Samhi Hotels Private Ltd.

September 06, 2018

Ratings

Facility/Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities- Term Loan	285.56	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Assigned**
Long-term Bank Facilities- CC	30.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Assigned**
Non Fund-based – LT/ST- LC/BG	9.20	**CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Assigned**
Total facilities	**324.76 (Rupees Three hundred and twenty four crore and seventy six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SAMHI Hotels Private Limited (SHPL) factors in the promoters' extensive experience in hospitality space, professional and qualified management team, strategic equity holding from established investment firms, tie-up with international hotel brands for branding, marketing and operating properties. Further, SHPL derives strength from consistent improvement in operational parameters and moderate financial profile.

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

Going forward, the profitable scale-up of operations by achieving the envisaged occupancy levels and average room rents (ARRs), the completion and stabilization of hotels under rebranding within envisaged cost and timeline and any future debt funded capex shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Promoters' extensive experience in hospitality space and strong management team

SHPL 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. SHPL 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 from global private equity/ investment firms such as Goldman Sachs, International Financial Corporation, GTI Capital Group and Equity International over the past 8 years. These global investment firms hold 96.22% equity in the company as on March 31, 2018.

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

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

Consistent improvement in operational parameters as indicated by increase in ARR and occupancy

In a period of 8 years, SHPL along with its subsidiaries has developed a portfolio of over ~4300 rooms across 29 properties. Out of the 29 properties, 11 are leased and the rest are owned. SHPL has witnessed consistent improvement in its operational parameters marked by stabilization of its assets (10 out of 29 assets were in operation for more than 3 years) and good market conditions.

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

ARR witnessed a CAGR of 14.57% for the period from CY13 to CY17. During CY17 RevPar grew at 9.5% compared to CY 2016 marked by improved ARR and occupancy.
SHPL reported occupancy of 52% in H1CY18 with a ARR of Rs. 4,804.

Financial profile marked by consistent increase in revenues, strong liquidity and large Networth base
SHPL's financial profile is strong marked by healthy growth in revenue and operating profit margins. SHPL with its increasing hotel portfolio size has been able to scale-up its operations and its revenue increased at a CAGR of 93.57% during FY15-FY18. The total operating income increased by 107.52% and 17.66% in FY17 and FY18 to Rs. 357.17 crore and Rs. 420.23 crore respectively marked by improved operating performance of hotels.
Higher income as well as higher ARR led to significant improvement in the PBILDT margins to 22.28% in FY18 (based on Provisional Financial Results). However, owing to high interest and depreciation cost, the company incurred loss at net level.
SHPL has moderate capital structure with overall gearing of 1.42x as on March 31, 2018. The overall gearing is high due to higher debt-funded Capex. Further, in July 2018, SHPL has refinanced its existing loan facilities of three assets- The Courtyard Bangalore (Samhi JV Business Hotels Pvt Ltd.), Sheraton Hyderabad (Samhi Hotels Ahmedabad Pvt Ltd.) and Hyatt Regency Pune (Ascent Hotels Pvt Ltd.) with a total amount of Rs. 650 crore (including additional loan).
The liquidity profile is strong with negative working capital cycle in FY18 and current ratio of 1.22x as on March 31, 2018 (based on Provisional Financial Results). Further, SHPL has large cash & bank balance as on March 31, 2018.

Presence of Debt Service Reserve Account (DSRA)
Asset level financing structure consists of DSRA mechanism, which ensures that the cash from hotels is utilized for creation of DSRA, which is equivalent to debt servicing (Interest and Principle repayment) for ensuing quarter. DSRA is already in place for existing lending as per the requirement under the agreed terms with lenders.

Key Rating Weakness
Project off-take risk post rebranding activities
SHPL has minimal project and funding risk with 26 out of 29 assets already being operational. However, SHPL is rebranding its portfolio of 'Premier Inn' to 'Fairfield by Marriott' and 'Formule 1' to 'Holiday Inn Express' which is likely to be completed by December 2018 and 2019. The achievement of envisaged operating metrics for these hotels shall remain a key rating sensitivity.

Regional movements and competition risk
Although the risk is mitigated to some extent owing to the geographical diversification and favourable locations of the group's projects, 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 Mid-scale hotels and Lower Mid-scale hotels. 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 SHPL's geographically diversified portfolio in prominent business districts, which allows it to withstand any demand vulnerability related to a particular micro-market.

Analytical approach: Consolidated

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for hotel companies
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, SHPL is a hotel investment and development company. SHPL 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). These global investment firms hold 96.22% equity in the company as on March 31, 2018.

SHPL, along with its subsidiaries, has developed a portfolio of over ~4300 rooms across 29 properties in 14 Indian cities under 8 premium international brands such as 'Courtyard by Marriott', 'Fairfield by Marriott', 'Four Points by Sheraton', 'Hyatt Place', 'Hyatt Regency', 'Sheraton', 'Holiday Inn Express' and 'Renaissance Hotel'.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (Prov)
Total operating income	357.17	420.23
PBILDT	74.79	93.62
PAT	(118.73)	(189.55)
Overall gearing (times)	0.88	1.42
Interest coverage (times)	0.63	0.55

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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	-	-	November 2030	285.56	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	3.50	CARE BBB+; Stable / CARE A2
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	5.70	CARE BBB+; Stable / CARE A2

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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	285.56	CARE BBB+; Stable	-	-	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	3.50	CARE BBB+; Stable / CARE A2	-	-	-	-
4.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	-	-	-
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	5.70	CARE BBB+; Stable / CARE A2	-	-	-	-

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