Samhi Hotels Limited

February 10, 2020

Ratings

Facility	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank facilities	313.80	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long-term/Short-term Bank facilities	0.68	**CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Reaffirmed**
Total	**314.48 (Rupees Three Hundred Fourteen Crore and Forty-Eight Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Samhi Hotels Limited (SHL) continues to factors in strategic equity holding from established investment firms, management team's extensive experience in hospitality space, professional and qualified management team, tie-up with international hotel brands for branding, marketing and operating properties. Further, SHL derives strength from improvement in operational parameters and moderate financial profile in FY19 and H1FY20 (refers to the period between April 01, 2019 and Sep 30, 2019). CARE takes into account SHL's plans to come up with an IPO for which DRHP has been filed.

The above strengths are partially offset by moderate capital structure, continued net loss, regional movement and competition risk and vulnerability of revenues due to inherent industry cyclicality and economic cycles.

Rating Sensitivities

Positive Factors:

- *Prepayment of term debt leading to improvement in capital structure with overall gearing of less than 0.7x*
- *Positive cash accruals*
- *Successful raising of funds through IPO and deployment of funds towards significant prepayment of debt*

Negative Factors:

- *Cash profit of less than Rs. 20 cr*
- *Decline in PBILDT margin by more than 500 bps*

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' extensive experience in hospitality sector and strong management team

SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani. The founding team together has strong domain expertise, successful project implementation and management capabilities and long standing global relationships in the hotel industry. SHL has developed a team of highly experienced and technically qualified professionals to handle different departments. The team has people with extensive experience in the hotel and real estate industry through their association with internationally renowned companies.

Demonstrated track record of raising funds; strategic investments from globally established PE firms

The group has been successful in raising funds to the tune of Rs, 1224.6 crore from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI) and Equity International (EI) over the past 8 years till Dec 31, 2019.

These global investment firms hold 96.25% equity in the company viz. Equity International (49.35%), Goldman Sachs (28.88%) and GTI Capital Group (18.02%) as on Dec 31, 2019. During FY20, the investors (GS and GTI) have infused additional Rs. 28.6 cr by rights issue on Sep 21, 2019 for funding the expenses related to IPO and general corporate expenses.

Tie-up with 8 well established international brands for branding, marketing & operating hotels

SHL is an institutional multi-branded hotel ownership company which has partnered with premier hospitality management companies to leverage their global brands. SHL has entered into hotel management agreement with Marriott under the banner of 'Courtyard by Marriott', 'Fairfield by Marriott', 'Four Points by Marriott', 'Sheraton by Marriott' and 'Renaissance by Marriott', with Hyatt under the banner 'Hyatt Place' and 'Hyatt Regency' and IHG under the banner of 'Holiday Inn Express'. Majority of the SHLs portfolio is positioned in the midscale and lower midscale segment (24 out of 29 assets)

Financial profile marked by consistent increase in revenues and large Networth base
SHL's financial profile is strong marked by healthy growth in revenue and operating profit margins. SHL with its increasing hotel portfolio size, has been able to scale-up its operations and its revenue witnessed strong y-o-y growth of 18% during FY19 to Rs. 486.14 cr. Higher income as well as higher ARR led to significant improvement in the PBILDT margins to 27.25% in FY19 from 20.92% in FY18. However, owing to high interest cost and depreciation cost, the company incurred loss at net level of Rs. 304.60 crore (PY: loss of Rs. 199.06 crore). However, the company generated Rs.187.93 cr from cash flow from operating activities. SHL has overall gearing of 2.76x as on March 31, 2019 (PY: 1.55x) owing to large net worth base of Rs. 682.45 crore as on March 31, 2019. The overall gearing increased due to additional debt to fund the Capex purposes.
During H1FY20, SHL reported TOI of Rs. 301.31 cr and PBILDT of Rs. 76.66 cr on account of higher occupancy levels of ramp up hotels (post rebranding).

Presence of DSRA of one quarter interest and principal repayment
For the project term debt, the repayment structure in place ensures that the cash flow from hotel is utilized only for the repayment and interest servicing of its loan through presence of DSRA equivalent to the debt servicing (interest and principal repayment) of one quarter. As on Dec 31, 2019 SHL (consolidated) has maintained a DSRA balance of Rs. 41 crore and additional DSRA in the form of non-fund based limits.

Key Rating Weaknesses
Regional movements and competition risk
Although the risk is largely mitigated to some extent owing to diversification in term of geographies, hotel operators and hotel segments and favourable micro-locations of the group's assets, going forward the pace of the recovery in the economic cycle and stabilization of the hotel properties in competitive markets will be critical for the company's financial risk profile. In segmental terms the group's major exposure is towards budget and mid-scale hotels. The Indian budget hotel segment is highly unorganized with low entry barriers. The company's 'Holiday Inn Express' brand faces intense competition from brands like Lemontree, Ibis, Ginger, RedFox etc.

Vulnerability of revenues due to inherent industry cyclicality, economic cycles and exogenous events
Operating performance of the properties remain vulnerable to seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, etc.). Nonetheless, the risk to revenues is partially mitigated by SHL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.
Liquidity
Adequate: SHL has a comfortable liquidity profile marked by negative working capital cycle, healthy cash & bank balance and moderate current ratio. The company extends collection period to corporate clients upto 22 days, maintains inventory of upto 4 days and creditors are usually paid between 40-55 days. The current ratio of the company as on March 31, 2019 stood at 0.73x. SHL has healthy cash & bank balance of Rs. 118 crore (free: Rs. 69.4 crore and lien marked Rs. 48.6) as on Dec 31, 2019.

Analytical approach: Consolidated financials of SHL

Applicable Criteria
- Criteria on assigning 'outlook' and 'credit watch'
- CARE's Policy on Default Recognition
- Criteria for Short-term Instruments
- Rating Methodology – Hotel Industry
- CARE's methodology for Service Industry
- CARE's methodology for financial ratios (Non-Financial Sector)
- CARE's methodology for Factoring Linkages in Ratings

About the Company
Incorporated on December 28, 2010, SHL is a hotel investment and development company. SHL was founded by Mr. Ashish Jakhanwala and Mr. Manav Thadani with focus on ownership of internationally branded hotels in the business segment, across key cities in India. The group has received investments from global private equity/ investment firms such as Goldman Sachs (GS), International Financial Corporation (IFC), GTI Capital Group (GTI) and Equity International (EI). SHL, along with its subsidiaries, has developed a portfolio of around 4341 rooms across 29 properties in 14 Indian cities under 8 premium international brands.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	412.64	486.14
PBILDT	86.31	132.48
PAT	(199.06)	(304.60)
Overall gearing (times)	1.55	2.76
Interest coverage (times)	0.59	0.78

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 Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Nov 2030	308.80	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.68	CARE BBB+; Stable / CARE A2
Fund-based - LT-Cash Credit	-	-	-	5.00	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 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.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Apr-17)	1)CARE BBB+ (19-Apr-16)
2.	Fund-based - LT-Term Loan	LT	308.80	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Sep-18)	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	0.68	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (06-Sep-18)	-	-
4.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Sep-18)	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	1)CARE BBB+; Stable / CARE A2 (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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