

Classic Citi Investments Private Limited (Revised)

November 30, 2022

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term Bank Facilities	72.40 (Reduced from 77.43)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed and removed from Credit watch with Negative Implications; Stable outlook assigned
Total Bank Facilities	72.40 (₹ Seventy-two crore and forty lakhs only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the long-term rating on the bank facilities of Classic Citi Investments Private Limited (CC IPL) factors in revival in the business hotels (The Westin Pune and Le Meridian Nagpur) with healthy operating metrics of luxury resort (W Retreat & Spa, Goa) in FY22 (refers to the period April 01 to March 31) & H1FY23. The rating also derives comfort from one of the extensively experienced and resourceful promoters having long track record in hotel industry, marketing cum management tie-up with Marriott International, New York, the properties being upscale hotels and resorts located in prime locations, stable cash flows from commercial space of CC IPL, comfortable capital structure and stable industry outlook.

The rating strengths are tempered by on-going probe against the other promoter, medium scale of operation, geographical concentration, high susceptibility to economic cycles and operations in highly competitive industry.

CARE has removed the ratings on the bank facilities of CC IPL from Credit Watch with Negative Implications (CWN) and assigned Stable outlook. The ratings were placed on CWN, due to impending implication of the arrest of Mr. Avinash Bhosale, who along with his son holds 50% stake in CC IPL. Since the arrest has not resulted in any financial implication on CC IPL and the adjudication is now expected to take long without any negative impact on the hotel's performance, the credit watch is lifted.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained improvement in occupancy rate and ARR as envisaged for respective hotels particularly The Westin, Pune.
- Sustained PBILDT margin at 25-30% going ahead coupled with envisaged TOI.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Additional debt further leveraging the profile of the company resulting in overall gearing above 1.50x.
- Deterioration in liquidity profile.
- Substantial decline in operating metrics of the hotel.
- Any negative implication on the credit profile of the company arising out of the ongoing issues with one of the promoters.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy recovery in operational performance in FY22 followed by H1FY23: During FY22, CC IPL reported growth in total operating income (TOI) by 64.49% to ₹.156.38crore along with 42.93% growth in PBILDT to ₹.19.71crore. The growth is backed by improved operating metrics post pandemic with increase in economic activities. The occupancy (on a consolidated basis)

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

improved to 50% with ARR of ₹.10,707/- and RevPar of ₹.6,338/-. The key performance indicators (KPI) remained in line with the industry average metrics.

During H1FY23, the company reported TOI of ₹.118.17crore. CCIPL's KPI surpassed the pre-covid level in H1FY23 marked by occupancy of 69%, ARR of ₹.11,523/- and RevPar of ₹.8,297/-.

Performance of The Westin, Pune picked up wherein the revenue model is driven by corporates and foreign visitors. Le Meridian, Nagpur also performed well given tie up with airlines for minimum room nights of 20-25 rooms irrespective of actual occupancy. W Retreat & Spa, Goa was a stellar as the leisure segment has witnessed better recovery than business segments.

The performance is expected to remain strong in H2FY23 particularly Q3 of the fiscal being the peak performing months. As demand aligns with the pre-pandemic levels, H2FY23 looks promising.

Marketing-cum-management tie-up of CCIPL with Marriott International, New York: CCIPL has a tie up with Marriott International, Inc. for the management-cum marketing of the hotel in Pune under Westin brand (upscale hotels and resorts brand), Le Meridien brand for Nagpur hotel and W Retreat and Spa Goa (Owned by its subsidiary). It is one of the leading hotel and leisure companies in the world with presence over 100 countries. The Marriott group has 1200 hotels globally (owned and managed properties), which it operates under established brands such as W-Hotels, Westin, Sheraton, and Le Meridien.

Prime locations of the properties: CCIPL on consolidated basis owns three hotels each at Pune, Nagpur and Goa. The Westin, Pune is in operation for more than 13 years, and is one of the upscale and luxury hotels in 5-star category hotels operating in Pune, with 277 keys. It also is in proximity to various prime locations of the Pune city.

Le, Meridien, Nagpur is in operation for more than 13 years, and is also one of the upscale and luxury hotels in 5-star category hotels operating in Nagpur with 132 keys. The property has tie up with one of the leading airlines companies for minimum 20-25 room nights which ensures stability for part of hotel revenues.

W Retreat & Spa, Goa (owned by wholly owned subsidiary, Diana Buildwell Private Limited, DBPL) commenced operations in December 2016. The hotel is operational in prime location of Goa with 133 keys and has been able to leverage its brand value of 'W' as a premium hotel property in the city over a short span of time.

Recognized brand name; experienced and resourceful promoters: CCIPL is promoted by Sun-n-Sand Hotels Private Limited (SSHPL) and promoters of Pune based ABIL group (Mr. Avinash Bhosale and Mr. Amit Bhosale). The ratings gain strength from the successful track record and vast experience of the promoters in the hospitality and real estate sectors.

SSHPL is led by an experienced management- Mr. Gul Advani, the Chairman of the company, has experience of more than six decades in the hospitality industry. Mr. Rajesh Advani, MD of the company is actively involved in the company's business operations. SSHPL has a good brand image and recall for both its hotel properties located at Mumbai and Shirdi having 120 keys hotel capacity and hotels equipped with 24-hour amenities. SSHPL is a debt free company. During FY22, SSHPL infused unsecured loans of ₹.76crore in CCIPL to repay the external debt.

