Ramee Hotels Private Limited

March 29, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based Overdraft	8.75	10.00	[ICRA]BB-(Stable); Upgraded from [ICRA]B+(Stable)
Fund based Term Loan	-	48.50	[ICRA]BB-(Stable); Upgraded from [ICRA]B+(Stable)
Non fund based Bank Guarantee	3.50	2.50	[ICRA]A4; Reaffirmed
Unallocated Limits	-	0.25	[ICRA]BB-(Stable) Upgraded from [ICRA]B+(Stable)/[ICRA]A4 Reaffirmed
Total	**12.25**	**61.25**	

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]B+ (pronounced ICRA B plus) with a Stable outlook for the Rs. 10.00-crore[1] (previously Rs. 8.75 crore) fund-based overdraft facility and the Rs. 48.50-crore (previously nil) term loan facility of Ramee Hotels Private Limited (Ramee or the company). ICRA has also reaffirmed the short-term rating at [ICRA]A4 (pronounced ICRA A four) to the Rs. 2.50-crore (previously Rs. 3.50-crore) non-fund based facility of Ramee[2]. ICRA has also upgraded the long term rating to [ICRA]BB- (Stable) and reaffirmed short term rating at [ICRA]A4 ratings to the Rs. 0.25-crore (previously nil) unallocated limits of Ramee.

Rationale

The long-term rating upgrade takes into account the turnaround in operations, with net profits reported in FY2017 on account of better absorption of operating costs and satisfactory progress of the capex incurred on its new serviced apartment project, which provides avenues for scaling up and a diversified revenue stream in the near term. The ratings continue to favourably factor in the experience of the promoters in the hospitality industry in India and abroad and the favourable location of the Dadar and Pune hotels with established corporate tie-ups translating into healthy occupancy levels. The ratings also take into account the company's strong net-worth base, with timely and adequate support from Group companies/promoter in case of cash flow mismatches.

The ratings, however, continue to remain constrained by the modest scale of operations with concentration on two hotel assets, low net profitability levels, as well as weak return indicators, given significant investment in subsidiaries, which do not yield adequate returns. The ratings are further constrained by the pressures on average room rate (ARR) and revenue per available room (RevPAR) owing to linkage with economic activity and intense competition. ICRA also notes that the company is in the midst of incurring capex for its new serviced apartment project at Khar, Mumbai, which

[1] *100 lakh = 1 crore = 10 million*

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

is expected to become operational by May 2018. Given the debt funded nature of this project, the coverage indicators in the near term may face some stress till operations are stabilized.

Going forward, the ability of the company to scale up through better ARR realisations for its existing hotels, as well as stabilisation and commensurate returns from its new Khar property will be key for improved revenue and profitability. Adequate returns from the investment in subsidiaries will also be a key monitorable, as any further support can constraint the cash flows at a standalone level.

Outlook: Stable

ICRA expects Ramee to continue to benefit from the support and extensive experience of the Group in the hospitality industry. The outlook may be revised to Positive if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to Negative if losses are reported or cash accrual is lower than expected, or if the aforementioned capital expenditure impinges the debt metrics, or stretches the working capital cycle, weakening the liquidity profile. ICRA also notes that the company has significant investments in subsidiaries/Group entities and has an upcoming project in Khar, Mumbai. Any lack of commensurate returns from these investments will be critical for its near-term credit profile.

Key rating drivers

Credit strengths

Presence of the Group in the hospitality industry for over three decades - Part of the Ramee Group, the company operates two hotels under the brand, 'Ramee Guestline Hotels'. The Ramee India Group has 34 hotels worldwide, including six in India. The Group is focused on the West Asian market, with interests in hospitality, construction and real estate.

Favourable location in commercial hubs of Mumbai and Pune; established tie-ups with corporate players - The 58-room Dadar hotel is just 800 meters from the Dadar station and in proximity to international airport and tourist spots such as the Shree Siddhivinayak Temple and the Worli sea face. It offers facilities like restaurant, conference room, fitness centre, spa facilities, tea lounge and roof-top venue. The 88-room Pune hotel is located in proximity to Shaniwar Wada as well as to the Pune railway station and airport. It offers facilities like in-house restaurant as well as caters to corporate requirements.

Both the hotels are favourably located, in commercial hubs, where multiple reputed IT/ITeS and financial services companies are present, along with proximity to tourist spots as reflected in average occupancy of 84% at the Dadar hotel and 72% at the Pune hotel in 7MFY2018. A bulk of the room bookings come through online portals, corporate tie-ups and business travellers.

Recovery from net losses in FY2017 - The OPM improved in FY2017 to 23% owing to general cost curtailment and better absorption of costs, subsequently the company recovered from net losses in FY2017 as it reported PAT of Rs. 0.24 crore, after posting losses for the period under study. The net cash accruals stood at Rs. 4.25 crore in FY2017 and has shown steady improvement over the last three years.

Strong net-worth base; timely and adequate support from Ramee Group – The networth base of Ramee as of March 2017 stood at Rs. 262.77 crore. The Group companies extends timely and adequate financial support in case of any cash flow mismatches. In FY2017, Ramee raised Rs. 7.08 crore through equity, which was entirely issued to Ramee Investment Limited, Mauritius, and the proceeds were used for funding the capex at Khar. Previously in FY2016, Ramee had issued equity to the tune of Rs. 14.84 crore to Ramee Investment Limited, Mauritius (also the holding company) and Ramee Constructions Pvt. Ltd. to repay a long-term debt.

