

**Press Release****Fomento Resorts and Hotels Limited**

March 24, 2021

**Rating Upgraded**

|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 400.00 Cr.   |
| <b>Long Term Rating</b>             | ACUITE BBB/Outlook: Stable<br>(Upgraded from ACUITE BBB-/Stable) |

\* Refer Annexure for details

**Rating Rationale**

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

**Reason for rating upgrade**

Rating upgrade is reflected by commencement of commercial operations for the new convention hotel by October, 2020 and resort by November, 2020 along with prepayments of interest and principal of term loans till May, 2021 and July, 2021, respectively. As soon as the hotel and the resort was opened, it got bookings of around Rs.20.00 crore from various segments like corporates, Indian Super League (ISL) teams of Goa and Bangalore, other individuals, etc. They have registered revenues of around Rs.45.24 crore till February, 2021. Further, rating is also supported by the promoter's support.

Acuite believes that along with company's extensive experience and Taj Hotel's management's extensive experience in the hotel industry, will be helpful to upscale the 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 have commenced from February, 2020. This hotel consist of 299 keys and another boutique 5 star resort's construction is in progress which is in Aravli, Maharashtra, it is expected to be completed by FY2022.

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

The company enjoys competitive advantage in terms of its location. It is located at Vainguinim 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.

- **Healthy 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 hotel in Goa. It is expected to be around 1.38 to 1.42 times for FY2021-2023. The total capital expenditure is estimated to remain in the range of Rs.528.00 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 increase in long term debt availed for the construction of new conventional hotel along with the loss of operational period of initial 6 months in FY2021 due to covid19 pandemic. Total cost of the new convention hotel project is estimated to be around Rs.528.00 crore for which the company has availed a term loan of Rs.400.00 crore.

- **Commencement of operations for the resort and new conventional hotel**

The company has completed construction of new conventional hotel and started with commercial operations in February, 2020. However, the operations were shut down in March, 2020 amidst COVID-19 pandemic. Further, company has commenced commercial operations for the new convention hotel by October, 2020 and resort by November, 2020. As soon as the hotel and the resort was opened, it got bookings of around Rs.20.00 crore from various segments like corporates, Indian Super League (ISL) teams of Goa and Bangalore, other individuals, etc. Also, the room rates were higher in the range of Rs.8000 to Rs.14000 per night. They have registered revenues of around Rs.45.24 crore till February, 2021.

Acuite believes that post commencement of operations, there were immediate bookings for both resort and new conventional hotel inspite at higher room rates. Considering significant increase in the demand for tourism post the lockdown was lifted and goa been the major hotspot of tourism in India, bookings are expected to increase in near to medium term for 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. 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 the profitability will be significantly affected in FY2020. This is majorly because of the expenses that company has 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.

- **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 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 have dropped significantly thereby deteriorating net cash accruals which will impact the debt servicing ability of the company. However, promoters have shown support towards timely repayment of term loans by making prepayments of interest and principal of term loans till May, 2021 and July, 2021, respectively and they will further continue to do so.

### 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 significant fall in occupancy levels or deterioration in the financial risk profile.

### Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile of the company.

### Material Covenants

None

### 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.

### 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  |
|-------------|---------------------------------|-----------|------------------|--|
| 12-Oct-2020 | Term Loan                       | Long Term | 400.00           | ACUITE BBB- /Stable<br>(Downgraded from ACUITE BBB/Stable) |
| 07-Aug-2019 | Term Loan                       | Long Term | 85.00            | ACUITE BBB/Stable<br>(Assigned)                            |
|             | Term Loan                       | Long Term | 315.00           | ACUITE BBB/Stable<br>(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       | 9.90 %      | 04-09-2030    | 400.00                      | ACUITE BBB/Stable<br>(Upgraded from<br>ACUITE BBB-<br>/Stable) |

**Contacts**

| Analytical  | Rating Desk   |
|---|---|
| <p>Aditya Gupta<br/>Head - Corporate and<br/>Infrastructure Sector Ratings<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Saurabh Rane<br/>Analyst - Rating Operations<br/>Tel: 02249294034<br/><a href="mailto:saurabh.rane@acuite.in">saurabh.rane@acuite.in</a></p> | <p>Varsha Bist<br/>Senior Manager -<br/>Rating Desk Tel: 022-<br/>49294011<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

**About Acuité Ratings & Research:**

Acuité Ratings & Research 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.