ABIL group is headed by Mr. Avinash Bhosale who is under arrest since May 2022 in connection with CBI's probe in the Yes Bank-DHFL fraud case. However, the rating comfort is driven by the experienced promoters - SSHPL who are primarily involved in the day-to-day operations of the hotels and resultantly Mr. Bhosale's arrest has not impacted the operations of any of the hotels. The implication of the ongoing enquiry though remains a key rating monitorable.

Comfortable leverage profile: As on March 31, 2022, capital structure of CCIPL has remained comfortable with debt to equity at 0.88x (PY: 0.85x) and overall gearing at 0.92x (PY: 0.87x). Slight moderation in ratio is on account of net losses reported by the company for the consecutive third year. During FY22, the company recognised expenses of ₹.21.44crore towards renovation

of hotel The Westin, Pune which resulted into net losses in FY22. Leverage profile of the company is though expected to remain comfortable over medium term given no new debt is expected.

Stable cashflows from commercial space CCIPL: Apart from regular hotel business, the cash flows of the company do have a support from lease rentals of commercial space of The Westin, Pune property having leasable area of 0.99 lakh square feet (lsf) which is 100% occupied as on September 30, 2022. Annual rental inflow is close to ₹.9.54crore from 10 tenants.

Key Rating Weaknesses

Medium scale of operation and geographical concentration: The company has medium scale of operations with an aggregate inventory of 542 keys, total operating income close to ₹.150-200 crore with net worth of ₹.290.74 crore as on March 31, 2022. Further, 2 out of 3 properties are in state of Maharashtra exposing it to region-specific event risks. However, the company has mix of business and leisure properties which reduces risk of revenue concentration from single end user segment.

Seasonal industry scenario associated with the hotel industry: The company is exposed to the changes in the 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 leads to inherent cyclicity in the hospitality industry. These risks can impact the occupancy rate of the company and, thereby, the company's profitability. However, these risks are to an extent mitigated by the company through a judicious mixture of business and leisure hotels and a strong brand image.

Hospitality Industry Outlook: After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in Covid cases have helped improve travel sentiment. Though the Omicron wave caused a temporary blip, FY22 has witnessed a sharp rebound in revenues. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE (meetings, incentives, conferences, and exhibitions). The sector is on track to achieve or even surpass the pre-Covid level occupancies in FY23. Demand for leisure travel, business travel for client meetings as well as project work are gaining steam.

Liquidity: Adequate.

Hotel industry in general works on cash and carry business model with timely receipt of payments from corporate clients. CCIPL has cash and bank balance of ₹.17crore as on September 30, 2022. Comfortable operating cycle in range of 5-17 days reduces requirement for any external working capital limits. Further, the company is expected to generate cash flow from operation in range of ₹.65-70crore during FY23 and FY24. Against the available liquidity the company has interest obligation of close to ₹.20crore and repayment obligation of ₹.13.90crore (external debt) in FY23. No new capex is planned however renovation expenses of ₹.20crore is expected during FY23 to be funded through cash flow from operations.

Analytical approach: Consolidated. The consolidated financial statement of CCIPL includes financials of DBPL a 100% wholly owned subsidiary.

Analytical criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Rating Methodology-Factoring linkages in rating](#)

[Hotel](#)

[Policy on Withdrawal of Ratings](#)

About the company

Incorporated in 1999, CCIPL, is a 50:50 joint venture between Sun-N-Sand Hotels Private Limited and Mr. Avinash Bhosale and Mr. Amit Bhosale, promoters of ABIL Group. CCIPL had acquired management control of erstwhile Holiday inn hotel, at Pune in 2002 and rebranded as Sun-N-Sand, Pune. Further, the company had expanded its operation by adding two more hotels namely Sun-N-Sand (Le Meridian), Nagpur (132 rooms, commenced in November 2009) and Westin, Pune (277 rooms, commenced in December 2009). This apart, CCIPL, has commercial space (Business Plaza) of around 0.99l sf of total leasable area, next to hotel property (The Westin, Pune). CCIPL has leased the commercial space to different lessees and agreements are entered into for 10-15 years.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Prov.)
Total operating income	95.07	156.38	118.17
PBILDT	13.79	19.71	29.39
PAT	-26.36	-15.24	5.67
Overall gearing (times)	0.87	0.92	0.85
Interest coverage (times)	0.59	0.91	2.97

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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	-	-	-	December 2027	72.40	CARE BBB; Stable

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (01-Apr-21)	1)CARE BBB+ (CE); Negative (03-Sep-20) 2)CARE A (CE); Negative (29-Apr-20)	1)CARE A (CE); Stable (20-Mar-20) 2)CARE A+ (SO); Stable (04-Apr-19)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	1)Withdrawn (01-Apr-21)	1)CARE BBB- (03-Sep-20)	1)CARE BBB+ (20-Mar-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
							2)CARE BBB+ (29-Apr-20)	
3	Fund-based - LT-Term Loan	LT	72.40	CARE BBB; Stable	1)CARE BBB (CWN) (06-Jun-22) 2)CARE BBB; Positive (05-Apr-22)	1)CARE BBB; Stable (01-Apr-21)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

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

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