The Byke Hospitality Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	20.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Ratings Reaffirmed; Outlook revised from Negative
Total Facilities	20.00 (Rs. Twenty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The long term ratings assigned to the bank facilities of The Byke Hospitality Limited derives comfort from stable operational performance of the room revenue and F&B business, the vast experience of the promoters in the hospitality industry, asset light business model, comfortable capital structure and the improving geographic presence of the company. The ratings also favorably take into account the company's exit from the loss making room chartering business.

The rating strengths continue to be tempered by moderate liquidity and high susceptibility to economic cycles and operations in highly competitive industry.

TBHL's ability to maintain its operating metrics and capital structure while undertaking expansion remains the key rating sensitivity

Outlook: Stable

The revision in outlook from 'Negative' to 'Stable' is on account of exit from the loss making room chartering business. The company's room revenue and food and beverage segment showed stable performance in FY19.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management

The promoter of the company - Mr. Anil Patodia – has over two decades of experience in hospitality sector and is presently playing key role in expansion of the company's business.

Good brand presence and asset light revenue model

TBHL's portfolio primarily consists of properties on long term leases (10 year +). Out of the 21 properties, only 2 are owned. Majority of the properties in TBHL are located in popular leisure/business destinations in tier 2 or mini metros. Some of the properties have been awarded in various categories like best food, value for money, consistently great customer reviews etc. The Company's F&B /event based revenue has been ~50% contributor to the total revenues from hotel business. FY 19 the company had 14 operational properties and 7 properties are expected to commence operations in FY 20. TBHL has recently forayed into management contract based business model with 2 properties totalling to 77 rooms in the pilgrimage sites of Junagadh and Dwarka in Gujarat. The Company has expansion plans; however the same is expected to be funded by internal accruals.

Improving geographic presence in Hotel business

The Company has been expanding its presence and has around 21 owned/leased hotels in 18 locations mostly in Western and Northern parts of India. In FY 19, the Company added three properties in Ooty, Cochin in the South and Bhavnagar and Studio Apartments in Thane. At the same time the company's properties are registered on various online portals like Make My Trip, Expedia etc. Stabilization of operations in the new properties and iimproving occupancy and average room rates in the midst of expansion would be rating monitorable.

Stable Operating metrics of the Continuing business

The hotel business reported stable operating performance with average occupancy rate at 67%(68% in FY18), average room rate at Rs. 3882(Rs. 3867 in FY18) and Revenue available per room(Rev PAR) at Rs. 1469(Rs. 1405 in FY18). Food and beverages continue to contribute over 50% of the total hotel income.

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

Healthy capital structure albeit elongated working capital cycle
The company has consistently maintained a healthy capital structure with minimal debt on its balance sheet. Gearing stood at 0.11x as on March 31, 2019 (as against 0.11x as on March 31, 2018) with total debt of Rs.20.45 crore. The collection period has elongated at average of 71 days from 53 days in FY 18 due to chartering business.

Key Rating Weaknesses
Poor financial performance due to room chartering business:
*T*BHL reported losses of Rs.14.27 crore in FY19 due to room chartering activity; thus affecting the profitability margins. PBILDT margins contracted to 16.77 % from 29.85% in FY19. The gross cash accruals of the company reduced to Rs. 14.96 in FY 19 as opposed to Rs. 49.51 crores in FY 18.

High susceptibility to economic cycles and operations in highly competitive industry
The hospitality industry is highly fragmented with many local and international players operating across different hotel segments leading to high level of competition in the business. However, the company, on account of its brand name and reputation has been successful in maintaining stable and comfortable occupancy rates. The performance of the hospitality sector is driven by macroeconomic factors like prospects of Indian tourism industry (which in turn is dependent on the overall economy and disposable incomes), competitiveness of Indian tourism, business and leisure travel, foreign tourist arrivals (FTAs), popularizing trend of meetings, incentives, conferences, and exhibitions. The sector is susceptible to downturn in the economy as well as local government policies regulating trade.

Liquidity: Moderate. The Company has no material repayment obligations in FY20 and FY 21. The working capital limits are almost fully utilized. Operating cycle of the company has increased from 96 days in FY18 to 116 days in FY19 on account of receivables in chartering business. Capex is expected to be funded out of internal accruals.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Rating Methodology – Hotel Industry
Financial ratios – Non-Financial Sector

About the Company
The Byke Hospitality Ltd. (TBHL) was incorporated in 1990 as Kotawala Financial Consultancy Pvt. Ltd. by Mr. Satyanarayan Sharma (presently Director). Having entered into hospitality business in 2004 with acquisition of two properties in Goa; the company at present operates 19 properties at 18 different locations with total room inventory of 1178 rooms. Additionally it has 2 properties under management contract with 77 rooms.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	178.18*	147.67
PBILDT	69.61	24.76
PAT	35.82	5.06
Overall gearing (times)	0.11	0.11
Interest coverage (times)	78.13	11.08

A: Audited
**The company has started reporting of room chartering revenues on net basis since April 01, 2017.*

Status of non-cooperation with previous CRA:
ICRA has suspended its rating vide press release dated August 14, 2015 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the company.

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-Cash Credit	-	-	-	20.00	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 (13-Dec-17)	1)CARE A- (10-Oct-16)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB+; Negative (19-Feb-19) 2)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE A- (10-Oct-16)

Annexure-3: Detailed explanation of covenants of the rated facilities

Working capital Facilities	Detailed explanation
A. Financial covenants	
I Maintenance of Total Debt/ TNW (Total Networth)	**To be less than or equal to 0.2x**
Ii Maintenance of EBITDA	**To be maintained atleast greater than 20%**
Iii Maintenance of Current Ratio	**To be maintained at greater than 1.5**
Iiii Maintenance of TOL/TNW	**To be maintained at less than 0.5x**

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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