

Gujarat JHM Hotels Limited

May 26, 2021

Ratings

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

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Gujarat JHM Hotels Ltd. (GJHM) factors in adverse impact of second wave of Covid pandemic leading to significant decline in occupancy level at its both hotel properties from April 2021 onwards which could result in lower than its earlier estimated cash accruals during FY22 (FY refers to the period April 1 to March 31) on the back of sizeable term debt repayments falling due during the year.

The ratings assigned to the bank facilities of GJHM continue to derive strength from long standing experience of its parent in the hospitality industry, its established operations with two operational five-star hotel properties in Surat, healthy operating profitability in 9MFY21 and adequate liquidity on the back of significant cost rationalization measures undertaken by it amidst Covid-19 pandemic.

The ratings are, however, constrained by the moderation in its debt coverage indicators due to recent debt availed for the complete refurbishment of its Surat hotel property which has, however, coincided with the outbreak of Covid-19 pandemic leading to adverse impact on its RevPAR. The ratings are further constrained by the issuance of corporate guarantee by GJHM for the loan availed by its subsidiary viz. Auro University (AU; engaged in education sector) for its planned expansion; and its presence in a cyclical and competitive hospitality industry adversely impacted due to Covid-19 pandemic. CARE also notes that GJHM availed moratorium on its debt servicing obligations from March 1, 2020 to August 31, 2020, as a Covid-19 relief measure, in line with Reserve Bank of India (RBI) guidelines.

Rating Sensitivities

Positive factors

- Sustained growth in its scale of operations with TOI of more than Rs.90 crore along with improvement in its RevPAR
- Improvement in its PBILDT margin to more than 30% on a sustained basis
- Improvement in its capital structure with overall gearing of less than 0.80 times

Negative factors

- TOI remaining below Rs.70 crore on a sustained basis
- Decline in its RevPAR resulting in its PBILDT margin going below 22% on a sustained basis leading to adverse impact on its debt coverage indicators
- Moderation in the capital structure on a sustained basis

Outlook: Negative

The 'Negative' outlook on the long-term rating of GJHM is due to expectation of lower level of RevPAR than the pre-Covid periods in the medium term amidst continuance of Covid-19 pandemic for a longer duration and its consequent adverse impact on the hospitality sector. The outlook may be revised to 'Stable' if GJHM is able to significantly improve its RevPAR and generate adequate cash accruals to comfortably meet its debt servicing obligations going forward.

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

Detailed description of the key rating drivers

Key Rating Strengths

Long standing experience of the promoters

GJHM is a part of JHM Hotels group, USA, which operates a multi-brand hotel chain comprising 43 hotels with over 7,200 rooms across the USA and India. The group is associated with multiple brands such as Marriott, Starwood, Hilton and Hyatt in the US hospitality sector. The chairman of GJHM, Mr. Hasmukh Rama, has over four decades of experience in the hospitality sector and was the founding promoter of the JHM Hotels group, USA.

Established operations of the company with two operational five star hotel properties in Surat

GJHM has an established track record in the hospitality sector. GJHM has two operational hotels in Surat with both being located in close proximity to prime residential and commercial areas of Surat and caters to both business and leisure travelers. The hotel operations and marketing functions of one hotel were managed by The Indian Hotels Co. Ltd. (IHCL) till September 2019; however, since October 2019, GJHM has rebranded the hotel to 'Surat Marriot Hotel'. GJHM's second five-star hotel viz. 'Courtyard by Marriott' at Hazira (Surat) commenced commercial operations from November 2017. Operationalization of this hotel has diversified GJHM's revenue stream, which was concentrated to a single hotel property in the past; albeit geographical concentration risk persists as both properties are in the same city. Both the properties are being managed by GJHM itself. GJHM also has presence in the renewable power sector and has wind mill power generation capacity of 8.80 MW, which contributed Rs.2.89 crore to its TOI during FY20 (FY19: Rs.4.61 crore).

