

Press Release

Fomento Resorts And Hotels Limited

August 07, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 400.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to the Rs. 400.00 crore bank facilities of FOMENTO RESORTS AND HOTELS LIMITED (FRHL). The outlook is '**Stable**'.

Fomento Resorts and Hotels Limited (FRHL) has been engaged in the hotel business in India since 1981. It is a part of Fomento group owned by the Timblo family. Currently, the company owns a five star deluxe resort 'Cidade De Goa' consisting of 207 keys at Vainguinim Beach, Goa.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the FRHL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established presence in Goa**

The management of FRHL have more than 35 years of experience in the hospitality industry. Mrs. Anju Timblo is the Managing Director and CEO of the company. She is actively involved in decision-making and day-to-day operations of the hotel. Her active involvement coupled with strong leadership capability has helped the company to grow and become one of the top rated five star hotels in Goa. The extensive experience of the promoter is also reflected through the healthy revenue level of Rs.66.09 crore in FY2019.

Further, FRHL has recently tied up with Taj Group (IHCL – The Indian Hotels Company Limited) for managing the operations of the existing Cidade De Goa hotel and upcoming new convention hotel at Vainguinim, Goa. This will benefit the company due to brand name, expertise and professional management.

Acuité believes that the company will continue to benefit from its established presence in Goa, strong brand recognition and the promoter's extensive experience in the hospitality industry.

- Moderate financial risk profile**

The financial risk profile of the company is moderate marked by healthy tangible net worth, moderate debt protection measures and moderate gearing. The net worth of the company stood around Rs.106.37 crore as on March 31, 2019 as against Rs.87.46 crore on March 31, 2016, on account of healthy accretion to reserves over the last three years. FRHL has followed a moderately aggressive financial policy as reflected by its peak gearing of 2.87 times as on March 31, 2019. The high gearing is attributable to the capital expansion project undertaken by the company to set up new convention hotel with 299 room keys in Goa and 32 room keys in Sindhudurg. The total capital expenditure is estimated to be around Rs. 620.00 crores and as a result, the Debt/EBITDA levels are estimated to remain in the range of 8.00-12.00 times over the medium term. The healthy revenue levels coupled with stable operating margins have resulted in moderate coverage indicators. Interest Coverage Ratio (ICR) stood at 3.53 times for FY2019 as against 3.83 times for FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times as on March 31, 2019.

Acuité believes that the financial risk profile of FRHL will continue to remain moderate over the near to medium term owing to significant debt funded capex undertaken by the company.

Weaknesses

- **Off take risk associated with the upcoming hotel project**

The company is in the process of setting up a new hotel in Goa (beside the existing hotel) and Aravli (Sindhudurg) with capacity of 299 rooms and 32 rooms, respectively. Total cost of the project is estimated to be around Rs.620.00 crore out of which Rs.436.00 crore has been incurred till date. The company has availed a term loan of Rs.400.00 crore for the project. Balance amount of Rs.220.00 crore is contributed through inter corporate deposits and preference shares from group companies (including preference dividend and interest on ICD). Till date, 83 per cent of the project is completed. The Goa hotel, which is being built as the largest convention hotel in Goa, will commence its operations from February 2020 while the Sindhudurg hotel will commence its operations from December 2020 onwards.

Acuité believes that the ability of the company to stabilise the operations of the new hotel and run it with healthy occupancy will remain a key rating sensitivity. Any significant fall in the occupancy rates than projected will affect the cash flows, thereby impacting credit risk profile of the company.

- **Highly competitive industry**

The Indian subcontinent and the state of Goa with vast opportunities and potential for high growth has become the focus area of several hotel chains. Many of these chains have established and others have their plans to establish hotels to take advantage of these opportunities. This is expected to intensify the competitive environment.

Acuité believes that the success of the company will be dependent upon its ability to compete in areas such as room rates, quality of accommodation, service level and convenience of location and also the quality and scope of other amenities, including food and beverage facilities.

Liquidity Position:

Liquidity of FRHL is enhanced due to promoter's ability to mobilise resources in the business. FRHL has received Rs. 220.00 crore approx. in the form of unsecured loans and subscription to preference shares from Group Company. Liquidity of FRHL is adequate as marked by net cash accruals in the range of Rs.10.00-14.00 crore through FY2017-19. The debt obligations stood at Rs. 6.00 crore as on March 31, 2019. The current ratio of the company stood moderate at 2.41 times as on March 31, 2019. The unencumbered cash and bank balances stood at Rs. 2.56 crore as on March 31, 2019. Acuité believes that the liquidity of the company will remain adequate over the near to medium term on account of promoter's strong resource mobilisation ability and increasing net cash accruals sufficient to service debt obligations.

Outlook: Stable

Acuité believes that FRHL will maintain a 'Stable' outlook and benefit over the near to medium term from its experienced management and established market position. The outlook may be revised to 'Positive' if the company reports higher than expected occupancy rates thereby leading to increase in revenues and profitability while managing its working capital operations efficiently. Conversely, the outlook may be revised to 'Negative' in case the company is not able to demonstrate projected occupancy in the new hotel leading to decline in cash accruals or deterioration in the financial risk profile affecting its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	66.09	58.12	61.10
EBITDA	Rs. Cr.	23.41	19.21	23.25
PAT	Rs. Cr.	9.18	8.23	10.83
EBITDA Margin	(%)	35.42	33.05	38.06
PAT Margin	(%)	13.89	14.16	17.73
ROCE	(%)	6.45	7.37	11.33
Total Debt/Tangible Net Worth	Times	2.87	2.02	1.72
PBDIT/Interest	Times	3.53	3.83	4.63
Total Debt/PBDIT	Times	11.93	8.63	5.72
Gross Current Assets (Days)	Days	81	68	57

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Service Sector - <http://acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	85.00	ACUITE BBB / Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	315.00	ACUITE BBB / Stable (Assigned)

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About Acuité Ratings & Research:

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