

Jindal Hotels Limited

July 30, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	43.55 (reduced from 44.77)	CARE BBB-; Positive (Triple B Minus; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	8.00	CARE A3 (A Three)	Reaffirmed
Total Facilities	51.55 (Rupees Fifty one crore and Fifty five lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Jindal Hotels Limited (JHL) continue to derive strength from its experienced promoters, established operations of its hotel property managed under the 'Grand Mercure' brand of Accor Group along with tie-ups with corporate clients. The ratings also take cognizance of marginal improvement in its total operating income (TOI) and occupancy post successful completion of its renovation and expansion project leading to moderate debt coverage indicators during FY19.

The ratings, however, continue to remain constrained on account of JHL's moderate capital structure, geographical concentration of revenue profile on account of being a single property player along with risks associated with the cyclical and competitive hospitality industry.

The ability of JHL to increase its scale of operations through higher occupancy and average room rates (ARR) leading to improvement in its profitability, debt coverage indicators and capital structure would be the key rating sensitivities. Any large capex and its impact on the credit profile of JHL would also be a key rating monitorable.

Outlook: Positive

The positive outlook on the long term rating of JHL continues to reflect CARE's expectation of further growth in its scale of operations with full realization of envisaged benefits from its alliance with Accor Group through higher average room revenue (ARR) and revenue per available room (RevPAR) along with growth in business from its Food and Beverages (F&B) segment cumulatively resulting in to improvement in its profitability as well as debt coverage indicators. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged growth in its revenue or improve its profitability and consequently fails to improve its capital structure and debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of operations of its well-located hotel property

Mr. Piyush Shah, Chairman & Managing Director of JHL, is a third generation entrepreneur and has more than three decades of experience in the hospitality industry. JHL owns a three star hotel property 'Surya Palace' at Vadodara and operates it under the brand name of 'Grand Mercure' under management alliance with Accor group of hotels. The property has a total of 146 rooms with facilities to cater to the needs of both business as well as leisure travelers. The hotel is well-located at Sayajigunj near the central business district of Alkapuri in Vadodara and is well connected with major industrial zones and has easy connectivity to the Railway Station, Airport and various city attractions.

Hotel operations managed by Accor Group of Hotels under 'Grand Mercure' and established tie-up with corporate clients

JHL has entered into a 10-year agreement starting from June 2017 with Accor Group of Hotels (Accor), which is one of the largest hotel operators in Europe managing around 650,000 rooms spread over 4,800 hotels across 100 countries. Accor, with its global brand presence and well established marketing set up, has helped JHL enhance its corporate clientele as well as in attracting tourists through its marketing channel and its loyalty programs. Various reward schemes of Accor for both its corporate as well as retail clients also provide enhanced loyalty for JHL. Furthermore, JHL has an established tie-up with a sizeable number of corporate clients located in and around Vadodara. A majority of its room revenue income is generated from its corporate clients.

Successful completion of renovation and expansion project, the full benefits of which is expected to accrue going forward

During the three year period ending FY18, JHL had taken various measures to upgrade its hotel facilities as per the standards of agreement with Accor. Over the period FY15-FY18, JHL had incurred a cost of Rs.34 crore towards its

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

renovation and expansion project, which was funded through a term loan of Rs.17.75 crore and balance from internal accruals and unsecured loans from promoters. The full benefits of the tie-up with Accor group is envisaged to gradually accrue over the years, initial encouraging signs of which are reflected from the marginal increase in its Occupancy Ratio (OR) from 64% in FY18 to 67% in FY19 along with improved RevPAR.

Improvement in the scale of operations along with stable cash accruals and moderate debt coverage indicators

During FY19 (refers to April 1 to March 31), JHL's Total Operating Income (TOI) grew by ~10% from Rs.34.80 crore in FY18 to Rs.38.17 crore in FY19 primarily on account of increase in revenue from food and beverages (F&B). On account of the appointment of new personnel at managerial position, the employee cost has increased during FY19 resulting into moderation of PBILDT margin to 31.24% in FY19. However, despite the increase in cost, PBILDT has remained steady at ~Rs.11.90 crore during FY19. Hence, growth in TOI coupled with moderation in operating profitability and stable finance cost has led to stable Gross Cash Accruals (GCA) during FY19 at Rs.6.86 crore (PY: 7.01 crore).

