

Press Release

Zon Hotels Private Limited (erstwhile Shrem Resort Private Limited)

June 01, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	142.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	142.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 142.00 Cr bank facilities of Zon Hotels Private Limited (ZHPL; erstwhile Shrem Resort Private Limited). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the improving business risk profile of the two hotel properties, their favorable location and the resourcefulness and willingness of the promoters to support the business operations demonstrated by way of a shortfall undertaking to the lenders stating to make good or provide for any shortfall in funds. Moreover, the rating has also considered the continuous infusion of funds by promoters in ZHPL, in the form of unsecured loans and also conversion of USL to equity during FY2021. These unsecured loans are also subordinated to the bank debt. Further, Acuite has also taken into cognizance the improving nature of occupancy and ARR of the hotel properties in FY2022 from FY2021, post lifting of lockdown and restrictions and also being based out of Goa which continues to be one of the highly visited locations in India.

About the Company

ZHPL, incorporated in the year 2010 by Mrs. Sarika Gupta and Mrs. Sunita Gupta, is engaged in hospitality business and owns two hotels in North Goa, under the brand name "Novotel". The company was renamed as "Zon Hotels Private Limited" in 2019 (earlier known as Shrem Resort Private Limited). The promoters of ZHPL belong to the Gupta family with Route Mobile Limited (RML) as their flagship company. ZHPL has a management contract with Accor Group for running the two hotels which also extends the brand name of "Novotel".

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Zon Hotels Private Limited (erstwhile Shrem Resort Private Limited) (ZHPL) for arriving at the rating, while also factoring support from promoters in the form of a shortfall undertaking subordinated to lenders to provide for any inadequacy.

Key Rating Drivers

Strengths

Resourcefulness and intent of promoters to support business in the form of shortfall undertaking subordinated to lenders

The promoters of ZHPL belong to Gupta family, with RML being their flagship company. Route Mobile Limited is promoted by Mr. Sandipkumar Gupta, Mr. Rajdeepkumar Gupta and Mr. Chandrakant Gupta who are highly experienced business professionals in the line of software designing and development. In September, 2020, RML came out with an IPO and raised ~600 Cr. Post issue the shareholding of promoters stood at 66 percent with a valuation of ~Rs.6,500 Cr. as on February 2021. The promoters are high-networth individuals (HNI) with a willingness to support their businesses, demonstrated from the continuous infusion of unsecured loans and equity funds into ZHPL. The promoters over the years have infused Rs.56.8 Cr (Rs.40 Cr converted to equity during FY2021) as well as an amount of Rs.3.56 Cr was infused during FY2022 to support the business operations of the company. Moreover, the intent of support is also expressed through a shortfall undertaking extended to lenders to highlight support to the business in case of any shortfall or exigency.

Acuité has derived comfort from the net worth of promoters, shortfall undertaking provided to the lenders and historical trend of infusion of unsecured loans in the business.

Presence of long-term management contract along with association with reputed brand

The business risk profile is supported by presence of a long-term management and operation contract with Accor India; a multinational hospitality company that owns, manages, and franchises hotels, resorts, and vacation properties. Accor India ensures the marketing and sales strategies along with the day-to-day management of operations in the hotel. The hotel management agreement (HMA) with Accor India was signed in 2012 and is for a period of 25 years. Further, the business remains supported by the extension of 'Novotel' brand to the hotel since 2012. This is expected to add benefit to the operations of the hotel properties and lead to improved occupancy levels and ARR levels in the near to medium term.

Favourable and strategic location of both hotels, based out of Candolim in Goa

Goa remains as one of the most highly visited tourist and leisure spot in India. The hotels are both located one of the bustling areas, near the Candolim beach at Goa. Both the properties are located close to each other and is close to most touristy areas in Goa. The hotels attract diverse set of customers ranging from corporate clients, tourists and other customers. The hotels also have tie-ups with online portals such as 'Booking.com', 'MakeMyTrip', 'Expedia.com', among others. The hotel attracts diversified set of customers. Major revenue contributing segment remains the travel customers both foreign and local which is contributing about 60 percent of total gross revenues, 30 percent is from corporate tie-ups and remaining from other miscellaneous activities. Online bookings report revenues of approx. 40 percent to the revenues and 40 percent through direct bookings, remaining 20 percent is by way of contracting through tour operators.

