

Press Release

Ozone Logistics Private Limited

September 04, 2020

Rating Assigned, Re-affirmed and Outlook Revised



Total Bank Facilities Rated*	Rs. 97.00 Cr.
Long Term Rating	ACUITE BBB / Stable (Assigned, Reaffirmed, outlook revised)

* Refer Annexure for details

Rating Rationale

Acuite has assigned and re-affirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs. 97.00 crore bank facilities of Ozone Logistics Private Limited (OLPL). The outlook has been revised to '**Stable**' from '**Negative**'.

The revision in the outlook is driven by the successful setting up of their hotel, Fairfield by Marriott coupled with improved occupancy rates in their taken over unit namely Jalan Intercontinental Hotel. The Fairfield hotel commenced its operations from Dec, 2019 and generated positive cash flows in its first year of operation. Moreover, the group has been able to stabilise the operations of the hotel, Taj Vivanta under Jalan Intercontinental Hotels Private Limited and has been running at a modest occupancy rate of approximately 59 percent on an average in last twelve months ended Mar,20. Further, the room capacity in Taj Vivanta has been increased from 158 to 197 rooms in November, 2019 with a corresponding rise in room revenues and hence operating profit. Acuite believes that though the debt levels remained high in FY2020, the debt obligations remain low and the group's net cash accruals are largely sufficient to its maturing debt obligations. The debt obligations are low as the repayment on major loan taken for Jalan Intercontinental Hotel and Fairfield by Marriott will start from Dec, 2021 and March, 2021 respectively and the tenure of the loan is around 12 years and 11 years respectively. Also, with no major debt funded capex plans in the medium term, the group's financial risk profile is expected to remain moderate.

Analytical Approach

Acuite has combined and consolidated the financial and business risk profiles of Shri Ram Multicom Private Limited with its subsidiaries, Shri Ram Mall Private Limited, Shri Ram Residency Private Limited, Shri Ram Ozone Retail Private Limited, Shri Ram Precision, Ozone Logistics Private Limited and Jalan Intercontinental Hotels Private Limited. This is on account of common promoters & holding-subsidiary relationship and corporate guarantee provided by Shri Ram Multicom Private Limited, the flagship company to its subsidiaries. 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 thermo 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 Dhanbad (Jharkhand) based Sonthalia family and has diversified interest in real estate, distribution of thermo-mechanically treated steel bars (manufactured by Electrosteel Steels Ltd and Jindal Steel and Power Limited), 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 has also developed budget category hotel named Fairfield Hotel along with retail mall/spaces, a brand owned by Marriott at Newtown, Rajarhat, Kolkata.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The group has a long track record of over two decades in varied business like distribution of TMT bars, dealership of jewellery, real estate/commercial estate, and logistics business. The group has an established presence in Jharkhand and West Bengal. Initially, the group started with clearing & forwarding business and development of residential and commercial projects. Over the years, the group has diversified its activities and ventured into diverse business such as distribution of TMT bars, dealership of jewellery and operation of mall and hotels.

The group is managed by Mr. Pradeep Kumar Sonthalia, who possesses vast experience of over two decades in the industry. Currently, his son Mr. Nityanand Sonthalia is actively involved in the day to day operations of the group. Acuite believes the group's established market presence and vast experience of the promoters in diverse industry would continue to support the group's business risk profile going forward.

- **Diversified business with major contribution from distribution of TMT bars**

The group has presence in diverse sectors like real estate development, steel trading, jewellery, hospitality and logistics. However, major revenues of the group are generated from distribution of TMT bars, manufactured by Electrosteel Steels Limited and Jindal Steel and Power Limited. The group's TMT bars trading division is operated under Ozone Logistics Private Limited. In FY20, TMT bars trading division contributed to around 65 percent of the total revenues of the group.

Moreover, the group also derives healthy revenues from the jewellery business. The group operates three showrooms in Kolkata, Ranchi and Dhanbad each and is an authorized dealer of Tanishq Jewellery. Apart from this, the group has leased out commercial 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. Also, the group has leased out its retail space in its newly developed hotel, Fairfield by Marriott to reputed retailers which provides stable rentals.

However, the Covid lockdown in Q1FY21 has impacted its real estate and hotel business substantially and is likely to impact the near term revenues too. However, the revenues from the real estate and hospitality segment contribute to around 11 percent of their total revenues. Thus, Acuite believes that though the debt levels of the group remains significantly high, the stable cash flows from its leased out properties and steel trading activities (contributing to around 60 percent of the group's revenues) will help the group to sustain steady cash accruals and maintain its business risk profile over the medium term.

- **Successful foray into the hospitality sector**

The group has successfully developed and set up a budget category hotel named Fairfield Hotel along with retail mall/spaces, a brand owned by Marriott in Kolkata. The hotel has been designed by Marriott and will be run by the group. The location of the hotel is favourable as it lies in close proximity to the airport, malls, IT Park. The Fairfield hotel commenced its operations in Dec, 2019 without any significant delay. The project cost of the Fairfield Hotel was Rs.149.69 Crore which was funded by the bank to an extent of Rs.81 Crore and the remaining funds were infused by the directors. Though the occupancy stood around approximately 38 per cent on an average in last four months ended Mar,20, the group was able to breakeven and generate positive cash flows in its first year of operation.

