

Press Release

Fomento Resorts and Hotels Limited

October 12, 2020

Rating Downgraded



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

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.400.00 crore bank facilities of Fomento Resorts and Hotels Limited (FRHL). The outlook is '**Stable**'.

Reason for rating downgrade

The downgrade in the rating is reflective of sustained pressures on the business risk profile of the company, significant deterioration in the scale of operations and reduction in profitability levels amidst COVID-19 pandemic. The outbreak of COVID-19 and related lockdowns has severely impacted the operations of the company. Acuite expects that such pressure will continue over the medium term as the company operates in the hospitality segment. For Q1 of FY2021, FRHL generated revenues of Rs.0.03 crore and a net loss of Rs.2.96 crore. The operations of the company are expected to start from October, 2020. Acuite believes that company's extensive experience and Taj Hotel's management's extensive experience in the hotel industry will be helpful to bring back operations to the expected levels.

Incorporated in the year 1971, Fomento Resorts and Hotels Limited (FRHL) is engaged in the hotel business in India. Currently, the company owns a five star deluxe resort "Cidade de Goa" consisting of 207 keys at Vainguinim Beach, Goa that showcase the unique Goan Portuguese architecture and ambience. Company has completed construction of its new convention hotel and the commercial operations commenced from February, 2020. This hotel consist of 299 keys which is besides its existing hotel and another hotel's construction is in progress, which is in Aravli, Maharashtra.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of FRHL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established presence in hospitality industry**

The management of FRHL has 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. Further, FRHL has tied up with Taj Group (IHCL - Indian Hotel Company Limited) for managing the operations of the company. This will benefit the company due to brand name, expertise and professional management.

The company enjoys a competitive advantage in terms of its location. It is located at Vaingunim beach which is close to Panaji city. In addition, it is situated at a distance of 28 kms from the airport.

Acuite believes 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, high debt protection measures and low gearing. The net worth of the company stood around Rs.336.43 crore as on March 31, 2020 as against Rs.327.05 crore on March 31, 2019. This includes quasi equity of around Rs.228.27 crore as on March 31, 2020 as against Rs.220.68 crore as on March 31, 2019. The gearing stood at 0.86 times as on March 31, 2020 as against 0.26 times as on March 31, 2019. The gearing is expected to deteriorate in near medium term due to the capital expansion undertaken by the company to set up a new convention centre with 299 room keys in Goa. The total capital expenditure is estimated to remain in the range of Rs.500.00-600.00 crores. The Debt/EBITDA levels have deteriorated to 14.67 times for FY2020 from 3.32 times for FY2019. Interest Coverage Ratio (ICR) improved to 4.41 times for FY2020 as against 3.53 times for FY2019. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.04 times as on March 31, 2020 as against 0.14 times as on March 31, 2019.

Acuite believes that the financial risk profile of FRHL will deteriorate over the near to medium term owing to the close down of the operations on account of COVID-19 along with significant debt-funded capex undertaken by the company.

Weaknesses

- **Deterioration in profitability**

The operating margin deteriorated to 25.00 per cent in FY2020 from 35.42 per cent in FY2019. This is majorly because of the additional expense of management fees of around Rs.6.01 crore to Taj Group (IHCL - Indian Hotel Company Limited) for managing the operations of company. However, this fees is only against the revenue registered for the given period. Further, Profit after Tax (PAT) margins deteriorated to 6.82 per cent in FY2020 from 13.89 per cent in FY2019. This is majorly because of the increase in depreciation expenses in FY2020.

Acuite believes that profitability will be significantly affected in FY2020. This is majorly because of the expenses that company will be incurred towards the maintenance of the hotel and salaries of the employee's in spite of shut down of the operations due to COVID-19. However, one of the major expense related to management fees to Taj Group will be muted as the fees is only against the revenue registered.

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

The company has completed construction and started with commercial operations of new hotel in Goa (beside the existing hotel) in February, 2020 and has completed 50 per cent of the construction of Aarvli, Maharashtra with capacity of 299 rooms and 32 rooms respectively. Total cost of the convention hotel project is estimated to be around Rs.620.00 crore out of which Rs.436.00 crores have been incurred till date. The company has availed a term loan of Rs.400.00 crores for the project. Balance amount is contributed through inter corporate deposits from group companies and preference shares. The operations are halted amidst COVID-19. It is expected to start during Q3 of FY2021. Aarvli project's construction work was put on hold in July, 2019 and is expected to commence in FY2022.

Acuite believes that post COVID-19 the ability of the company to stabilize the operations of the new hotel along 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 a 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 have become the focus area of major international chains. Several of these chains have established and others have their plans to establish hotels to take advantage of these opportunities. These entrants are expected to intensify the competitive environment.

Acuite believes 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: Adequate

Liquidity of FRHL is enhanced due to promoter's ability to mobilize resources in the business. FRHL has received around Rs. 228.27 crores 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.10.00-12.00 crores through FY2018-20. The debt obligations stood in the range of Rs. 6.00 to 8.00 crores as on March 31, 2020. The current ratio of the company stood at 2.13 times as on March 31, 2020. The unencumbered cash and bank balances stood at Rs. 22.44 crores as on March 31, 2020. Acuite believes that the liquidity of the company will deteriorate over the near to medium term on account of impact from covid19. The scale of operations is expected to drop significantly, thereby deteriorating net cash accruals which will impact the debt servicing ability of the company.

Outlook: Stable

Acuite believes the company will maintain a stable outlook over the medium term owing to its experienced management and established presence in Goa. The outlook may be revised to 'Positive' in case the company is able to increase its occupancy levels while maintaining its stable credit risk profile. Conversely, the outlook may be revised to 'Negative' if there is a significant fall in occupancy levels or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	71.27	66.09
Profit after tax (PAT)	Rs. Crore	4.86	9.18
PAT margin	%	6.82	13.89
Total debt / Tangible Net worth	Times	0.86	0.26
PBDIT / Interest	Times	4.41	3.53

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

None.

Material Covenants

None

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
07-Aug-2019	Term Loan	Long Term	85.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	315.00	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
Term Loan	04-09-2018	9.80 %	04-09-2030	400.00	ACUITE BBB- /Stable (Downgraded from ACUITE BBB/Stable)

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About Acuite Ratings & Research:

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