Completion of rebranding of the existing hotel property from 'Gateway' to 'Marriot'

GJHM had undertaken an exercise to rebrand its existing hotel property in Surat from 'Gateway' to 'Marriot' brand. Earlier the project scope included renovating ~100 rooms at a total cost of ~Rs.51 crore which was revised to renovating the entire 209 rooms wherein it incurred cost of around Rs.82 crore. GJHM completed the rebranding of entire hotel property and commenced operations under the new brand from October 2019. The rebranding is envisaged to yield operational synergies since both the properties will be operated and managed by GJHM under the common brand 'Marriot'.

Healthy operating profitability in 9MFY21 on the back of significant cost rationalization measures undertaken amidst Covid-19

The total operating income (TOI) of GJHM had improved from Rs.76.26 crore in FY19 to Rs.82.50 crore in FY20 on account of increase in revenue from its Surat property post completion of the rebranding exercise and availability of entire room inventory for operations from October 2019 onwards along with sustained improvement in the revenue from its newly started hotel property at Hazira. The operating profitability during FY20 remained healthy marked by PBILDT margin of 27.39% (FY19: 28.57%). However, GJHM's Gross Cash Accruals (GCA) declined from Rs.16.42 crore in FY19 to Rs.11.81 crore in FY20 due to higher interest & finance charges on account of avilment of term loan and one-time bank charges. However, amidst Covid-19 pandemic induced lockdown and subsequent travel restrictions, GJHM's TOI declined to Rs.37.28 crore during 9MFY21. But, unlike many other hotel properties, GJHM could continue its operations with good room occupancy even during H1FY21 due to good business from the official stay of employees of few reputed companies; albeit at a lower ARR. Although, RevPAR for the Surat & Hazira properties declined from Rs.3,689 & Rs.3,238 in FY20 to Rs.2,022 & Rs.2,334 during 11MFY21 respectively; GJHM's Gross Cash Accruals (GCA) remained healthy at Rs.8.70 crore which was aided by significant cost rationalization measures undertaken by it. However, recovery in RevPAR of both the hotel properties amidst second wave of Covid would be crucial for the sustained profitability of the company and would be a key credit monitorable.

Liquidity: Adequate

GJHM's liquidity remains adequate on account of a negative operating cycle, which also results in low utilization level of its fund-based working capital limit, averaging at ~33% for the trailing 12 months ended April 2021. GJHM also has an overdraft limit of Rs.8.40 crore backed by fixed deposit of its promoters. GJHM's cash flow from operations remained healthy at Rs.21.51 crore in FY20. GJHM had availed moratorium on its debt servicing obligations from March 1, 2020 to August 31, 2020, as a Covid-19 relief measure, in line with Reserve Bank of India (RBI) guidelines to shore up its liquidity amidst the disruption caused by the outbreak of the pandemic.

Key Rating Weaknesses

Higher debt level on the back of recent completion of entire refurbishment of its Surat hotel property and moderation in its debt coverage indicators

For the refurbishment of its Surat hotel property, the earlier project scope had included renovating ~100 rooms with a total cost of ~Rs.51 crore, to be majorly funded by term loan of Rs.40 crore which was later on revised to renovating the entire 209 rooms wherein company incurred cost of around Rs.82 crore funded by term loan of Rs.54 crore, unsecured loans from

promoters of Rs.14 crore and balance from internal accruals. Accordingly, with higher debt level, its overall gearing moderated to 1.18 times as on March 31, 2020 vis-à-vis 0.95 times as on March 31, 2019. Also, its debt coverage indicators moderated marked by Total Debt / GCA of 9.03 years during FY20 vis-à-vis 5.81 years in FY19. Further, on the back of Covid-19 pandemic, its cash flow from operations is expected to remain on the lower side which is expected to result in further moderation against its earlier envisaged debt coverage indicators.

Corporate guarantee for the loan availed by AU

AU, an operational education institute, has an ongoing project wherein capex of Rs.67.50 crore was envisaged to be incurred during FY21-FY23 funded through undisbursed term loan of Rs.52.50 crore (sanctioned amount of Rs.60 crore) and balance from promoter funds & its internal accruals. AU's premises are situated on the land owned by GJHM and accordingly, GJHM has agreed to provide its corporate guarantee in favour of the lender of AU for its term loan of Rs.60 crore. Accordingly, adjusted overall gearing (including the guaranteed debt) of GJHM is likely to deteriorate further. However, AU is an operational educational institute with steady revenue stream and largely no debt until now; accordingly, there is moderate likelihood of actual support required from GJHM for AU's debt servicing under the corporate guarantee obligation.

