Jindal Hotels Limited

August 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	41.74 (reduced from 43.55)	CARE BB+; Negative; (Double B Plus; Outlook: Negative)	Revised from CARE BBB- (Triple B Minus) (Credit watch with negative implications)
Short Term Bank Facilities	8.00	CARE A4+ (A Four Plus)	Revised from CARE A3 (A Three) (Credit watch with negative implications)
Total Facilities	**49.74 (Rupees Forty nine crore and seventy four lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has removed the ratings assigned to the bank facilities of Jindal Hotels Ltd. (JHL) from "Credit watch with negative implications" upon emergence of clarity about the impact of Covid-19 pandemic on the operations of the company and simultaneously the ratings assigned to its bank facilities have been revised on account of significant adverse impact of the pandemic on the business operations of the company during Q1FY21 with very marginal revenue and substantial cash losses leading to weak debt coverage indicators; along-with its subdued business prospects in the medium term.

The ratings continue to remain constrained on account of JHL's moderate capital structure, geographical concentration of its revenue on account of having a single hotel property along with risks associated with the cyclical and competitive hospitality industry. Further, CARE also takes cognizance of the company availing the moratorium from its lender as a COVID relief measure (as permitted by the Reserve Bank of India) on servicing of its term debt & working capital borrowings falling due for payment from March 1, 2020 till August 31, 2020.

The ratings, however, 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 and its long track record of operations.

Rating Sensitivities

Positive factors

- Sustained growth in its scale of operations with TOI of more than Rs.28 crore along with improvement in its revenue per available room (RevPAR)
- Improvement in PBILDT margin to more than 30% on a sustained basis along with improvement in its debt coverage indicators
- Improvement in capital structure with overall gearing of less than 1.50 times

Negative factors

- Lower occupancy level of the hotel due to Corona Virus over a prolonged period of time, thereby affecting its liquidity & debt coverage indicators
- Decline in its TOI to less than Rs.10 crore leading to adverse impact on its debt coverage indicators
- Moderation in capital structure with overall gearing of more than 2.50 times
- Delay in infusion of need based financial support from the promoter group

Outlook: Negative

The outlook on the long-term rating of JHL is 'Negative' on the expectation of adverse impact of the Covid-19 pandemic on the hospitality sector, including on the operations of the company in the medium-term. The outlook may be revised to 'Stable' if JHL is able to withstand the business pressures during the pandemic in a more resilient manner and is able to significantly improve its occupancy and ARR; and its performance remains better than envisaged.

[1]*Complete 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 Weaknesses
Significant adverse impact of Covid 19 pandemic on its business operations in Q1FY21 and subsequently; albeit steady performance in FY20
Business operations of JHL witnessed significant adverse impact of Covid 19 pandemic during Q1FY21 with very low level of occupancy with lower Average Room Rent (ARR) resulting in meager TOI of Rs.0.64 crore during Q1FY21 vis-à-vis TOI of Rs.8.33 crore in Q1FY20. On the back of very low TOI, the company reduced some of its fixed overheads but it still incurred cash losses of Rs.2.64 core in Q1FY21. Further, due to ongoing threat of the pandemic, occupancy of its hotel is envisaged to remain low and occupancy for balance part of FY21 is not likely to improve to a significant extent. However, during FY20, JHL's scale of operations remained relatively stable with Total Operating Income (TOI) of Rs.37.81 crore (FY19: Rs.38.17 crore) along with moderate profitability marked by PBILDT margin of 28.64% (FY19: 31.24%).

Weakening of capital structure and debt coverage indicators
JHL's capital structure stood moderate marked by overall gearing of 1.80x as on March 31, 2020 (FY19: 2.01x). This was largely on account of loan availed for funding the capex concluded during FY18 as well as bank borrowings availed for meeting its working capital requirements. Its capital structure has, however, weakened during Q1FY21 with an overall gearing of 2.24 times as on June 30, 2020. Also, JHL's debt coverage indicators have weakened with PBILDT level losses in Q1FY21.

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; the same is expected to be further exacerbated by growing shift towards 'work-from-home' and less travel as a natural outcome of the pandemic. This also restricts JHL's scale of operations to a moderate level.