Improving nature of occupancy rates and ARR

ZHPL's hotel properties have shown adequate traction in the ARR and occupancy levels in FY2022 as compared to FY2021. Both properties recorded an average occupancy level of 55 percent to 60 percent and ARR of Rs. 5,553 to Rs.7,812 in FY2022 as against 22 percent to 40 percent and Rs. 3,084 to Rs.3,117 in FY2021. The difference in ARR levels and occupancy levels in March 2021 is because of outbreak of COVID since March, 2020 and initial announcement of lockdown. Further, the operations remained highly impacted in Q1 and Q2 of FY2021 due to lockdown across the nation. The operations however gradually picked up from September 2020 and with an occupancy of 88 percent in January 2021. The ARR had also improved significantly during that period and it stood at Rs.5,762 to Rs.6,238. F&B revenues were reported lower at 16 percent in FY2022 and FY2021. The same remained higher at 24 percent in FY2020.

Acuité believes the occupancy levels and ARR of the two hotels are expected to improve and be in line with historical years (pre-covid) in the medium term, with resumption of traveling

and favorable location of the hotels.

Weaknesses

Average capital structure, though constrained by weak debt protection metrics

The financial risk profile of ZHPL is characterized by an average capital structure of moderate yet declining networth profile, average leverage ratios through overall remain constrained due to weak debt protection metrics. The company reported tangible networth of Rs.37 Cr as on March 31, 2022 (Provisional) as against Rs.47 Cr as on March 31, 2021. The deterioration in networth profile over the last few years is on account of accumulated losses eroding the reserves due to high depreciation. The leverage metrics have also undergone variation on account of the reducing networth levels; the same was reported at 3.79 times as on March 31, 2022 (Provisional) as against 2.92 times as on March 31, 2021. The company does not have any capital expenditure plans entailed for the near to medium term except for routine maintenance of the hotel properties. Due to moderate profitability against high interest and debt payout, the debt protection metrics stood weak with an interest coverage (ICR) and debt service coverage (DSCR) of 0.97 times and 0.77 times for FY2022 (Provisional) as against (0.10) times and (0.09) times for FY2021, respectively.

Acuité believes the financial risk profile is expected to improve in the near to medium term on account of further improvement in the operating performance coupled with healthy traction in the ARR and occupancy levels.

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.

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.

Rating Sensitivities

- Improvement in the operations while improving momentum in occupancy levels and ARR of both hotels
- Improvement in networth levels; any withdrawal of unsecured loans from business
- Higher than expected debt availed leading to weighing down of financial risk profile and liquidity
- Dilution of support from the promoters

Material covenants

None

Liquidity Position - Adequate

Liquidity position is assessed adequate while deriving comfort from the shortfall undertaking extended by the promoters to the lenders to provide funding in case of any shortfall. Additionally, the promoters have also infused funds in the business historically as seen from existing unsecured loans of Rs.28.38 Cr as on March 31, 2022 (Provisional). Further, Rs.40 Cr worth of the unsecured loans in the business was converted to equity during FY2021 and additionally Rs.7.91 Cr was infused. These unsecured loans in the business have also been subordinated to the lenders. The loan repayments are for a period of 15 years with a ballooning structure thereby adding comfort in the form of reduced burden of repayments in the initial period. ZHPL is yet to attain net level break even in the operations, however, cash accruals to witness positive turnaround from FY2023 onwards.

Outlook: Stable

Acuité believes that ZHPL will maintain a 'Stable' outlook and continue to benefit over the

medium term with respect to the extensive experience of management and established brand presence of 'Novotel'. The outlook may be revised to 'Positive', in case the company is able to increase its occupancy levels while maintaining a stable credit risk profile. Conversely, the outlook may be revised to 'Negative' in case there is significant drop in occupancy levels or any deterioration of financial risk profile leading to pressure on liquidity.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	54.05	26.71
PAT	Rs. Cr.	(13.46)	(32.23)
PAT Margin	(%)	(24.90)	(120.67)
Total Debt/Tangible Net Worth	Times	3.79	2.92
PBDIT/Interest	Times	0.97	(0.10)

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

Not Applicable

Any other information

None

Applicable Criteria

- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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
05 Mar 2021	Term Loan	Long Term	142.00	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
Yes Bank Ltd	Not Applicable	Term Loan	17-12-2017	10.50	29-02-2032	142.00	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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