BBB; Negative / CARE A3 (26-May-21)	1)CARE BBB+; Negative / CARE A3+ (31-Mar-21) 2)CARE BBB+ / CARE A3+ (CWN) (01-Apr-20)	-
4	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A3+	-	1)CARE A3 (04-Mar-22) 2)CARE A3 (26-May-21)	1)CARE A3+ (31-Mar-21) 2)CARE A3+ (CWN) (01-Apr-20)	-

*Long term/Short term.

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

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	Non-fund-based - LT/ ST-Derivative Limits	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Term Loan-Long Term	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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