High level of competition and cyclical nature of hospitality industry adversely impacted by the second wave of Covid pandemic

The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, cyclical nature of the hotel industry and increasing competition from already established hotels has impacted operating performance of the industry players. GJHM's strategic location and strong brand partially insulate it from the effects of macro factors; however, it remains vulnerable to the cyclical nature of the hospitality industry. With the outbreak of corona virus and subsequent lockdown, Indian hospitality industry has witnessed decline in occupancies and room rates on account of business as well as leisure trips being cancelled or postponed by domestic and international travellers. Consequently, overall occupancy rate of hotel industry (OR) fell sharply from 70.5% in January 2020 to as low as 11.7% in April 2020. The occupancy rate although improved on a monthly basis, could reach to a level up to ~50% by Feb. 2021 along-with gradual improvement in RevPAR. Second wave of Covid pandemic and region-wise restrictions imposed from the later part of March 2021 is expected to de-rail the recovery drastically with H1FY22 again expected to remain muted. FTAs (foreign tourist arrivals) will continue to be restricted. For the occupancy across hotels to reach pre-covid levels, it depends how quickly the virus is contained within India and globally and accordingly when the travel restrictions will be eased globally for foreign travel. Meanwhile, domestic tourism is expected to aid the revival of hotel industry from Q3FY22. Domestic business travellers, which forms the major portion of GJHM's customer mix along with quarantine business, supported the occupancy of GJHM in FY21 (Surat hotel: 53% & Hazira hotel: 75%) although room rates have remained significantly below pre-covid level. However, with the second wave of Covid pandemic, occupancy at both hotels of GJHM has declined to ~30% in April 2021 and less than 20% in first fortnight of May 2021 which is expected to improve only gradually.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy on Default Recognition

CARE's Methodology for Hotel Industry

Financial ratios - Non Financial Sector

Rating Methodology - Factoring Linkages in Ratings

Criteria for Short Term Instruments

Liquidity Analysis of Non-Financial Sector Entities

About the company

Promoted by Rama family of JHM Hotels group of USA in 1985, Gujarat JHM Hotels Ltd (GJHM) owns and operates two five-star hotel properties, '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. GJHM through its wholly owned subsidiary viz. Auro University also owns the infrastructure facilities developed for an educational institute at Hazira, Surat. Also, GJHM has wind power generation capacity of 8.80 MW.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	76.26	82.50
PBILDT	21.79	22.60
PAT	2.86	(9.69)
Overall Gearing (times)	0.95	1.18
Interest Coverage (times)	4.03	2.09

A: Audited

As per the provisional results for 9MFY21 (refers to the period from April to December), GJHM reported TOI of Rs.37.28 crore with net loss of Rs.5.80 crore. Further, on the back of second wave of Covid, GJHM has reported TOI of RS.5.91 crore from April 01, 2021 to May 16, 2021.

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: Not Applicable

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of 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	-	-	July 2027	101.72	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	2.00	CARE BBB; Negative
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	1.80	CARE BBB; Negative / CARE A3
Non-fund-based - ST-Forward Contract	-	-	-	0.25	CARE A3

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	101.72	CARE BBB; Negative	-	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	-	1)CARE BBB+; Stable (26-Feb-19) 2)CARE BBB+; Stable (18-Dec-18)
2.	Fund-based - LT-Cash Credit	LT	2.00	CARE BBB; Negative	-	1)CARE BBB+; Negative (31-Mar-21) 2)CARE BBB+ (CWN) (01-Apr-20)	-	1)CARE BBB+; Stable (26-Feb-19) 2)CARE BBB+; Stable (18-Dec-18)
3.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	1.80	CARE BBB; Negative / CARE A3	-	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+ (31-Mar-21) 2)CARE A3+ (CWN) (01-Apr-20)	-	-

Annexure-3: Complexity Level of various facilities rated for this company

Sr. No.	Name of the 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

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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