

Jindal Hotels Limited

May 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	43.55	CARE BBB- (Triple B Minus)(Credit watch with negative implications)	Placed on Credit watch with negative implications
Short Term Bank Facilities	8.00	CARE A3 (A Three) (Credit watch with negative implications)	Placed on Credit watch with negative implications
Total Facilities	51.55 (Rupees Fifty one crore and Fifty five lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings of the bank facilities of Jindal Hotels Limited (JHL) on "Credit Watch with negative implications" in view of the outbreak of Covid-19 pandemic and the possible impact it may have on the operations of the company due to its presence in the hospitality sector. JHL has temporarily suspended its operations during the nationwide lock down since March 25, 2020 and it will take a call on resumption of operations based on further directives from the government. As such, CARE will continue to closely monitor the developments with respect to the impact of the pandemic and will take a view on the ratings of the company once greater clarity emerges on the exact implications of this event on the operations and credit risk profile of the company.

The ratings for the bank facilities of 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 its stable total operating income (TOI) and occupancy post successful completion of its renovation-cum-expansion project leading to moderate debt coverage indicators during 9MFY20.

The ratings, however, continue to remain constrained on account of JHL's moderate capital structure, geographical concentration of revenue profile on account of having a single hotel property along with risks associated with the cyclical and competitive hospitality industry which is expected to be adversely impacted due to the outbreak of Covid-19 pandemic.

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 May 31, 2020.

Rating Sensitivities

Positive factors

- Sustained growth in its scale of operations with TOI of more than Rs.45 crore along with improvement in its RevPAR
- Improvement in its PBILDT margin to more than 37% on a sustained basis along with improvement in its debt coverage indicators.
- Improvement in its capital structure with overall gearing of less than 1.30 times

Negative factors

- Decline in 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 RevPAR resulting in its PBILDT margin going below 25% on a sustained basis leading to adverse impact on its debt coverage indicators
- Moderation in its capital structure from the existing level on a sustained basis

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

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

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 expected to accrue in the medium to long term

During the three year 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 marginal increase in its Occupancy Ratio (OR) from 64% in FY18 to 67% in FY19 along with improved RevPAR.

However, with the outbreak of COVID-19, CARE expects the occupancy rates (OR) and RevPARs to 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.

Stable scale of operations during 9MFY20 along with moderate profitability and debt coverage indicators

During 9MFY20 (Prov.; refers to April 01 to December 31), JHL's scale of operations remained stable with Total Operating Income (TOI) of Rs.27.84 crore (9MFY19: Rs.27.30 crore). Further, during 9MFY20 (Prov.), profitability of JHL remained moderate; albeit stable with PBILDT margin of 31.36% (9MFY19: 31.21%). Hence, stable scale of operations coupled with moderate operating profitability and stable finance cost has led to stable Gross Cash Accruals (GCA) during 9MFY20 at Rs.4.87 crore as against GCA of Rs.4.80 crore during 9MFY19. JHL's debt coverage indicators remained largely stable during 9MFY20 (Prov.) with total debt / GCA at 7.59 years (FY19: 7.65 years) and PBILDT interest coverage at 2.44 times (FY19: 2.51 times).

Liquidity: Adequate

JHL's liquidity remains adequate and is marked by unutilized fund based working capital limit of ~Rs.5.50 crore as of April 2020 which is expected to be sufficient to meet its fixed operational costs for around next 3-4 months by when its management expects the impact of Covid-19 on its currently shut-down operations to gradually subside. Simultaneously, the company management plans to take various cost control measures to shore-up its cash flows during this period. Also, to support its liquidity, JHL has sought moratorium on servicing of its term debt & working capital borrowings from March 1, 2020 to May 31, 2020. Further, promoters have also committed to infuse need-based fund to support its liquidity during these unprecedented circumstances.

Key Rating Weaknesses

Moderate capital structure

JHL's capital structure remained moderate marked by overall gearing of 1.81x as on December 31, 2019 (FY19: 2.01x). This was largely on account of loan availed for funding the capex concluded by FY18 as well as bank borrowings availed for meeting its working capital requirements. Also, Rs.6.65 crore out of the total outstanding debt of Rs.49.32 crore as on December 31, 2019 is in the form of unsecured loans from promoters, which provides some degree of flexibility. Also, its Total debt/ PBILDT stood moderate at 4.24 times during 9MFY20 (FY19: 4.44 times)

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; along with likely adverse impact of Covid-19 on the sector

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.

Analytical approach: Standalone

Applicable Criteria

[Criteria for assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology 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 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.

JHL has temporarily suspended its operations during the nationwide lock down since March 25, 2020 and will take a call on resumption of operations based on further directives from the government.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20 (Prov.)
Total operating income	34.80	38.17	27.84
PBILDT	11.90	11.92	8.73
PAT	0.92	1.50	0.57
Overall gearing (times)	2.33	2.01	1.81
Interest coverage (times)	2.46	2.51	2.44

A: Audited; Prov.: Provisional

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	-	-	April 2027	43.55	CARE BBB- (Under Credit watch with Negative Implications)
Fund-based - ST-Bank Overdraft	-	-	-	8.00	CARE A3 (Under Credit watch with Negative Implications)

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	43.55	CARE BBB- (Under Credit watch with Negative Implications)	-	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 A3 (Under Credit watch with Negative Implications)	-	1) CARE A3 (30-Jul-19)	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.

Contact us

Media Contact

Mrudul Mishra

Contact no. - +91-22-6837 4424

Email ID - mrudul.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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