JHL's debt coverage indicators remained largely stable with total debt / GCA at 7.65 years (PY: 8.00 years) and PBILDT interest coverage at 2.51 times (PY: 2.46 times) in FY19. Relatively low interest cost on its borrowings, step-up repayment schedule for its term loan and moderate utilization of working capital facility provide some flexibility to absorb any likely contingencies.

Key Rating Weaknesses

Moderate capital structure

JHL's capital structure remained moderate marked by overall gearing of 2.01x as on March 31, 2019 (P.Y: 2.33x). This was largely on account of loan availed for funding the capex concluded in FY18 as well as bank borrowings availed for meeting its working capital requirements. Also, Rs.6.63 crore out of the total outstanding debt of Rs.52.54 crore is in the form of unsecured loans from promoters, which provides some degree of flexibility.

Geographical concentration risk due to single property operations of JHL

JHL is exposed to geographic concentration risk as it operates a single hotel property in Vadodara. There exists stiff competition among premium hotels in Vadodara which focus majorly on catering to corporate requirements, due to limited tourist arrivals in the city. As a sizeable amount of room rent income of JHL is from corporate clients, it is inherently exposed to changes in economic and industrial growth in the region. This also restricts JHL's scale of operations to a moderate level.

Cyclical and competitive nature of the hospitality industry; albeit some signs of revival

The hotel industry is inherently cyclical in nature with exposure to changes in various factors including tourist arrivals, social and economic changes, disruption due to new technology platforms and changing consumer preferences. Hotels have also stepped up their online promotional efforts, loyalty programs and overall marketing efforts to gain and increase market share, leading to intense competition in the industry. However, the industry is expected to witness demand growth on back of economic growth, consistent growth in the middle class segment and increasing disposable income.

Liquidity Analysis

JHL's operating cycle remained steady at 84 days in FY19 (89 days in FY18) primarily on account of stock of operating inventories that the hotel maintains to readily serve its customers, while the collection period remained at 15 days during the year (primarily due to its corporate clients). JHL's current ratio stood at 1.32x as on March 31, 2019 (unchanged from previous year-end). Further, JHL had low utilization of its fund based working capital limits at ~35% during past 12 months ended May 2019.

Analytical approach: Standalone.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology for Hotel Industry](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Vadodara, Gujarat based Jindal Hotels Limited (JHL), incorporated in 1984, is promoted by Mr. Piyush Shah, who has over three decades of experience in the hospitality industry. JHL has entered into an agreement with Accor Group of Hotels (Accor), one of the world's leading hotel operators for the operations and management of JHL's sole hotel property under

the brand of “Grand Mercure Hotel Surya Palace”. The renovation of the hotel as per the agreement standards with Accor was completed in July 2017. JHL’s property is located at one of the premium locations of Vadodara, i.e. Sayajigunj, close to the central business district. The property has 146 rooms and various other facilities including six banquet halls, spa, gymnasium, swimming pool, conference rooms and a multi cuisine restaurant.

Brief Financials:

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	34.80	38.17
PBILDT	11.90	11.92
PAT	0.92	1.50
Overall gearing (times)	2.33	2.01
Interest coverage (times)	2.46	2.51

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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	-	-	April 2027	43.55	CARE BBB-; Positive
Fund-based - ST-Bank Overdraft	-	-	-	8.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	43.55	CARE BBB-; Positive	-	1)CARE BBB-; Positive (12-Sep-18) 2)CARE BBB-; Positive (06-Sep-18)	-	-
2.	Fund-based - ST-Bank Overdraft	ST	8.00	CARE A3	-	1)CARE A3 (12-Sep-18) 2)CARE A3 (06-Sep-18)	-	-

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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