

## Press Release

### Fomento Resorts and Hotels Limited

August 24, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	400.00	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	79.00	ACUITE BBB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	479.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

Acuite has assigned the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.79.00 crore bank facilities of Fomento Resorts and Hotels Limited (FRHL). The outlook is '**Stable**'.

#### Reason for reaffirmation

The rating reaffirmation is on account of recovery witnessed in the business risk profile of the company in FY2022 after the outbreak of covid-19 which severely impacted the operations of the company. The rating continues to factor in the experienced management with long track record of operations, tie up with Taj Group (IHCL - Indian Hotel Company Limited) for operating its hotels Cidade de Goa and Taj Resort & Convention Centre located at Vainguinim Beach, Goa and adequate liquidity position of the company. The rating is constrained by the highly competitive industry that the company operates in.

#### About the Company

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. The company also has a convention hotel Taj Resorts and Convention Centre, Goa (TRCCG) with 299 keys. FRHL has another boutique 5 star resort under construction which is in Aarvli, Maharashtra. The construction it is expected to be completed by FY2023.

#### 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 decisionmaking 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 signed a hotel operating agreement with IHCL - Indian Hotel Company Limited to operate its hotels Cidade de Goa and Taj Resort & Convention Centre located at Vainguinim Beach, Goa. 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. Acuité 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.

#### Recovery in business operations after covid-19 pandemic

Fomento Resorts and Hotels Ltd. (FRHL) owns two hotels i.e. Cidade De Goa (CDG) and Taj Resorts and Convention Centre, Goa (TRCCG) with 207 and 299 rooms respectively. Post the covid induced lockdown, TRCCG started its operations in October 2020 and CDG started its operations in November 2020. FRHL saw a robust recovery in its revenues with a Y-o-Y growth of 138.66% in FY2022 at the back of relaxation in lockdown restrictions. Revenues of the company stood at Rs.127.43 Cr in FY2022 as against Rs.53.39 in FY2021. EBITDA margins recovered from 6% in FY2021 to 25.26% in FY2022 on account of improvement in scale of operations to cover the fixed employee costs. The company however continued to register losses after tax. Profitability is expected to normalise in the near future with enhanced capacity and reduced interest and depreciation costs. From February 2022, 97 rooms at the CDG hotel were shut for renovation costing ~ Rs.70 Cr. The renovation is expected to be completed by October 2022 and the rooms will be operational thereafter. Additionally, the company has a hotel at Sindhudurg which is under construction with a capacity of 32 rooms. Construction of walls has been completed and the interior construction is expected to be completed by December 2022.

#### Moderate financial risk profile

FRHL has a moderate financial risk profile marked by a healthy tangible net worth, high gearing and a stretched debt protection metrics. Tangible net worth of the company stood at 254.98 Cr as on 31st March, 2022 as against 294.12 Cr as on 31st March, 2021. FRHL converted unsecured loans from Fomento resources pvt ltd. of Rs. 171.21 Cr into equity shares of face value Rs.10 and share premium of Rs.126 per share in FY2022. Unsecured loans from related parties are treated as quasi equity as such related party loans are subordinated to the bank loans. Gearing of the company remained high at 1.98 times as on 31st March, 2022 as against 1.35 times as on 31st March, 2021. TOL/TNW of the company stood at 2.00 times in FY2022 as against 1.47 times in FY2021. As of 1st April 2022, the company has ~43.67 Cr of balance in FDs (including DSRA) and unspent GECL loan balance of Rs.61.15 Cr which are sufficient to meet the debt repayment obligations for FY2023. Further, FRHL has prepaid its principal debt obligation of Rs.25.63 Cr for FY2023

Acuité believes that the financial risk profile of the company will continue to remain moderate on account of existence of high debt and steady improvement in profitability.

### Weaknesses

#### 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. Acuité 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.

### **ESG Factors Relevant for Rating**

For the accommodation industry, the quality of the products and services offered is extremely crucial. The community support and development initiatives taken up are also of significance. As of March, 2021 FRHL has taken CSR initiatives towards various causes ranging from women empowerment, promoting education and eradicating hunger. The primary material issue for the governance performance is maintaining strong business ethics along with other factors like management compensation and board independence and functioning of audit committee. FRHL has formed the Audit committee, CSR committee, Nomination and Remuneration committee, and the Risk Management committee. Formation and conduct of all the committees is in compliance with The Companies Act, 2013. The company identifies, evaluates and takes necessary actions to mitigate operational, strategic, environmental risks and other risks related to the industry.

### **Rating Sensitivities**

Significant improvement in scale of operations and profitability margins  
Significant changes in financial risk profile of the company.

### **Material covenants**

1. DSCR  $\geq$  1.20 x
2. Total Debt to ATNW = 1.5x
3. Total Debt to EBITDA  $\leq$  6x in FY22; 5.5x in FY23; 4.5x in FY24 and 4x in FY25
4. FACR  $\geq$  1.5x

### **Liquidity: Adequate**

Liquidity of the company is adequate marked by unencumbered cash and bank balance of Rs.114.40 Cr in FY2022 as against Rs.66.46 Cr in FY2021. Though the company has generated insufficient net cash accruals as against the debt repayment obligations, FRHL has maintained sufficient DSRA balance in addition to the unencumbered cash balance so as to meet its repayment obligations. Further, the company has prepaid the principal debt repayment obligations of Rs.25.63 Cr in FY2023. FRHL is expected to generate sufficient net cash accruals of Rs.23.23-51.89Cr in the medium term as against debt repayment obligation of Rs.25.63-48.80 Cr during the same period.

Acuité believes that the liquidity of the company will continue to remain adequate over the medium term on account of moderate cash accruals with moderate repayments over the medium term

### **Outlook: Stable**

Acuité 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.

### **Other Factors affecting Rating**

Not applicable

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	127.43	53.39
PAT	Rs. Cr.	(50.92)	(56.36)
PAT Margin	(%)	(39.96)	(105.55)
Total Debt/Tangible Net Worth	Times	1.98	1.35
PBDIT/Interest	Times	0.52	0.23

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

Not applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Jun 2022	Term Loan	Long Term	185.76	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	186.14	ACUITE BBB   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	28.10	ACUITE BBB   Stable (Reaffirmed)
24 Mar 2021	Term Loan	Long Term	400.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
12 Oct 2020	Term Loan	Long Term	400.00	ACUITE BBB-   Stable (Downgraded from ACUITE BBB   Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.05	ACUITE BBB   Stable   Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	185.76	ACUITE BBB   Stable   Reaffirmed
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	186.14	ACUITE BBB   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	28.10	ACUITE BBB   Stable   Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	25.42	ACUITE BBB   Stable   Assigned
ICICI Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	53.53	ACUITE BBB   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:deepti.bhandarkar@acuite.in">deepti.bhandarkar@acuite.in</a>	

### About Acuité Ratings & Research

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