September 18, 2020

Zuri Hotels and Resorts Private Limited: Rating reaffirmed

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+ (Negative); Reaffirmed
Long Term – Fund-based TL	26.00	26.00	[ICRA]BB+ (Negative); Reaffirmed
Total	**28.00**	**28.00**	

**Instrument details are provided in Annexure-1*

Rationale

The Negative outlook on Zuri Hotels and Resorts Private Limited (ZHRPL) continues to take into account the expected weakening in the company's performance in FY2021 due to the Covid-19-related lockdown, travel restrictions and safety concerns. Since the pan-India lockdown from March 24, 2020, the hotel has not been open for business. The company reported nil revenues in April and May 2020 though it reported revenues of Rs. 0.2 crore in June 2020 from the sale of beverages and outdoor catering. ZHRPL is expected to generate similar revenues from the sale of beverages and outdoor catering over the next few months. With demand hitting multi-year lows and a recovery still a few quarters away and contingent upon a cure or vaccine, ICRA expects ZHRPL to witness a sharp fall in its revenues and margins in FY2021 despite significant cost-pruning measures. As a result, the company's accruals and liquidity position are likely to weaken materially in FY2021. ZHRPL's coverage metrics are also likely to weaken substantially in FY2021, given the expected increase in the overall debt levels and weaker accruals. The rating is further constrained by the competition from other luxury resorts within the vicinity of the property and the company's modest scale of operations with a single property at Kumarakom, Kerala. Further, with Kerala being largely dependent on foreign tourist arrivals (FTAs), primarily from Arab countries, and meetings, incentives, conferences, exhibitions (MICE), demand from these segments is expected to remain muted in the immediate term.

The rating remains supported by the long-standing experience of the promoters in the hotel and tourism industry along with financial support in the form of loans against the fixed deposits (FDs) held by the promoters (Rs. 13.6 crore as on March 31, 2020 on a provisional basis) with no predefined repayment terms. This provides financial flexibility to the company. ZHRPL also had undrawn bank lines of Rs. 18.0 crore as of July 31, 2020 (out of the sanctioned loan of Rs. 26.0 crore). It also has a comfortable gearing of 0.3 times as on March 31, 2020. Moreover, ICRA notes the favourable location of the property on the shores of Vembanad Lake in Kumarakom, Kerala, which is a popular tourist destination for both domestic and foreign tourists.

Key rating drivers and their description

Credit strengths

Experience of the promoters in hotel & tourism industry along with strong financial support – The Zuri Group operates various hotels and resorts across the country and the globe. The management has vast experience in the hotel and tourism industry. Loans against the FDs held by the promoters accounted for 62% of the company's debt (Rs. 13.58 crore of the total debt of Rs. 21.68 crore as on March 31, 2020 on a provisional basis). These loans do not have a fixed repayment schedule and are repayable based on an annual review, lending financial flexibility to the company.

Comfortable capital structure – As on March 31, 2020, the company's capital structure was comfortable with a gearing of 0.3 times (provisional) on the back of low debt levels and accretion to the net worth. This was on account of the healthy operating accruals over the past few years. The capital structure is likely to remain comfortable going forward as well.

Credit challenges

Sharp decline in revenues and margins expected in FY2021 due to pandemic-induced steep drop in demand – Given the discretionary nature of spend (especially leisure travel), the travel and tourism industry is susceptible to exogenous shocks like wars, terror attacks and disease outbreaks. With demand hitting multi-year lows and a recovery still a few quarters away and contingent upon a cure or vaccine, ICRA expects ZHRPL to witness a sharp fall in its revenues and margins in FY2021 despite significant cost-pruning measures.

Weak coverage indicators – ZHRPL's coverage indicators were weak with TD/OPBITDA of 6.9 times as on March 31, 2020 and an interest coverage ratio of 1.5 times in FY2020 on a provisional basis. With a sharp fall in the operating profits expected in the near term, the debt coverage indicators are likely to deteriorate in FY2021.

Exposed to geographical concentration risk and intense competition – With a single property in Kerala, ZHRPL is exposed to geographical concentration risk. The hotel's revenues are also vulnerable to general economic slowdowns, spending pattern of travellers and exogenous shocks. Moreover, high competition restricts occupancy and reduces the pricing flexibility of the company to a certain extent**.**

Liquidity position: Adequate

Loans against deposits from the promoters comprised 62% of the company's debt (Rs. 13.5 crore of the total debt of Rs. 21.7 crore as on March 31, 2020). These loans do not have a fixed repayment schedule and are repayable based on an annual review, providing liquidity comfort and financial flexibility to the company. The absence of capacity expansion plans, the limited burden of term debt repayments, and the lack of additional working capital funding requirement support the liquidity. As on July 31, 2020, ZHRPL had a cash balance of approximately Rs. 0.7 crore with undrawn bank lines of Rs. 18.0 crore.

Rating sensitivities

Positive triggers – An upgrade is unlikely in the near term, given the negative outlook on the industry on account of the expectations of a severe impact of the pandemic on the travel and tourism business. Nonetheless, a post-pandemic recovery, demonstrated by a sustained improvement in the operational metrics, profitability indicators and coverage metrics, could trigger a change in the outlook.

Negative triggers – A prolonged impact of the pandemic and a longer-than-expected recovery, leading to a deterioration in the company's liquidity and credit metrics, may lead to a rating downgrade. Pressure on ZHRPL's rating could arise if the promoters withdraw financial support or if the company incurs any major capital expenditure.

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 the standalone financial statements of the 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 a 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, these 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 and Resorts Private Limited, 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 promoter Group owns two 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 is conducted through Primarosa Flowers, Kenya.

Key financial indicators

Standalone	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	18.0	20.4
PAT (Rs. crore)	-3.9	-1.8
OPBDIT/OI (%)	6.9%	15.5%
PAT/OI (%)	-21.9%	-8.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	19.1	6.9
Interest Coverage (times)	0.5	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018
					Sep-18-2020	Nov-25-2019	Nov-26-2018	Oct-03-2017
1	Fund Based/CC	Long Term	2.00	1.5	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Fund-based TL	Long Term	26.00	6.5	[ICRA]BB+ (Negative)	[ICRA]BB+ (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)

*Amount in Rs. crore; *Amount outstanding as on March 31, 2020 on a provisional financial basis*

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	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	-*	10.00%	-*	26.00	[ICRA]BB+ (Negative)

*Source: Company; * 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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