



Press Release
Zon Hotels Private Limited (erstwhile Shrem Resort Private Limited)
August 24, 2023
Rating Upgraded

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

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. 142.00 Cr bank facilities of Zon Hotels Private Limited (ZHPL; erstwhile Shrem Resort Private Limited). The outlook is **'Stable'**.

Rationale for rating upgrade

The rating upgrade of ZHPL takes into account improved operating performance of the company marked by attainment of breakeven during the year driven by improved occupancy rates and average room revenue. The company generated revenue of Rs.93 Cr in FY2023 as against Rs.54 Cr in FY2022. The occupancy rate and the average room revenue recorded an improvement across both the hotels of the company. While relaxation in the covid-19 pandemic restrictions is one of the components for surge in occupancy rates, overall, the average occupancy rate and average room revenue in FY2023 stood at an all-time high in the last 4-year period at both the properties. The average occupancy rate and average room revenue stood at 85 percent and Rs.8,813 respectively for its Novotel Goa, Candolim and at 77 percent and Rs.9,412 respectively for Novotel Goa, Resort and Spa in FY2023. Consequently, the operating margins stood improved at 33.70 percent for FY2023 as against 22.64 percent for FY2022. The net profit margin also improved and stood at 3.54 percent in FY2023 as against net loss margin recorded of (40.08) percent in FY2022.

The rating continues to draw comfort from the resourcefulness and willingness of the promoters to support the business operations through continuous infusion of funds. The promoters converted unsecured loans worth Rs.10 Cr to equity during FY2023. The rating is however constrained by the below average financial risk profile and company's presence in a highly competitive and fragmented industry. Going forward, ability of ZHPL to maintain its scale of operations and profitability, along with improving its financial risk profile and any dilution of support from the promoters will remain a key rating sensitivity factor.

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 Gupta family with Route Mobile Limited (RML) as their flagship company. ZHPL has a management contract with Accor Group for running two hotels which also extends the brand name of 'Novotel'.

Standalone (Unsupported) Rating

ACUITE BBB-/Stable

Acuité has considered the standalone business and financial risk profiles of ZHPL for arriving at the rating while also factoring continuous support from the promoters of RML for any inadequacy.

Key Rating Drivers

Strengths

Resourcefulness and intent of promoters to support the business of ZHPL

The promoters of ZHPL belong to Gupta family, with RML being their flagship company. RML 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. 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 amount of unsecured loans infused in ZHPL have increased to Rs.29.13 Cr in FY2023 as against Rs.28.38 Cr in FY2022. Apart from this, unsecured loans from the promoters of Rs.10 Cr raised additionally during FY2023 have been converted into equity share capital.

Acuité has therefore derived comfort from the promoters network and historical trend of infusion of unsecured loans in the business of ZHPL.

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 hotels attract 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.

Weaknesses

Below average financial risk profile

Financial risk profile of ZHPL is below average marked by low network, high gearing and average debt protection metrics. Tangible network of the company stood at Rs.33 Cr as on March 31, 2023 as against Rs.29 Cr as on March 31, 2021. The gearing (debt-equity) ratio stood improved albeit remained high at 4.00 times as on March 31, 2023 as against 4.80 times as on March 31, 2022. The gearing of the company is expected to improve further and remain moderate over the medium term in the absence of any debt-funded capex plans. The total debt of Rs.134 Cr as on 31 March, 2023, consists of long-term bank borrowings of Rs. 124 Cr and unsecured loans from promoters of Rs.10 Cr.

The interest coverage and DSCR stood improved at 1.99 times and 1.57 times for FY2023 as against 0.51 times and 0.40 times for FY2022. The Net Cash Accruals to Total debt stood at 0.11 times for FY2023 as against (0.05) times for FY2022. The Total outside liabilities to Tangible

net worth stood improved albeit remained high at 4.55 times for FY2023 as against 5.28 times for FY2022. The Debt-EBITDA ratio stood improved albeit remained high at 4.58 times for FY2023 as against 19.71 times for FY2022.

Acuité believes that ability of ZHPL to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

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 ZHPL 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

- Ability to maintain scale of operations and profitability
- Ability to improve financial risk profile
- Dilution of support from the promoters

Material covenants

None

Liquidity Position - Adequate

ZHPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The company achieved breakeven in the operations and witnessed positive turnaround in the cash accruals in FY2023 as against FY2022. The company generated cash accruals of Rs.15 Cr against its debt repayment obligation of Rs.8 Cr during FY2023. Going forward, the NCA are expected in the range of Rs.22 Cr to Rs.26 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.8.40 Cr to Rs.8.45 Cr during the same period. Current ratio stands at 1.11 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.14 Cr in FY2023.

Acuité believes that liquidity of ZHPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	92.65	53.93
PAT	Rs. Cr.	3.28	(21.61)
PAT Margin	(%)	3.54	(40.08)
Total Debt/Tangible Net Worth	Times	4.00	4.80
PBDIT/Interest	Times	1.99	0.51

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2022	Term Loan	Long Term	142.00	ACUITE BBB- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	18.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	124.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

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