

Samhi Hotels Limited ^(Revised)

May 13, 2020

Ratings

Facility	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank facilities	313.80	CARE BBB+ (Under Credit watch with Negative Implications)	Rating put under credit watch with Negative Implications
Long-term/Short-term Bank facilities	0.68	CARE BBB+/CARE A2 (Under Credit watch with Negative Implications)	Rating put under credit watch with Negative Implications
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) are put on 'Credit Watch with Negative Implications'. The ratings are placed on watch on account of temporary lockdown of hotel properties resulting in adverse impact on hospitality and tourism industry on outbreak of COVID-19 resulting in unfavorable customer sentiments and demand is expected to remain muted during H1FY21. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings of 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
- In case of a successful raising of funds through IPO and utilization of such funds towards significant prepayment of debt

Negative Factors:

- Risk of failure- in raising funds from promoters impacting the liquidity position on account of on-going industry scenario
- Negative cash accruals
- Moderation in debt service indicators

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. Further, the additional support from the existing/new investors in timely manner would be crucial from the credit perspective.

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 segment.

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 from operations witnessed strong y-o-y growth of 20% during FY19 to Rs. 470.8 cr. Higher income as well as higher ARR led to significant improvement in the PBILDT margins. However, owing to high interest cost and depreciation cost, the company incurred loss post tax of Rs. 304.60 crore (PY: loss of Rs. 184.3 crore). SHL has overall gearing of 2.76x as on March 31, 2019 (PY: 1.55x) owing to large net worth base of Rs. 723.81 crore as on March 31, 2019.

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.

Key Rating Weaknesses***Regional movements and competition risk***

Although the risk is largely mitigated owing to diversification in terms 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.

Vulnerability of revenues due to inherent industry cyclicity, 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 current ratio of the company as on March 31, 2019 stood at 0.73x. SHL is maintaining healthy cash & bank balance. Further, the company has availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020.

Industry scenario

With the COVID-19 pandemic unfolding across the globe, the hospitality and leisure industry – dependent entirely on travel, business and tourism- is among the sectors directly impacted by it. Its performance in Jan-March 2020 quarter- a busy season otherwise- has been hit hard on account of cancellations on earlier bookings and absence of fresh footfalls on account of travel advisories and, thereafter, the nationwide lockdown. The end of the crisis remains uncertain. However, as the lean season seeps in for both business and leisure segments from April, the hotel players will have some time to realign themselves in terms of cost rationalization and process improvement measures before the next peak season. Nonetheless, the operational parameters ORs and ARR of the hotel players are expected to get adversely impacted for the next couple of quarters. Besides, even if the crisis winds up in the medium term, the effects on the sector in terms of lower cash flows and pressure on their profitability and liquidity are likely to persist for long.

Since hotel projects are characterized by long gestation periods, hotel entities with recent expansions or groups with a higher portfolio of new assets compared to mature ones are likely to face additional heat on their already weak financials. With high debt repayments and squeezed profitability, these entities may witness tightening in their liquidity and credit profile. Furthermore, hotels might need to revisit their capex plans as the Covid-19 impact is expected to derail the future growth.

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+ (Under Credit watch with Negative Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.68	CARE BBB+ / CARE A2 (Under Credit watch with Negative Implications)

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-Cash Credit	-	-	-	5.00	CARE BBB+ (Under Credit watch with Negative Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			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.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (04-Apr-17)
2.	Fund-based - LT-Term Loan	LT	308.80	CARE BBB+ (Under Credit watch with Negative Implications)	-	1)CARE BBB+; Stable (10-Feb-20)	1)CARE BBB+; Stable (06-Sep-18)	-
3.	Non-fund-based -LT/ ST-BG/LC	LT/ST	0.68	CARE BBB+ / CARE A2 (Under Credit watch with Negative Implications)	-	1)CARE BBB+; Stable / CARE A2 (10-Feb-20)	1)CARE BBB+; Stable / CARE A2 (06-Sep-18)	-
4.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+ (Under Credit watch with Negative Implications)	-	1)CARE BBB+; Stable (10-Feb-20)	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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