Credit challenges

Modest profitability with a history of recent losses - The operating income of Ramee has grown at a CAGR of 7% over the period FY2012–FY2017 with a flat y-o-y growth of 5-6% witnessed over the last three years. Concentration on two hotel assets have led to a modest operating scale. While the company's operating margins have remained volatile but moderate, the high depreciation charges on the investment in hotel properties, land and interest expense on external debt availed have led to net losses in the past. The company reported modest PAT of Rs. 0.24 crore in FY2017, recovering from the net loss of Rs. 3.06 crore in FY2016. In line with the thin profitability on a considerably large capital employed base, the return indicators stood weak at ~1% in FY2017.

Pressures on ARR at Dadar, Mumbai and Pune hotels - The ARR growth is a factor of the demand environment as well as competitive pricing, which the hotel follows by implementing tariff changes to compete. Despite healthy occupancy, the ARR growth in the Pune and Dadar hotel has remained flat owing to slowdown in business activity and increasing competition from the other four star and budget hotels, necessitating the company to fix prices dynamically based on the competition's price changes. Due to excess supplies and increasing competition, the RevPAR of the Dadar hotel has witnessed a decline in the current fiscal. Nevertheless, the occupancy and ARR trends in the peak season, which starts in second half of the year remains to be seen. With significant debt funding, the ability to generate remunerative RevPAR for the new serviced apartment project will be critical for debt servicing.

Significant investment in subsidiaries, wherein lack of commensurate returns suppress return indicators - The company increased its investments by Rs. 2.87 crore in FY2017 taking the total investments in Group companies to Rs. 87.35 crore. Given the significant investment in subsidiaries/Group companies, any diminution in the value of such investments will have a negative bearing on the overall financial profile of the company.

Debt-funded capex for new serviced apartment project underway; commensurate returns in the near term critical to improve coverage indicators - The capex was undertaken for the construction of the 96-room serviced apartment project, 'Ramee Heights', in Khar, Mumbai targeted at non-residential Indian (NRI) or expatriate end-users for longer stay tenure and offers high-end amenities. The initial funding of the project was through promoter's contribution and was implemented in a phased manner. The total capital expenditure was to the tune of ~Rs. 109 crore and the company has recently availed an external debt to the extent of Rs. 48.50 crore (~44% of the project funding). While the capital structure (TD/TNW) is likely to remain stable owing to the large net-worth base, the coverage indicators (viz. TD/OPBDITA and OPBDITA/Interest) are likely to weaken in the near term. Hence returns from this capex from FY2019 onwards will be critical for the overall credit profile of the company. However, the long repayment schedule and the ballooning repayment structure of the term loan availed are expected to support the debt service cover ratio in the near term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Entities in the Hotel Industry

About the company:

Incorporated in 1998 and promoted by the Shetty family, Ramee Hotels Private Limited is engaged in the hospitality business and operates two hotels in Mumbai and Pune. Its registered office is in Dadar, Mumbai.

The company's 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 real estate and security and protection business. Ramee acts as a holding company for its subsidiaries and holds stake in two other Group companies. The three companies operating in India—Ramee Hotels Pvt. Ltd. (RHPL), Ramani Hotels Limited (RHL) and Creative Hotels Pvt. Ltd. (CHPL)—share a common management and brand, 'Ramee Guestline Hotels', while deriving considerable synergy from intra-group operational and financial linkages. The Group also operates 34 hotels worldwide, with a total capacity of ~3,000 rooms, with focus on the West Asian market.

In FY2017, the firm reported a net profit of Rs. 0.24 crore on an operating income (OI) of Rs. 28.48 crore, as compared to a net loss of Rs. 3.06 crore on an OI of Rs. 27.16 crore in the previous year.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	27.16	28.48
PAT (Rs. crore)	-3.06	0.24
OPBDIT/ OI (%)	20.8%	22.5%
RoCE (%)	1%	1%
Total Debt/ TNW (times)	0.04	0.04
Total Debt/ OPBDIT (times)	1.82	1.64
Interest Coverage (times)	2.20	3.26
NWC/ OI (%)	42%	11%

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating (FY2018) Date &Rating March 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 -	Date & Rating in FY2015 -
Overdraft	Long Term	10.00		**[ICRA]BB- (Stable)**	[ICRA]B+ **(Stable)**	-	-
Term Loan	Long Term	48.50	**25.00***	**[ICRA]BB- (Stable)**	-	-	-
Bank Guarantee	Short Term	2.50		**[ICRA]A4**	**[ICRA]A4**		
Unallocated Limts	Long Term/ Short Term	0.25		**[ICRA]BB- (Stable)/ [ICRA]A4**	-	-	-

**as on December 31, 2017*

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	Overdraft		NA	-	10.00	[ICRA]BB-(Stable)
NA	Term Loan	16-March-2017	NA	FY2026	48.50	[ICRA]BB- (Stable)
NA	Bank Guarantee		NA	-	2.50	[ICRA]A4
NA	Unallocated Limits	-	NA	-	0.25	[ICRA]BB-(Stable)/ [ICRA]A4

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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