The Byke Hospitality Limited

November 24, 2020

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings assigned to the bank facilities of The Byke Hospitality Limited (TBHL) takes into account the weakened financial and liquidity profile on account of disruption of operations due to Covid 19 across the country.
The rating, however continues to derive comfort from vast experience of the promoters in the hospitality industry, asset light business model, comfortable capital structure and the improving geographic presence of the company.
TBHL has obtained moratorium on interest payments from its lender as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key Rating Sensitivities:

Positive Factors

- Sustained improvement in scale of operations with topline over Rs. 200 crore and improvement in PBILDT margins to more than 35%

Negative Factors

- Weakening of operational and financial performance of the company and/or increase in debt funded capex leading to overall gearing exceeding 0.5x
- Any further deterioration in liquidity profile.

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

The Byke is focused on the mid-market/budget traveller with most of the properties located in popular leisure/business destinations in tier 2 or mini metros. The properties are also known for their vegetarian food. 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.
TBHL's portfolio primarily consists of properties on long term leases (10 year +). Out of the 21 properties, only 2 are owned. The Company has 17 operational properties and 4 properties are expected to commence operations as at September 30, 2020.The leases have an escalation clause every 3 years. The Company's lease expenses stood at ~ Rs. 12crore for FY 19 and FY20. However the Company has renegotiated its terms and expects the lease payments to be brought down to around Rs. 9-10 crores for FY 21. TBHL has recently forayed into management contract based business model with 4 properties totalling to 145 rooms in the pilgrimage sites of Junagadh Shirdi in Gujarat. However, as of September 30, 2020, 107 keys are operational. The Company will operate these properties on behalf of the owner for a fee and a share of total revenue/ profits.
The company has further plans of adding 120 rooms during FY22 and the same is to be funded entirely out of internal accruals. The company manages the refurbishment and rebranding for the lease properties which amounts to ~ Rs. 10-15 lakhs per room.

Improving geographic presence in Hotel business

Earlier TBHL had most properties in Maharashtra and Goa. However the Company has been expanding its presence and has around 20 owned/leased hotels in 18 locations mostly in Western and Northern parts of India.

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

While successful commercialization of the new properties in different locations over the next few years envisaged by the company is crucial from the credit perspective, the company has showcased consistent performance over the past years inspite of the expansion undertaken in different geographies.
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 improving occupancy and average room rates in the midst of expansion would be rating monitorable.

Healthy capital structure albeit elongated working capital cycle
The company has consistently maintained healthy capital structure with minimal LT bank debt on its balance sheet. Overall gearing (incl. lease liabilities) stood at 0.31x as on March 31, 2020 (as against 0.11x as on March 31, 2019) with total debt(incl lease liabilities) of Rs. 56.86 crore. The Company has no material repayment obligations in FY 21 (Rs 0.02 crore). However its liquidity remained stretched with almost full utilization of its working capital facility in the trailing 12 months. The cash and bank balance was Rs. 3.5 crore as of September 30, 2020. The collection period has elongated at average of 82 days from 71 days in FY 20.The debtors are mostly travel agents mid-sized corporates and the typical collection period in this business is 2-3 months.

Key Rating Weaknesses
Weakening of Operational and Financial Performance
Operating cycle of the company has increased from 116 days in FY19 to 155 days in FY20 on account of receivables. FY 20 operating metrics suffered as a result of cancellation of bookings in March 2020 from both domestic and foreign tourists. During FY 20, TBHL reported an average occupancy rate at 57%(67% in FY19), average room rate at Rs. 3089(Rs. 3882 in FY19)). Food and beverages continue to contribute over 50% of the total hotel income.
The impact of Covid continued further with dismal performance in H1 with a top line of Rs. 20.60 crore as against Rs. 57.20 crs in the same period last year. The Company also reported a loss before interest and depreciation of Rs. 0.56 crore in H1FY21. However QoQ performance has improved with easing with domestic travel restrictions. In Q2FY21, the company reported revenues of Rs. 14.05 crore as against Rs. 6.91 crore in Q1FY21. The Company reported a PBILDT of Rs. 2.64 crore vis a vis a loss before interest and depreciation of Rs. 2.73 crore in the same period. Net loss has reduced from Rs. 9.27 crore in Q1FY21 to Rs. 6.26 crore in Q2FY21. Cash accruals turned positive in Q2 with GCA of Rs. 0.52 crore.

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: Stretched. The Company has no material repayment obligations in FY 21 and FY22 (Rs. 0.03 crore in FY 21 and 0.02 crore in FY 22). Against which as of 30^{th} Sept 2020, the Company has cash amounting to Rs. 3.5 crore. The working capital limits are almost fully utilized. Operating cycle of the company has increased from 116 days in FY19 to 155 days in FY20 on account of receivables period being stretched.

Industry Outlook:
With the Foreign Tourist Arrivals (FTA) not expected to improve before Q1FY22 as travel bans across the globe are likely to lift only in a phased manner. Notwithstanding the timing of the lifting of such bans or advisories, the discretionary nature of foreign tourist travel is expected to queer the pitch further. The booking for the peak season of October-December is made in summers by international tourists, and not much of traction has been seen yet for the upcoming season on account of the prevailing uncertainties. The only green shoots are expected in the domestic tourism segment, which is expected to recover faster as compared to the foreign tourism segment. The ban on international flights could have a silver lining in as much as some portion of domestic tourists wishing to travel abroad could opt for travelling in India. It is noteworthy to mention that around 25 million tourists from India travel to international locations annually. Due to the pandemic, this huge population of tourists is expected to stay in the country and explore domestic destinations.
During the lockdown, several corporates have successfully tested and implemented the alternative work-from-home mode of operating both for internal as well as external interactions. The minimal cost and added convenience associated with the mode could imply that a significant portion of companies might persist with holding webinars and online conferences, instead of conferences requiring collective travel to and stay at hotels, even after the crisis tides over. The impact of the pandemic has been most on the upscale segment – driven significantly by FTA – since the FTA movement has completely

dried up and is not expected to revive any soon. It is the mid-market hotels that are expected to be the preferred choice of domestic tourists and given the fact that the majority of tourism will be domestic in the coming quarters. The performance should gradually pick up from Q3FY21 onwards and should reach a moderately comfortable position by Q1FY22. The revival in the industry is likely to be led primarily by domestic tourists travelling for leisure purposes and opting for mid-market hotels.

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
Liquidity Analysis of Non-Financial Sector Entities

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 operates 21 properties of which 2 are owned, 15 properties are under long term lease contracts (809 keys) and 4 properties are under management contract(107 keys) under the Byke brand as of September 30, 2020. The company's current promoters took over stake from earlier promoters in FY11 which is when the company was rechristened as TBHL and has since been operating all its properties under the brand name of "The Byke". Additionally, the company was also engaged in the room chartering business wherein it did bulk-booking of room inventory in advance from third parties during off-season and sublet them to tourists during season period via strong agent network. However, the business turned unviable due to intense competition from online agents/apps and the Company has exited the business from FY 20 onwards.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	147.67	123.19
PBILDT	24.76	37.33
PAT	5.06	4.15
Overall gearing	0.11	0.31
Interest coverage (times)	11.08	5.47

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-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 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 (13-Dec-17)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (07-Oct-19)	1)CARE BBB+; Negative (19-Feb-19) 2)CARE A-; Stable (27-Sep-18)	1)CARE A-; Stable (13-Dec-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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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