

November 25, 2019

Zuri Hotels and Resorts Private Limited: Rating reaffirmed; outlook revised to negative from stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/CC	2.00	2.00	[ICRA]BB+/Reaffirmed; outlook revised to negative from stable
Long Term – Fund Based TL	26.00	26.00	[ICRA]BB+/Reaffirmed; outlook revised to negative from stable
Total	28.00	28.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook on the long-term rating to negative takes into account the weak operating performance of the company during FY2019 and H1FY2020. Revenues declined by 34.0% during FY2019 is primarily on account of the Nipah virus spread across the state of Kerala during Q1FY2019 and floods during August 2018 leading to delay/ cancellation of travel plans. RevPAR (revenue per available room) declined by 34.3% (from Rs. 6,259 in FY2018 to Rs. 4,110 in FY2019) on account of decline in ARR (average revenue per room) from Rs. 9,767 in FY2018 to Rs. 9,586 in FY2019 and weak occupancy level of 43%. However, during H1FY2020, there has been an improvement in operating income by 16.4% due to relatively higher tourist footfalls. The operating margins declined to 6.9% and -0.5% in FY2019 and H1FY2020 respectively on account of on account of higher employee cost (revision of wages), increase in power& fuel expenses (increase in power tariff and fuel prices) in addition to decline in room income. The rating also takes into account weak coverage indicators with (TD/ OPBITDA of 19.1x and interest coverage ratio of 0.5x as of March 31, 2019). The ratings are further constrained by the competition from other luxury resorts within the vicinity of the property and company's modest scale of operations with a single 72 room property at Kumarakom, Kerala. Going forward, the company's ability to increase its revenues by improving its occupancy level and ARR and expand its margins by controlling cost in the face of increasing competition while also maintaining its capital structure would be key rating sensitivities.

The ratings continue to factor in experience of the promoters in the hotel and tourism industry and the financial support extended by the promoters to the company in the form of loans against fixed deposit held by the promoters with no pre-defined repayment terms. ICRA also notes the favourable location of the property on the shores of Vembanad lake in Kumarakom, Kerala a popular tourist destinations in India for both domestic and foreign tourists.

Key rating drivers and their description

Credit strengths

Experience of the promoters in the hotel & tourism industry and strong financial support by the promoters – The Zuri group operates various hotels and resorts across the country and internationally. The management has vast experience in the hotel and tourism industry. 58% of the company's debt primarily comprises of loans against fixed deposits (held by

the promoters). These loans do not have any fixed repayment schedule and are repayable based on annual review, lending financial flexibility to the company.

Favourable location of the property - ZHRPL property on the shores of Vembanad lake in Kumarakom is a 5-star deluxe hotel with 72 rooms inventory. With Kerala being a key destination for foreign tourists travelling to India and domestic travelers, particularly for nature aficionados,; the company is expected to improve its ARR and occupancy on the back of improvement in the state's tourism.

Credit challenges

Operational performance deteriorated in FY2019; marginal improvement during H1FY2020 – ZHRPL operational performance declined in FY2019 due to the Nipah virus spread across the state during Q1FY2019 and floods in August 2018. ZHRPL reported an operating income of Rs. 18.0 crore during FY2019 as compared to Rs. 27.2 crore in FY2018, a decline of 34% on y-o-y basis. Weak absorption of fixed costs owing to fall in revenues impacted the operating margins. However during H1FY2020, the operational performance has improved on back of revival in tourist footfalls in Kerala.

Weak coverage indicators – ZHRPL coverage indicators were stretched with TD/OPBITDA of 19.1x as on March 31, 2019 and interest coverage ratio of 0.5x during FY2019. 58% (Rs. 13.7 crore) of debt is against the fixed deposits held by the promoters of the company with no fixed repayment; repayment of 42% of the debt (Rs. 9.8 crore) is reviewed on annual basis with no pre-defined repayment schedule.

Moderate size of operations and competition constrains the growth of the company - Competition from other luxury resorts such as Coconut Lagoon, Kumarakom Lake Resort etc. reduces the pricing flexibility of the company to a certain extent. In addition, the moderate size of operations increases the vulnerability of revenues to any event risks.

Exposed to cyclical nature of business and other external factors – By virtue of being in the hotel industry, the company is susceptible to risks arising from its cyclical nature. The hotel's revenues are also vulnerable to general economic slowdown and exogenous shocks.

Liquidity position: Stretched

ZHRPL's liquidity is stretched with negative fund flow from operations due to decline in operating performance of the company and weak absorption of fixed cost. ZHRPL's average working capital utilisation stood at 34.5% during the 12-month period ending August 2019. As on March 31, 2019, ZHRPL had cash balance of Rs. 0.1 crore with Rs. 1.7 crore unutilized working capital limits out of Rs. 2.0 crore sanctioned overdraft facility. The company is also dependent on the promoter's support in the form of loans from the banks against fixed deposit held by promoters. Absence of capex and limited burden of term debt repayments supports liquidity profile of the company to some extent.

Rating sensitivities

Positive triggers – An upward movement in rating could happen if substantial growth in revenue and profitability, strengthens the financial risk profile.

Negative triggers – Negative pressure on ZHRPL's ratings could arise if there is decline in performance of the company, withdrawal of financial support by the promoters, or if any major capital expenditure, weakens liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Hotel Industry
Parent/Group Support	NA
Consolidation/Standalone	The rating is based on standalone financial statements company.

About the company

Zuri Hotels and Resorts Private Limited (ZHRPL) is involved in the hospitality business in India. It owns a 72-room 5-star hotel in Kumarakom (Kerala). This property was earlier part of Zuri Hospitality Private Limited (ZHPL) which owned three properties namely the Zuri Varca White Sands Resort & Casino, Goa, The Zuri Kumarakom Resorts & Spa, Kerala and The Zuri Whitefield, Bangalore. In 2012, each of the three properties were demerged from ZHPL and incorporated as separate entities. The Zuri Whitefield, Bangalore was retained under the name Zuri Hospitality Private Limited and the Goa and Kerala properties were incorporated as Silver Springs Pleasure Resorts Private Limited and Zuri Hotels & Resorts Private Limited respectively. Post the demerger each property is operating as a separate entity with no support from other properties.

Besides the properties mentioned above, the promoter Group also owns two other hotels – Diani Reef Beach Resort and Spa, Kenya and The Liner, Liverpool, UK. It also has interests in real estate and floriculture. The floriculture business, by the Group, is conducted through Primarosa Flowers, Kenya.

Key financial indicators (audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	27.2	18.0
PAT (Rs. crore)	1.5	(3.9)
OPBDIT/OI (%)	27.7%	6.9%
RoCE (%)	3.7%	-1.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	3.0	19.1
Interest Coverage (times)	2.8	0.5
DSCR	2.6	0.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	
					25-Nov-2019	26-Nov-2018	03-Oct-2017	11-Jul-2016	
1	Fund Based/CC	Long Term	2.00	0.2	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	
2	Fund Based TL	Long Term	26.00	9.6	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based/CC	-	10.00%	-	2.00	[ICRA]BB+ (Negative)
NA	Fund Based TL	-*	9.00%	-*	26.00	[ICRA]BB+ (Negative)

Source: Company; Note: * Running account repayable on demand subject to annual review/ renewal

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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