

Press Release

Ozone Logistics Private Limited

April 27, 2019

Rating Re-affirmed



Total Bank Facilities Rated*	Rs. 65.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Negative

* Refer Annexure for details

Rating Rationale

Acuité has re-affirmed long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 65.00 crore bank facilities of OZONE LOGISTICS PRIVATE LIMITED (OLPL). The outlook has been revised to '**Negative**' from '**Stable**'.

The revision in outlook is on account of significant rise in debt levels in the last two years ended FY 2019 and expected deterioration in the financial risk profile. The increase in debt levels was on account of takeover of a 5 star hotel (Jalan Intercontinental Hotel) through competitive bidding from National Company Law Tribunal (NCLT) in November'18. Acuité notices that Jalan Intercontinental Hotel before takeover was incurring losses due to their inability to run at full capacity. The hotel, post management change has been able to increase the number of operational rooms which coupled with steady demand has improved the overall occupancy rate. This has translated onto operating profits in the last quarter of FY'2019. Going forward, sustenance of the high occupancy rate will remain a key rating sensitivity factor. Moreover, the group has taken additional debt for purchase and development of land. Further, the ability of the group to develop land/plots and selling the same without any significant delay will be one of the key credit monitorable.

Analytical Approach

Acuité has combined and consolidated the financial and business risk profiles of Shri Ram Multicom Private Limited, Shri Ram Mall Private Limited, Shri Ram Residency Private Limited, Shriramzone Private Limited, Shri Ram Precision and Ozone Logistics Private Limited till FY2018. This is on account of common promoters & cash fungibility among the group companies. Acuité has combined and consolidated the projected/provisional financials and business risk profiles of the above mentioned companies with Jalan Intercontinental Hotels Private Limited from FY'2019 as Jalan Intercontinental Hotels Private Limited was taken over by the Shriram Ozone group in November'2018. Extent of consolidation: Full

About the Company

Ozone Logistics Private Limited (OLPL) was incorporated in 2010 and promoted by the Sonthalia family under the flagship company of Shri Ram Multicom Private Limited. OLPL trades in thermos mechanically treated steel bars manufactured by Electrosteel Steels Limited and Jindal Steel and Power Limited.

About the Group

Shri Ram Ozone Group is promoted by the Dhanbad (Jharkhand) based Sonthalia family and has diversified interest in real estate, trading in thermo-mechanically treated steel bars (manufactured by Electrosteel Steels Ltd and Jindal Steel and Power Ltd), dealership of Jewellery (Tanishq) and logistics business where it acts as clearing & forwarding agent for ACC Limited & Indian Oil Corporation Limited. In addition, the group has taken over a 5 star hotel namely Jalan Intercontinental Hotel managed by the Taj group. The group is also undertaking to develop and set up a budget category hotel along with retail mall/spaces to be known as –Fairfield Hotel, a brand owned by Fairfield Marriott at Newtown, Rajarhat, Kolkata.

Key Rating Drivers

Strengths

Experienced management and long track record

Promoted by the Sonthalia family, the group has a long track record of over two decades in

diversified business. The group started with trading of TMT bars and over the years has diversified its business into real estate, franchise of Tanishq etc. The group is managed by Mr. Pradeep Kumar Sonthalia and his son Mr. Nityanand Sonthalia.

Diverse business profile and Stable lease income from properties

The group has a diverse business which includes real estate development, steel trading, jewellery, hospitality and logistics. The Shri Ram group has leased out properties in Dhanbad which provide stable cash flows. The leased out properties have had healthy occupancy over the years, along with modest growth in rentals. Acuite notices that there has been a significant rise in debt levels of the group though stable cash flows from its leased out properties and expected growth in business should hold the group in good stead over the medium term.

Healthy financial risk profile

The financial risk profile of the group is healthy marked by net worth of Rs. 176.66 crores as on 31st March 2018 as against Rs. 142.93 crores as on 31 March 2017. The improvement is mainly on account of improvement in profits and infusion of capital by the directors. The gearing stood moderate at 1.12 times as on 31 March 2018 as against 1.11 times as on 31 March 2017. The debt protection metrics stood healthy at 3.12 times as on 31st March'18 as compared to 2.66 times as on 31st March'17. Going forward, Acuite expects deterioration in the overall financial risk profile due to the significant rise in debt levels in FY 2018-19. The debt levels of the group increased to ~ Rs 370 crores in FY 2019 (prov) as compared to Rs 198 crores in FY 2018. The significant increase in debt levels has resulted in moderation in the capital structure of the group. Further Acuite expects deterioration in the debt protection metrics with higher interest cost burden going forward.

Weaknesses

Implementation risk of the new project & stabilization of the recently taken over hotel

The project cost of the Fairfield Hotel is Rs.149.69 Crore which will be funded by the bank to an extent of Rs.81 Crore and the remaining funds shall be infused by the directors. The project is susceptible to implementation risk, which till stabilisation may impact the group's liquidity. Further, the ability of the group to stabilise the operations of the taken over hotel namely Jalan Intercontinental Hotel and run at a healthy capacity will also remain a key rating sensitivity. Any significant fall in the occupancy rate will impact the cash flow of the group thereby impact the overall credit risk profile of the group.

Liquidity:

The group has healthy liquidity profile marked by net cash accruals in the range of ~ Rs.27.72 crore during FY 2018 against its Rs 6.83 crore debt obligations during the same period. The fund based working capital limit remains utilised at ~ 75 per cent level of during the 12 months period ended January 2019.

Outlook: Negative

Acuite has revised the outlook of Shriram Ozone group to 'Negative' based on significant rise in debt levels, project implementation and stabilization risk and expected deterioration in debt protection metrics. The rating may be downgraded in case of further rise in the debt levels or significant delay in commencement of operation of the Fairfield Hotel and decrease in the occupancy rate at the Jalan Intercontinental Hotel. The outlook may be revised to 'Stable' if the Fairfield Hotel commences operation without any delay and the occupancy levels reaches the expected levels thereby improving the overall cash flows. Further stabilization and sustenance of the occupancy rate in the Jalan Intercontinental Hotel may lead to 'Stable' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	522.44	358.50	230.84
EBITDA	Rs. Cr.	56.07	31.92	19.42
PAT	Rs. Cr.	23.09	15.20	4.80
EBITDA Margin	(%)	10.73	8.91	8.41

PAT Margin	(%)	4.42	4.24	2.08
ROCE	(%)	15.64	11.45	7.21
Total Debt/Tangible Net Worth	Times	1.12	1.11	1.49
PBDIT/Interest	Times	3.12	2.66	1.75
Total Debt/PBDIT	Times	3.46	4.29	7.59
Gross Current Assets (Days)	Days	134	174	237

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation - <https://www.acuite.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-February-2018	Cash Credit	Long Term	25.00	ACUITE BBB/Stable (Assigned)
	Overdraft	Long Term	7.50	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	5.90	ACUITE BBB/Stable (Assigned)
	Overdraft	Long Term	14.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB/Stable (Assigned)
	Overdraft	Long Term	2.60	ACUITE BBB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB / Negative
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB / Negative
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.90	ACUITE BBB / Negative
Overdraft	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB / Negative
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Negative
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.60	ACUITE BBB / Negative

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Aniruddha Dhar Rating Analyst Tel: 033-66201209 aniruddha.dhar@acuiterratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.