Significant adverse impact of COVID 19 pandemic on the hospitality sector along with its cyclical nature
The Indian hotel industry is highly fragmented in nature with presence of large number of organized and unorganized players spread across various regions. Furthermore, 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.
Also, with the outbreak of Covid-19 pandemic, Indian hospitality industry is witnessing a sharp and sudden dip in occupancies and revenue with both business and leisure trips being cancelled/ postponed by domestic and international travellers and future bookings are also getting stalled. Further, the Indian Government has cancelled all its non-official visas offered and has also advised to curb all non-essential travels across the country by declaring a nationwide lock down with an aim of restricting the spread of this virus. Therefore, the possible impact of the Covid-19 pandemic on the financial performance of JHL in the short to medium term along with timely steps taken by the management so as to sustain its cash flows shall be a key rating monitorable.

Liquidity: Stretched
Liquidity of JHL is stretched on the back of certain fixed costs pertaining to its operations which it is unable to recover from its revenue due to very low occupancy. During Q1FY21, cash losses were funded from the available cash balance & utilization of its OD limit. To support its liquidity, JHL has also sought moratorium from its lenders on servicing of its term debt and working capital borrowings from March 1, 2020 to August 31, 2020. Further, promoters have announced to infuse Rs.1.30 crore by way of share warrants subject to requisite approvals. Post completion of moratorium by end August 2020, JHL is unlikely to have adequate operational cash accruals to service its debt repayment obligations due to expectation of subdued occupancy scenario in the hospitality sector. Consequently, its dependence on external/non-operational cash flow support will increase till the time occupancy of its hotel picks-up to at least a moderate level. Further cost control measures and promoters' articulation to infuse need-based funding support could support its liquidity.

Key Rating Strengths
Experienced promoters along with established and long 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 700,000 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-cum-expansion project, the full benefits of which is now expected to accrue in the medium to long term

During the three years period ended 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 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 benefits of the tie-up with Accor group were envisaged to gradually accrue over the years, initial encouraging signs of which were reflected from the increase in its average revenue per event by ~16% during FY18 to FY20 along with the increase in the RevPAR by ~9%.

However, with the outbreak of COVID-19 pandemic, it is expected that the occupancy rates (OR) and RevPARs shall substantially decline in FY21 and recovery is expected to be slow and gradual and thereby the full benefits of the tie-up with Accor group is now envisaged to only accrue gradually in the medium to long term.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy of Default Recognition
Criteria for Short Term Instruments
Rating Methodology Hotel Industry
Financial ratios - Non Financial Sector
Liquidity Analysis of 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 agreed upon standards with Accor was completed in July 2017. JHL's property is located at one of the prime 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	38.17	37.81
PBILDT	11.92	10.83
PAT	1.50	0.68
Overall gearing (times)	2.01	1.80
Interest coverage (times)	2.51	2.30

A: Audited

During Q1FY21 (Unaudited), JHL has reported TOI of Rs.0.64 crore with net loss of Rs.3.75 crore vis-à-vis TOI of Rs.8.34 crore with net loss of Rs.0.25 crore in Q1FY20.

Status of non-cooperation with previous CRA: None
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	-	-	February 2028	41.74	CARE BB+; Negative
Fund-based - ST-Bank Overdraft	-	-	-	8.00	CARE A4+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	41.74	CARE BB+; Negative	1)CARE BBB- (Under Credit watch with Negative Implications) (05-May-20)	1)CARE BBB-; Positive (30-Jul-19)	1)CARE BBB-; Positive (12-Sep-18) 2)CARE BBB-; Positive (06-Sep-18)	-
2.	Fund-based - ST-Bank Overdraft	ST	8.00	CARE A4+	1)CARE A3 (Under Credit watch with Negative Implications) (05-May-20)	1)CARE A3 (30-Jul-19)	1)CARE A3 (12-Sep-18) 2)CARE A3 (06-Sep-18)	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Bank Overdraft	Simple
2.	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.*

Contact us

Media Contact
Mrudul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact no. +91-79-4026 5620
Email ID – Hardik.shah@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact no. +91-79-4026 5656
Email ID - deepak.prajapati@careratings.com

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