Moreover, the group has been able to stabilise the operations of the taken over hotel namely Taj Vivanta under Jalan Intercontinental Hotels Private Limited and has been running at an occupancy

rate of approximately 59 percent on an average in last twelve months ended Mar,20. In Aug,2020, the hotel name was changed to. Further, the group has increased the room capacity from 158 to 197 rooms in November, 2019 with a corresponding rise in room revenues and operating profit.

Acuité believes that due to Covid pandemic, the hospitality industry has been significantly impacted and demand is expected to remain subdued in the near term. Thus, the group's ability to improve its occupancy rate and generate healthy cash flows from this segment will remain a key business monitorable.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the group is marked by high net worth, modest gearing and debt protection metrics. The net worth of the group stood at Rs. 244.84 Cr. as on 31 March, 2020 (Provisional) as against Rs.224.59 Cr. as on 31st March, 2019. The increase in net worth is mainly due to accretion of profit to reserves. The gearing (debt-equity) stood modest at 1.77 times in FY2020 (Provisional) as against 1.62 times in FY2019. The total debt of Rs. 434.53 Cr. as on March 31, 2020 (Provisional) consists of long term debt of Rs.309.72 Cr., short term borrowings of Rs. 82.11 Cr. and unsecured loan from related parties of Rs.42.11 Cr. Moreover, the interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood healthy at 2.28 times and 1.55 times in FY2020 (Provisional) as compared to 2.58 times and 1.87 times in FY2019 respectively. The NCA/TD stood at 0.08 times in FY2020. Acuité believes that the financial risk profile of the group is expected to improve in the absence of any significant debt funded capex plans over the medium term.

• Exposure to intense competition in the steel trading industry

The steel trading industry in India is dominated by a large number of unorganised players catering to local demand. The fragmentation and low value addition on account of trading operations could restrict the group's pricing flexibility and continue to put pressure on its operating margin over the medium term.

Rating Sensitivity

- Growth in scale of operations while maintaining operating profitability
- Deterioration in the capital structure due to any debt funded capex
- Increase in occupancy levels in their hotels or lease rental income

Material Covenants

None

Liquidity: Adequate

The group's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The group had generated cash accruals of Rs.35.22 crore in FY2020 to repay its long term debt obligations of Rs.10.57 crore over the same period. The net cash accruals is expected to remain in the range of around Rs.30.00-40.00 crore against its maturing debt obligations in the range of Rs. 12.00-18.00 crore. Moreover, the group's operations are moderately working capital intensive marked by gross current asset (GCA) days of 93 days in FY2020 as against 110 days in FY2019. The current ratio stood at 1.36 times as on March 31, 2020 (Provisional) and the fund-based limit remains utilised at around only 60 percent over the twelve months ended July 2020 (Provisional). The group maintains unencumbered cash and bank balances of Rs.5.58 crore as on March 31, 2020 (Provisional). The liquidity position of the group gets enhanced from the consistent fund infusion by the promoters in the form of unsecured loans. An amount of Rs. 40.60 crs have been pumped into the business in the past two years ended FY'2020. Although, the group has not availed moratorium except from LIC Housing Finance Ltd, it has applied for Covid loan of Rs. 12.96 Cr. Going forward, Acuité believes that the group's liquidity to remain adequate owing to healthy cash accruals over the medium term and the financial flexibility of the promoters to

support in case of any exigency.

Outlook: Stable

Acuite believes that the outlook on the Shriram Ozone group is expected to remain 'Stable' backed by their diversified business interests thus ensuring steady cash accruals and stabilization in their hotel business. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues and restore their occupancy levels while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or in case of further unexpected rise in the debt levels.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	818.86	746.40
PAT	Rs. Cr.	20.69	24.47
PAT Margin	(%)	2.53	3.28
Total Debt/Tangible Net Worth	Times	1.77	1.62
PBDIT/Interest	Times	2.28	2.58

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

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
27-April-2019	Cash Credit	Long Term	25.00	ACUITE BBB/Negative (Reaffirmed)
	Overdraft	Long Term	7.50	ACUITE BBB/Negative (Reaffirmed)
	Term Loan	Long Term	5.90	ACUITE BBB/Negative (Reaffirmed)

	Overdraft	Long Term	14.00	ACUITE BBB/Negative (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB/Negative (Reaffirmed)
	Overdraft	Long Term	2.60	ACUITE BBB/Negative (Reaffirmed)
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/Stable (Reaffirmed, outlook revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/Stable (Reaffirmed, outlook revised)
Term Loan	Not Available	Not Applicable	Not Available	5.90	ACUITE BBB/Stable (Reaffirmed, outlook revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	11.92	ACUITE BBB/Stable (Reaffirmed, outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Reaffirmed, outlook revised)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Assigned)
Term Loan	Not Available	Not Applicable	Not Available	25.00	ACUITE BBB/Stable (Assigned)

Proposed Facility	Not Applicable	Not Applicable	Not Applicable	6.68	ACUITE BBB/Stable (Assigned)
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About Acuité Ratings & Research:

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