

September 22, 2022

## Zuri Hospitality Private Limited: Downgraded to [ICRA]D/[ICRA]D and simultaneously Upgraded to [ICRA]B (Stable)/[ICRA]A4; Ratings withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – CC	4.00	4.00	Downgraded to [ICRA]D from [ICRA]B+ (Negative) and simultaneously Upgraded to [ICRA]B (Stable) and withdrawn
Short-term – Non-fund based	0.75	0.75	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously Upgraded to [ICRA]A4 and withdrawn
<b>Total</b>	<b>4.75</b>	<b>4.75</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade factors in the irregularities in debt servicing by Zuri Hospitality Private Limited (ZHPL) observed by ICRA from the auditor's comments in the financial statements of FY2021. These delays were due to the weakening in the liquidity position of the company during the pandemic period. The no-default-statements taken by ICRA from the company and the feedback received by ICRA from the company's lenders during FY2021/FY2022, however, did not indicate any irregularity in debt servicing. The simultaneous upgrade of the rating factor in the regularisation of debt servicing by the company in the last 12 months aided by favourable demand with sharp recovery in hospitality sector on the back of the opening up of economy.

Aided by demand recovery, the company is expected to witness significant improvement in its topline in FY2023 on YoY basis. Also, sustained cost control measures and improved operating leverage are likely to benefit ZHPL's margins and accruals. However, the extent of improvement remains to be seen. The rating also factors in the company's well-established brand, and financial support extended by the promoters in the form of unsecured loans and loans against fixed deposit (FDs) held by the promoters. Further, the promoters are likely to extend adequate and timely financial support, should there be a need, going forward. The rating, however, is constrained by the company's weak coverage metrics and modest scale of operations. Further, the company is susceptible to revenue risks arising from its single property/geographic concentration, exogenous shocks and competition.

ICRA has withdrawn rating assigned to the bank facilities of ZHPL, upon receipt of withdrawal request from the company and no-objection certification from lenders, in accordance with ICRA's policy on withdrawal of credit ratings.

### Key rating drivers and their description

#### Credit strengths

**Established brand name** – Zuri Hospitality Private Limited (ZHPL/the company) has a well-established brand presence in the Bengaluru market. It operates under the brand name Zuri, which is a well-known leisure hotel brand in India. The hotel has 162 rooms, seven conference halls and five restaurants. The promoters have two other hotels operating in India (located in Goa and Kerala), under the Zuri brand in the luxury segment.

**Track record of adequate and timely financial support from promoters** – The promoters have extended adequate financial support in a timely manner to the company in the past. ZHPL's debt primarily comprised of unsecured loans from the promoters and loans against the FDs held by the promoters. Further, the promoters are likely to extend adequate and timely financial support, should there be a need, going forward.

### Credit challenges

**Modest scale of operations, with sharp dip in revenues/accruals in the last two years due to the pandemic; weak coverage metrics** – ZHPL's already modest scale of revenues were impacted further by the pandemic in the last two years. The company reported meagre revenues of Rs 0.4 crore in FY2021, as against pre-Covid revenues of Rs 35.6 crore (in FY2020). ZHPL registered operating losses of Rs 7.9 crore in FY2021 due to weak operating leverage despite various cost control measures undertaken by the management. This has resulted in weak coverage metrics for FY2021. However, the company has witnessed healthy improvement in demand in the last 2-3 months, and the same is expected to sustain over the near to medium term. This is, in turn, expected to result in significant revenue growth and improvement in margins, although the extent of improvement remains to be seen.

**Exposed to geographical concentration risk and intense competition** – Dependence on a single operational property exposes the company to region-specific risks. The hotel's revenues are also vulnerable to general economic slowdowns, spending pattern of travellers and exogenous shocks such as natural calamities and economic or political instability. Further, the company witnesses stiff competition from other luxury hotels and resorts in the vicinity.

### Liquidity position: Stretched

The company's liquidity position is **stretched** with relatively low accruals expected in FY2023. The company also has relatively low undrawn working capital limits, and cash and bank balances. ICRA notes that, while the liquidity is stretched, the promoters are likely to extend adequate and timely financial support, should there be a need, going forward.

### Rating Sensitivities

**Positive factors** – Not applicable

**Negative factors** – Not applicable

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Hotel Industry</a> <a href="#">ICRA Policy on Withdrawal of Credit Ratings</a> <a href="#">Policy on Default Recognition</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on standalone financial statements of ZHPL

### About the company

ZHPL is involved in the hospitality business in India. It owns a 162-room five-star deluxe hotel in Whitefield, Bengaluru. Previously, it owned three properties, namely The Zuri Varca White Sands Resort & Casino, Goa, The Zuri Kumarakom Resorts & Spa, Kerala and The Zuri Whitefield, Bengaluru. In 2012, these three properties were demerged from ZHPL and incorporated as separate entities. The Zuri Whitefield, Bengaluru was retained under the name Zuri Hospitality Private Limited and the Goa and Kerala properties were incorporated as Silver Springs Pleasure Resorts Private Limited ([ICRA]BB+ (Stable)) and Zuri Hotels

and Resorts Private Limited ([ICRA]BB (Stable)), respectively. Post the demerger, each property is operating as a separate entity with no support from the other properties.

Besides the properties mentioned above, the promoters own two hotels – Diani Reef Beach Resort and Spa, Kenya and The Liner, Liverpool, UK, apart from interests in real estate and floriculture. The floriculture business is conducted through Primarosa Flowers, Kenya.

#### Key financial indicators

Standalone	FY2020 (Audited)	FY2021 (Audited)
Operating income	35.6	0.4
PAT	-3.8	-16.8
OPBDIT/OI	16.8%	-1830.6%
PAT/OI	-10.6%	-3898.9%
Total outside liabilities/Tangible net worth (times)	2.5	3.9
Total debt/OPBDIT (times)	22.6	-18.8
Interest coverage (times)	1.3	-1.9

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

#### Status of non-cooperation with previous CRA:

CRISIL has migrated the rating on bank facilities of Zuri Hospitality Private Limited to 'CRISIL BB-/Stable Issuer not cooperating' on May 28, 2021, continues to be 'CRISIL BB-/Stable Issuer not cooperating' and rating withdrawn on July 07, 2022.

The investors, lenders and all other market participants should exercise due caution with reference to the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING' as the rating is arrived at without any management interaction and is based on best available or limited or dated information on the company. Such non co-operation by a rated entity may be a result of deterioration in its credit risk profile. These ratings with 'ISSUER NOT COOPERATING' suffix lack a forward looking component.

#### Any other information: None

#### Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jun 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 22, 2022	Jul 05, 2021	Sep 18, 2020	Nov 25, 2019
1	Cash credit	Long term	4.00	-	Downgraded to [ICRA]D from [ICRA]B+ (Negative) and simultaneously Upgraded to [ICRA]B (Stable) and withdrawn	[ICRA]B+ (Negative)	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)
2	LC/BG	Short term	0.75	-	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously Upgraded to [ICRA]A4 and withdrawn	[ICRA]A4	[ICRA]A4	[ICRA]A4

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – CC	Simple
Short-term – Non-fund based	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	11.7%	NA	4.00	Downgraded to [ICRA]D from [ICRA]B+ (Negative) and simultaneously Upgraded to [ICRA]B (Stable) and withdrawn
NA	LC/BG	NA	NA	NA	0.75	Downgraded to [ICRA]D from [ICRA]A4 and simultaneously Upgraded to [ICRA]A4 and withdrawn

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis – Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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### Branches



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