The Byke Hospitality Limited

November 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	17.69	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Long Term Bank Facilities	20.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**37.69 (Rs. Thirty-Seven Crore and Sixty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The long term ratings assigned to the bank facilities of The Byke Hospitality Limited derives comfort from the vast experience of the promoters in the hospitality industry, asset light business model, comfortable capital structure and the improving geographic presence of the company. The ratings also favorably take into account the company's exit from the loss making room chartering business. The rating strengths continue to be tempered by decline in operational performance of the room revenue and F&B business in FY21 on account of Covid outbreak, moderate liquidity and high susceptibility to economic cycles and operations in highly competitive industry.

Rating Sensitivities

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

- Sustained improvement in scale of operations with topline over Rs. 180 crores
- Improvement in PBILDT margins to more than 30%

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

- Weakening of operational and financial performance of the company and/or increase in debt funded capex leading to overall gearing exceeding 0.5x
- Any further deterioration in liquidity profile

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & 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 asset light revenue model

The Byke is focused on the mid-market/budget traveller with most of the properties located in popular leisure/business destinations in 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 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 (10-15 year +). Out of the 17 properties, only 2 are owned, 14 are on long term lease basis and 1 is on management contract. The Company has 17 operational properties as at September 30, 2021.The leases have an escalation clause every 3 years. TBHL has recently 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 this property on behalf of the owner for a fee and a share of total revenue/ profits. The company has further plans of adding new hotels in next 3-4 quarters. The company manages the refurbishment and rebranding for the lease properties which amounts to ~ Rs. 10-12 lakhs per room.

Improving geographic presence in Hotel business

Earlier TBHL had most properties in Maharashtra and Goa. However, the Company has been expanding its presence and has around 17 owned/leased hotels in ~14 locations mostly in Western and Northern parts of India. While successful commercialization of the new properties in different locations over the next few years envisaged by the company is crucial from the credit perspective, the company has showcased consistent performance over the past years inspite of the expansion undertaken in different geographies. At the same time the company's properties are registered on various online

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

portals like Make My Trip, Expedia etc. Stabilization of operations in the new properties and improving occupancy and average room rates in the midst of expansion would be rating monitorable.

Healthy capital structure albeit elongated working capital cycle

The company has consistently maintained healthy capital structure with minimal LT bank debt on its balance sheet. Overall gearing (incl. lease liabilities) stood at 0.48x as on March 31, 2021 (as against 0.31x as on March 31, 2020) with total debt (incl lease liabilities) of Rs. 80.38 crore. The Company has no material repayment obligations in FY 22 (Rs 0.22 crore). The collection period has elongated at average of 142 days in FY21 from 82 days in FY20. The debtors are mostly travel agents mid-sized corporates and the typical collection period in this business is 2-3 months. Operating cycle of the company has increased from 155 days in FY20 to 258 days in FY21 on account of stretched receivables and inventory due to lower turnover reported in FY21.

Key Rating Weaknesses

Weakening of Operational and Financial Performance

The operating performance of the company declined in FY21 due to nationwide lockdown announced on account of Covid-19 outbreak. Post easing of lockdown in phased manner company was able to generate better sales in second half of FY21. Covid outbreak resulted into significant deterioration in the Operating and financial performance of the companies in Hospitality sector. During FY 21, TBHL reported an average occupancy rate at 32% (57% in FY20), average room rate at Rs. 2850 (Rs. 3089 in FY20). Food and beverages continue to contribute over 50% of the total hotel income. The TOI of the company declined 46.02% in FY21 as compared to FY20. The Decline in TOI along with similar fixed expenses resulted into decline in PBILDT margin from 30.30% in FY20 to 22.73% in FY21. However, the PBILDT margins remain healthy. The decline in margins along with declined TOI resulted into loss of Rs. 18.24 crores in FY21. However, the company reported cash profit of Rs. 6.55 crores in FY21 despite PAT loss on account of higher depreciation of Rs. 26.47 crores.

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 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. The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

Liquidity: Adequate

The Liquidity is marked by Adequate GCA of Rs. 22-23 crores in FY22 against which the company has modest debt repayment of Rs. 6.18 crores (including lease liabilities). With the overall gearing of 0.48x as on March 31, 2021, company has sufficient headroom to raise additional debt if required to manage the working capital. The company has free cash and bank balances of Rs. 5.98 crores as on September 30, 2021. The working capital limits are almost fully utilized.

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 into 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, 2021. 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". Additionally, the company was also engaged in the room chartering business wherein it did bulk-booking of room inventory in advance from third parties during offseason and sublet them to tourists during season period via strong agent network. However, the business turned unviable due to intense competition from online agents/apps and the Company has exited the business from FY 20 onwards.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	123.19	66.50	29.10
PBILDT	37.33	15.11	6.25
PAT	4.15	-18.24	-12.23
Overall gearing (times)	0.31	0.48	NA
Interest coverage (times)	5.47	1.77	1.34

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA:

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	-	17.69	CARE BBB; Stable

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	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Nov-20)	1)CARE BBB+; Stable (07-Oct-19)	1)CARE BBB+; Negative (19-Feb-19) 2)CARE A-; Stable (27-Sep-18)
2	Fund-based - LT-Term Loan	LT	17.69	CARE BBB; Stable				

** Long Term / Short Term*

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Maintenance of Total Debt/ TNW (Total Networth)	To be less than or equal to 0.2x
Ii Maintenance of EBITDA	To be maintained atleast greater than 20%
Iii Maintenance of Current Ratio	To be maintained at greater than 1.5
Iiii Maintenance of TOL/TNW	To be maintained at less than 0.3x

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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