

## Press Release

### Fomento Resorts And Hotels Limited

March 01, 2023

### Rating Reaffirmed



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

### Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BBB**' (read as **ACUITE + triple B**) on the Rs.479.00 crore bank facilities of Fomento Resorts and Hotels Limited (FRHL). The outlook is '**Stable**'.

#### Rationale for reaffirmation

The rating has been reaffirmed basis stable operating performance of the company in the current year 9MFY2023 and moderate financial risk profile. The company generated a revenue of Rs. 153.22 crore in 9MFY2023 as against revenue of Rs. 127.43 crore in FY2022. During the year, FRHL completed the renovation of the Cidade de Goa (CDG) in December 2022. The company's ability to increase its revenue post the renovation remains a key rating monitorable.

#### 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. 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.

#### 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 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.

### **Stable Operating Performance**

The operating performance of FRHL continued to remain stable as the company generated a revenue of Rs. 153.22 crore in 9MFY2023 as against revenue of Rs. 127.43 crore in FY2022 and Rs.53.39 crore in FY2021. 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. The company however continued to register losses after tax. The Cidade de Goa hotel was under renovation for which 97 rooms were shut leading to lower occupancy. However, going ahead the occupancy levels are expected to improve as the renovation is completed in December 2022 and the hotel is fully operational since January 2023. Additionally, the company has a hotel at Sindhudurg which is under construction with a capacity of 32 rooms and is expected to be completed over the near to medium term.

Acuite believes that the revenue of the company is expected to improve on account of the expected improvement in occupancy levels backed by completed renovation.

### **Moderate Financial Risk Profile**

FRHL has a moderate financial risk profile marked by a healthy tangible net worth, moderate gearing and stretched debt protection metrics. The tangible net worth of the company stood at 253.71 crore as on 31st March, 2022 as against 127.97 crore as on 31st March, 2021. The improvement is primarily on account of conversion of unsecured loans from group company into equity share capital. FRHL converted unsecured loans from Fomento resources pvt ltd. of Rs. 171.20 crore into equity shares of face value Rs.10 and share premium of Rs.126 per share in FY2022. The total debt of the Company stood at Rs. 479.59 crore as on Decemeber 31, 2022 as against Rs. 505.24 crore as on March 31, 2022 which constitutes of long term borrowings. The overall gearing level of the company stood moderate at 2.00 times as on 31st March, 2022.

The debt protection metrics of the company is stretched marked by interest coverage ratio of 2.52 times in FY2022 as against 1.51 times in FY2021. The Debt to EBITDA ratio stood at 16.96 times for FY2022. The company has sufficient liquid cash balance and DSRA balance to meet its debt repayment obligations. As on January 31, 2022 the company has created DSRA of Rs. 16.50 crore with HDFC Bank. Further, FRHL has prepaid its principal debt obligation of Rs.25.63 crore for FY2023. The cash and bank balance of the company stood at Rs. 114.40 crore as on March 31, 2022.

Acuité believes that the financial risk profile of the company will improve over the medium term on account of expected improvement in operating performance and absence of any debt-funded capex plan.

### **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 exposure to environmental risks is minimal. Certain key issues like GHG emissions, air pollutant emissions, energy efficiency, waste, water efficiency and water pollution are material to the industry. An assessment on these parameters ascertains the potential of the companies to manage climate risks. 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. Further, the practices adopted for employees including employment quality, human rights, employee safety and equal opportunity are of high materiality. On the governance front, the primary material issue is maintaining strong business ethics. Other factors like management compensation and board independence are also of high relevance for the industry.

FRHL is involved in CSR activities in the areas of promoting education, art and culture, healthcare and destitute care. The company also contributes towards eradicating hunger, poverty, malnutrition and welfare. The company's CSR activities also includes contribution towards training and empowering women from economically backward groups.

### **Rating Sensitivities**

- Significant improvement in occupancy levels and profitability margins
- Significant deterioration in the financial risk profile of the company.

### **Liquidity Position Adequate**

The liquidity position 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 net cash accruals in the range of 19-34 crore in the medium term as against debt repayment obligation of Rs.25.63-52.72 crore during the same period. Acuite believes the liquidity profile of the Company shall remain adequate on account of moderate net cash accruals against repayment obligations supported by healthy unencumbered cash and bank balance and maintenance of sufficient DSRA.

### **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' incase of deterioration in liquidity profile on account of lower than expected generation of cash accruals or incase of any debt funded capex plan adversely impacting the financial risk profile of the Company.

### **Other Factors affecting Rating None**

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

None

**ANY OTHER INFORMATION**

None

**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	2.00	4.41
PBDIT/Interest	Times	2.52	1.51

**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**

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

**Rating History**

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Aug 2022	Term Loan	Long Term	25.42	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	186.14	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	53.53	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	185.76	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	28.10	ACUITE BBB   Stable (Reaffirmed)

	Proposed Bank Facility	Long Term	0.05	ACUITE BBB   Stable (Assigned)
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)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.06	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	61.45	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	310.45	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	49.32	ACUITE BBB   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	57.72	ACUITE BBB   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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