

February 17, 2017

Ramee Hotels Private Limited

| Instrument* | Rated Amount (Rs. in crore) | Rating Action |
|---------------------------------------|--------------------------------|-----------------------------------|
| Fund-based Working Capital Facilities | 8.75 | [ICRA]B+ (Stable) <i>assigned</i> |
| Non-fund Based Limits | 3.50 | [ICRA]A4 <i>assigned</i> |
| Total | 12.25 | |

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced as ICRA B plus)¹ to the Rs. 8.75-crore fund-based working capital facility of Ramee Hotels Private Limited (Ramee or the company). ICRA has also assigned the short-term rating of [ICRA]A4 (pronounced as ICRA A four) to the Rs. 3.50-crore² non-fund based facility of Ramee. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings takes into account the experience of the promoters in developing and ramping up operations in various hotel properties under the Ramee Guestline Hotels brand in India as well as abroad; the advantageous location of the Dadar and Pune hotels; which has translated into healthy occupancy levels and the company's strong net worth base.

The ratings are, however, constrained by the stressed financial profile of the company, characterised by net losses in the last few fiscal years; modest cash accruals; and the weak credit history till FY2015. The ratings are further constrained by the pressures on average room rate (ARR) and revenue per available room (RevPAR) owing to slowdown in business activity and rising competition. Given the inherently high operating leverage of the hospitality industry, the reliance on remunerative RevPAR will be critical to improve profitability from the current levels. ICRA also notes that the company has significant investments in subsidiaries/group entities, wherein lack of commensurate returns has kept the return indicators subdued. Furthermore, judicious funding mix for its upcoming Khar project will be critical for its near term credit profile.

Key rating drivers

Credit strengths

- Proven track record of the promoters in developing and ramping up operations in various hotel properties under the Ramee Guestline Hotels brand in India as well as abroad
- The healthy occupancy level of the Dadar and Pune hotels
- The company's strong net worth base

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- Stressed financial profile of the company characterised by losses at net level, modest cash accruals and debt coverage indicators
- Pressures on average room rate (ARR) at both the hotels
- Stretched liquidity position as reflected in the high utilisation of its bank limits
- Inherently high operating leverage of the hospitality industry increases the reliance on remunerative RevPARs to improve profitability from current levels
- Significant investment made in subsidiaries/group entities, wherein lack of commensurate returns suppresses the return indicators
- Upcoming debt-funded capex for its new project in Khar to put pressure on its credit metrics in the near term
- Vulnerability to industry risks such as cyclicalities, general economic slowdown and exogenous shocks

Description of key rating drivers:

Ramee is a part of the Ramee Group, which operates two hotels under the “Ramee Guestline Hotels” brand. The group has 34 hotels worldwide, including six in India. The Ramee Group is focused on the West Asian countries, and has interests in hospitality, real estate, and construction. Ramee operates two hotels in India and both these hotels are favourably located either in commercial hubs (where numerous reputed IT/ITeS and financial services companies are present) or in tourist spots. The 58-room Dadar hotel is a four-star property that is 800 meters from the Dadar station, 500 meters from Dadar TT Circle, ~14 km from the international airport, ~11 km from the domestic airport and in proximity to tourist places such as Shree Siddhivinayak Temple and Worli sea face. The 88-rooms Pune hotel is ~6kms from Pune station, ~13 kms from Pune Airport, 1.2 km from Shaniwar Wada, 1.6 km from the Raja Dinkar Kelkar Museum and 2.4 km from Nehru Stadium. The average occupancy rate is 84% in the Dadar Hotel and 68% in the Pune hotel. Nevertheless, pressures on ARR and RevPAR persist owing to slowdown in business activity and increase in competition.

In the light of the impending capex (FY2018) towards the third service apartment property in Khar, the company’s ability to limit external funding to meet funding gaps and improve its debt metrics remains to be seen. In the event of the company availing external debt, its ability to timely service debt obligations will be a key monitorable, given the modest cash accruals. ICRA, however, draws comfort from the timely and the adequate support from the parent in the past. Furthermore, with significant investment in subsidiaries/group companies, the company’s investments are vulnerable to any diminution in the value, given the modest revenue generation and weak profitability of its subsidiaries. While the revenues will remain susceptible to adverse market conditions, as its operations are limited to two geographies (Mumbai and Pune) and a single sector (hospitality), lower-than-anticipated ARR (Average Room rate) and maintenance of high occupancy levels will be important to scale up of operations as well as profitability.

Analytical approach:

To arrive at the ratings, ICRA has taken into account the standalone financials along with key operational developments in the recent past.

Links to applicable criteria:

<http://www.icra.in/Files/Articles/2014-August-Rating-Methodology-Hotel.pdf>

Corporate Credit Rating – A Note on Methodology

About the company:

Incorporated in 1998 and promoted by the Shetty family, Ramee Hotels Private Limited (Ramee or the company) is engaged in the hospitality business and operates two hotels in Mumbai and Pune. The registered office is in Santacruz, Mumbai.

The promoter Mr. Vardaraj M Shetty is actively involved in the group's business. The Ramee India group, comprising two other companies and around six subsidiaries, is engaged in the hospitality, construction and security and protection business. Ramee acts as a holding company to its subsidiaries and also holds stake in two other companies under the same group. The three companies operating in India namely; Ramee Hotels Pvt. Ltd (RHPL), Ramani Hotels Limited (RHL) and Creative Hotels Pvt. Ltd (CHPL), have a common management and brand - Ramee Guestline Hotels, and derive considerable synergy from intra group operational and financial linkages.

The group also operates 34 hotels world-wide, with focus on the Gulf countries and has a total room capacity of ~3000 rooms.

Ramee recorded a net loss of Rs. 3.06 crore on an operating income of Rs. 27.16 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table: Rating History

| S.No | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|------|-------------------------|----------------|---------------------------|---------------------|---|--------------------------------|--------------------------------|
| | | Type | Rated amount (Rs. Crores) | Month-year & Rating | Month-year & Rating in FY2016 | Month- year & Rating in FY2015 | Month- year & Rating in FY2014 |
| | | | | February 2017 | | | |
| 1 | Working Capital Limits | Long Term | 8.75 | [ICRA]B+ (Stable) | - | - | - |
| 2 | Non-Fund based facility | Short Term | 3.50 | [ICRA]A4 | - | - | - |

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
Details of Instrument

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|---|-------------------------|--------------------|----------------------|-----------------------------------|-----------------------------------|
| Working Capital Limits- Miscellaneous Cash Credit | - | - | - | 8.75 | [ICRA]B+(Stable) |
| Non-Fund based Letter of Guarantee facility | - | - | - | 3.50 | [ICRA]A4 |

Source: Ramee

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About ICRA Limited:

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