

Fomento Resorts and Hotels Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	448.54	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank loan facilities of Fomento Resorts and Hotels Limited (FRHL) factors in satisfactory and long operational track record of the company, strategic and prime location of the property in Goa, tie-up with India Hotels Company Limited (IHCL) for operating Goa hotels under the Taj brand. CARE Ratings Limited (CARE Rating) derives comfort that per hotel operations agreement (HOA) with IHCL, the operator will ensure the hotel's operating profit is benchmarked with comparable peers.

The rating also derives strength from improved operational and financial performance in 11MFY24 aided by completion of renovation of its Cidade de Goa- Heritage (Heritage) property and no impact of COVID-19 translating to healthy debt coverage indicators and adequate liquidity position. While assigning the rating, CARE Ratings also considered that preference shares issued by the associate company, Fomento Resources Private Limited (FRPL, rated at CARE BBB; Stable) are completely subordinated to the rated debt in September 2023. CARE Ratings expects that these preference shares would continue in the business and treated them as quasi equity.

However, rating strengths are partially offset by moderately leveraged capital structure and high repayment obligations in the next two years, dependence on a single property, business being highly susceptible to economic cycles, and operations in a competitive industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Net debt to profit before interest, lease rentals, depreciation, and taxes (PBILDT) falling below 2x and debt service coverage ratio (DSCR) of above 1.75x.

Negative factors

- Significantly declining occupancy and PBILDT margin to less than 30%.
- Significant debt-funded capex, impacting overall gearing more than 2x.
- Change in repayment terms understanding for outstanding preference shares issued by FRHL.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the credit risk profile will remain stable over the near term, supported by healthy cash flows aided by healthy occupancy rates and strong brand recall of the hotel.

Detailed description of key rating drivers

Key strengths

Established and long operational track record of the promoters

FRHL belongs to the Goa-based Fomento group, which has more than six decades of experience in iron ore mining, exploration, and trading activities. FRHL demonstrated its operational track record of more than four decades, with successfully operating The Taj Cidade de Goa – Heritage (Heritage) from 1982, which has 201 keys. To expand operations, the company built Taj Cidade de Goa Horizon (Horizon) with 299 keys, which is adjacent to the existing resort and commenced operations in February 2020. In a recent development, the company has also opened a 25-key resort property in Aarvli, Sindhudurg, Maharashtra, which commenced operation in January 2024.

HOA with IHCL

FRHL entered an HOA dated February 11, 2019, with IHCL (rated CARE AA+; Stable) to manage and operate two of its properties under name "Taj Cidade De Goa- Heritage" and "Taj Cidade De Goa", for 22 years under its Seleqtions brand. In September 2023, both hotels were rebranded to Taj. FRHL operations are supported with benchmarking operational performance with GoPPAR

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Compset (Gross operating profit per available room of competitive set). In CARE Ratings' opinion, presence of such clause would ensure FRHL's performance is in line with industry.

Improved operational and financial performance in 11MFY24

Effectively, FY24 is the first full year for the company, in which entire 500 keys were available for operations without disruptions. FRHL has already surpassed revenues of FY23 in 11MFY24, which improved from ₹226 crore in FY23 to ₹294 crore in 11MFY24. Further, the occupancy rate improved from 64% in FY23 to 69% in 11MFY24, while average room rent (ARR) improved by 15% respectively in the same period. In FY23, FRHL has refinanced its existing debt at the lower interest cost, which led to reduction in interest costs. The company has a tendency to prepay loans at the beginning of the financial year, resulting in reduced interest charges. CARE Ratings expects that the company's revenue would grow at CAGR of 15-18% while maintaining healthy PBDIT margins of 35-40%.

Strategic and prime location of the property and is one of the biggest properties in Goa

The resort is situated at Vanguinim, Goa, and is one of the biggest properties in Goa, with 500 keys and has highest seating capacity in banquets/meeting halls of more than 1000. The resort has been placed as highest ranking across online platforms, which also has additional advantage in terms of booking online.

Key weaknesses

Moderate leveraged with high repayment obligations in the next two years

As of March 2023, the term debt to PBILDT (TD/PBILDT) stood at 7.56x mainly due to Heritage undergoing renovation and full-fledged operations effectively commenced from December 2022. TD/PBDIT is likely to improve to 3.5x for FY24 considering improved profitability and no major debt raising plans. The company has higher repayment obligations of ₹65-67 crore in next two years, which would taper off going forward. The company's ability to sustain improved operational cash flows in the near-to-medium term would be key rating monitorable. As such, presence of GoPPAR compset clause mitigates risk of cashflow volatility to certain extent.

Macro-economic factors and seasonal uncertainty considering operations are largely limited to a single location

The company is exposed to changes in macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand-supply scenarios, competition in the industry, government policies and regulations, and other socio-economic factors, which lead to inherent cyclicity in the hospitality industry. These risks can impact the company's occupancy rate and eventually its profitability. While the company faces inherent risk due to its dependence on a singular property, its strategic location and favourable economic conditions present optimistic prospects for the future.

Liquidity: Adequate

The company maintains adequate liquidity with estimated gross cash accruals of ₹85-100 crore in FY24 and FY25 against a repayment obligation of ₹65-67 crore in the same period. The company has been historically maintaining liquidity as high cash and cash equivalents. Cash and liquid investments stood at ₹108.77 crore as on March 06, 2024, which provide adequate financial flexibility. With the available liquidity, the company is considering debt prepayment, which is likely to improve its debt coverage metrics.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Hotels & Resorts](#)

[Financial Ratios – Nonfinancial Sector](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Leisure services	Hotels & resorts

FRHL is part of Fomento group and is into the hospitality business. FRHL is managed by Anju Timblo, who acts as the Managing Director and CEO, and Auduth Timblo, the Chairman. Currently, FRHL operates two properties, TCDG-Heritage with 201 Keys and

TCDG-Horizon with 299 keys in Goa. The company recently launched a resort, Araquila with 25 Keys at Aarvli, Sindhudurg, Maharashtra.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	February 29, 2024 (UA)
Total operating income	127.79	226.99	294.31
PBILDT	32.63	74.69	125.39
PAT	-50.92	-20.26	NA
Overall gearing (times)	3.40	3.71	NA
Interest coverage (times)	0.57	1.26	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 2033	448.54	CARE BBB+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	448.54	CARE BBB+; Stable	-	-	-	-

LT: Long term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: +91- 22- 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Karthik Raj K Director CARE Ratings Limited Phone: +91-80- 4662 5555 E-mail: karthik.raj@careedge.in</p> <p>Himanshu Jain Associate Director CARE Ratings Limited Phone: +91-80- 4662 5528 E-mail: himanshu.jain@careedge.in</p> <p>Sowmya Yatham Assistant Director CARE Ratings Limited E-mail: Sowmya.Yatham@careedge.in</p>
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About us:

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