

## Rating Rationale

### Ambassador Hotel

11 August 2017

**Brickwork Ratings assigns ratings for the bank loan facilities of Ambassador Hotel.**

#### Particulars

Facility Rated	Amount (Rs. Crs)	Tenure	Rating *
<b><u>Fund Based</u></b>			
<b>Term Loan</b>	<b>6.00</b>	<b>Long Term</b>	<b>BWR B+</b> <i>(Pronounced as BWR Single B plus)</i> <b>Outlook: Stable</b>
<b>Cash Credit</b>	<b>1.50</b>		
<b>Total</b>	<b>Rs. 7.50 Crores (Rupees Seven Crores and Fifty Lacs Only)</b>		

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### **Rationale/Description of Key Rating Drivers/Rating sensitivities:**

In assigning the rating of Ambassador Hotel ( AH or ‘the firm’), BWR has, inter alia, factored in the operational and management agreement with OYO Rooms, subsidiary of Oravel Stays Private Limited, ability of the proprietor to infuse funds into the business, healthy feedback from lenders pertaining to the conduct of account, high occupancy ratio, and ability of the management to establish a strong brand value of the hotel in the vicinity. The rating is, however, constrained on account of low capital base, low scale of operations due to its categorization in a budget three-star hotel property, weak capital structure owing to high debt-equity and high TOL/Proprietor's Capital ratio, weak debt-protection metrics due to insufficient operating income and low cash accruals to service interest and debt payment obligations, competition from other player players in the vicinity, and constitution as a proprietorship concern.

Maintaining higher occupancy ratio in the hotel coupled with increase in revenue from food and beverage services and timely servicing debt obligations would be the key rating sensitivities.

### **Key Rating Weaknesses**

- 1. Scale of operations:** Ambassador Hotel has been categorized as a budget three-star property. The room tariffs and food and beverage rates, charged by the hotel, have a threshold limit to survive in the ever-increasing competition from other hotels in the vicinity. Since the hotel has nascent stage of operations, the revenue from all the operations (Rs. 3.12 Cr in F17 unaudited) has been on a lower side. Further, in FY18, impact of liquor ban will be observed on the overall revenue; however, it might be mitigated partially if the revenue from other services increase as per the estimates.
- 2. Weak debt-protection metrics:** The firm has weak debt protection metrics owing to high TOL: TNW ratio of 3.36 times in FY17 (unaudited) due to low level of capital infusion by the proprietor and high level of external borrowings. The operating income and cash accruals are insufficient to service debt payment obligations which is evident from ISCR of 0.97 times and DSCR of 0.69 times in FY17 (unaudited).

### **Key Rating Strengths**

- 1. Better Hospitality Management:** The firm has entered into an operations and marketing management contract with OYO Rooms, subsidiary of Oravel Stays Pvt. Ltd., for better management of hotel's operations and marketing support.
- 2. Enhanced Brand Value of Hotel:** Ambassador Hotel has been creating a strong brand value in the market which is evident from high occupancy rate of 98% throughout the year, high food and beverage revenue, and strong recommendation ratings verified from online travel portals.
- 3. Healthy Feedback from Lenders:** Lenders have given a healthy feedback of the account on the grounds that the proprietor has never delayed any debt payment obligation and has also paid two loan-instalments in advance. Further, the loans are adequately collateralised.

### **Analytical Approach:**

BWR has factored into standalone business and financial risk profile of the firm to arrive at the rating. The rating criteria has been hyperlinked below for further reference.

### **Rating Outlook: Stable**

BWR believes the **Ambassador Hotel's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show

sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### About the Firm

Ambassador Hotel was set up as a three-star hotel property at Jalandhar, Punjab, by proprietor Mr Simardeep Singh in 2015. The hotel has 33 rooms – 11 standard rooms, 11 deluxe rooms, and 11 suites. The proprietor has taken the leverage in operations and marketing of OYO Rooms, a subsidiary of Oravel Stays Pvt. Ltd. Ambassador hotel has been equipped to provide varied services and houses 3 banquet halls, 3 board rooms, and restaurants.

### Firm's Financial Performance

The firm's revenue has increased by 43% in FY17 (unaudited) on account of higher occupancy rate and revenue from food and beverage services provided by the hotel. Weak debt protection metrics has been observed in the FY17 evident from ISCR of 0.97 times and DSCR of 0.69 times owing to low operating profit margins and cash accruals. Stretched liquidity position is indicated through a low current ratio of 0.43 times due to utilisation of short term funds for long term uses. Further financial data is as under:

Particulars	Units	FY2016	FY2017
		(Audited)	(Unaudited)
Net Sales/Revenues	Times	2.18	3.12
EBIDTA	Crores	0.49	0.96
PAT	Crores	-1.51	-0.72
Tangible Networth	Crores	1.94	2.54
TOL : TNW	Times	5.25	3.36
Current Ratio	Times	0.36	0.43

### Rating History for the last three years: (including withdrawn/suspended ratings)

Sl. No.	Instrument/Facility	Current Rating (Year 2017)			Rating History	
		Type	Amount (Rs Crs)	Rating	2016	2015
1	Term Loans	Long Term	6.00	BWR B+	NA	NA
2	Cash Credit		1.50	Outlook: Stable		



**Status of non-cooperation with previous CRA (if applicable): Reason and comments:**

The client did not provide requisite documents to CRISIL in order to undertake a rating review, as mentioned in CRISIL rationale dated 8 May 2017.

**Any other information: Not Applicable**

**Hyperlink/Reference to Applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Service Sector](#)

**For any other criteria obtain hyperlinks from website**

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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*BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9, 30,000 Cr. In addition, BWR has rated about 5000*



*MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.*

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