

Rating Rationale

Ambience Hotels & Resorts Pvt Ltd

8 Jan 2019

Brickwork Ratings assigns ratings for the Bank Loan Facilities amounting to Rs. 590 Crs of Ambience Hotels & Resorts Pvt Ltd

Particulars:

Facility Rated	Amount (Rs. Crs)	Tenure	Rating *
Fund Based Limits	570	Long Term	BWR BBB [Pronounced BWR Triple B] Outlook: Stable
Non-Fund Based Limits	20	Short Term	BWR A3 (Pronounced BWR A Three)
Total	590	INR Five Hundred Ninety Crores Only	

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results up to FY18, projected financial statements of Ambience Hotels & Resorts Pvt Ltd (AHRPL), publicly available information and information/clarifications provided by the company.

The rating factors positively availment of fresh of bank loans at liberal terms leading to reduced debt obligations for the next few years and escrow of all the cash flows to the Bank with a defined waterfall mechanism.

The rating also takes into account the experienced & resourceful promoters, established track record of the group in the real estate & hospitality sector, operational track record of the hotel under the reputed brand name of ‘The Leela’, consistent occupancy levels of above 75% over the past two years and healthy operating margins. The rating, however, is constrained by cyclicity associated with the hospitality sector, significant investment in a group company which is not yielding any return and limited scope of growth as the company operates only one hotel property. BWR has also taken note that some of the group companies are facing liquidity issues as they are highly leveraged.

Going forward the ability of the company to sustain occupancy levels, improve profitability indicators and ensure timely debt servicing shall remain key rating sensitivities.

Key Rating Drivers:

Liberal Terms of Bank Loans: The company has repaid its earlier loans and received fresh sanction from Yes Bank at significantly better terms. As part of the sanction, the applicable interest rate reduced by more than 100 bps and the repayment period got increased to 15 years as against the residual repayment period of 5 years as per the previous terms. Consequently, the company's debt obligations have come down significantly for the next few years. The repayment amounts for FY20 and FY21 have come down from Rs. 77.60 Crs each year to Rs. 8.75 Crs and Rs. 12.58 Crs respectively leading to improved liquidity position of the company.

Escrow Account with a Waterfall Mechanism: The company is maintaining an escrow account monitored and operated by Yes Bank. All the receivables of the company will get routed through the said account. As per the defined waterfall mechanism, after payment of the statutory dues, the Bank will retain an amount equivalent to the next installment (inclusive of interest) and the remaining will be transferred to the company for their operational expenses. This will ensure that adequate funds are always available for debt servicing.

Operational Performance: The company operates a 322 key five star hotel and 90 key serviced apartments under the brand name of 'The Leela'. The company has been able to maintain an occupancy level of more than 75% for the last two years and the weighted average occupancy for FY18 was 76%. The average ARR for FY18 was Rs. 8140 and RevPAR was Rs. 6205. The indicators are in line with the all India average for 5 star hotels.

Significant Investment in Group Company: The company has invested an amount of Rs. 199 Crs in a group company i.e. Aman Hospitality Pvt Ltd. The said amount has not been generating any returns for the company and recoverability of the same is also uncertain.

Analytical Approach: BWR has assessed the company on a standalone basis. Expected cash flows have been analyzed in line with the waterfall mechanism to ensure availability of sufficient funds for debt servicing.

Please refer to applicable criteria at the end.

Rating Outlook: Stable

BWR believes that Ambience Hotels & Resorts Pvt Ltd'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 company is able to show significant improvement in revenue and profitability indicators. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company:

Ambience Hotels & Resorts Pvt Ltd (AHRPL) was incorporated in October 1994 at New Delhi. The company is operating a five star hotel and Serviced Apartments under ‘The Leela’ brand name. AHRPL belongs to the Delhi based Ambience Group which has its operations in real estate construction and development. The hotel is a 322 key five star property and the company also operates a 90 key serviced apartments property. Both the properties are located at *Ambience Island*, an integrated township consisting of high end residential, corporate offices, institutional spaces and recreational & entertainment facilities besides the 9 hole golf course with Ambience Mall located 1 km away.

Company’s Financial Performance:

Operating income of the company declined marginally on account of some volatility in the occupancy levels. Also, the company is transferring an amount in the range of Rs. 5-6 Crs every year to the furniture/fixtures replacement reserve leading to net loss.

Key Financial Indicators are given in the table below:

Key Financial Indicators			
Particulars	Unit	FY17 (A)	FY18 (A)
Operating Income	Rs. Crores	205.38	195.49
OPBITDA	Rs. Crores	83.40	72.15
Net Loss Carried Forward	Rs. Crores	8.89	9.88
TNW	Rs. Crores	214.99	210.63
Total Debt	Rs. Crores	489.67	449.38
Total Debt : Equity	Times	2.28	2.13

Rating History for the last three years:

Sl. No.	Facility	Current Rating (Jan 2019)			Rating History			
		Type	Amount (Rs Crs)	Rating	Dec 2018	Dec 2017	Nov 2017	2016
Fund Based								
1.	Term Loan	Long Term	500	BWR BBB/Stable	Rating Withdrawn	Prov BWR BBB (SO) (Stable)/ BWR BB (Stable)	BWR BB (Stable)	BWR B+ (Stable)
2.	OD		70					
Non-Fund Based								
1.	Bank Guarantee	Short Term	20	BWR A3	Rating Withdrawn	BWR A4	BWR A4	BWR A4
Total			590	INR Five Hundred Ninety Crores Only				

Status of Non-Cooperation with Previous CRA: NA

Any Other Information: NA



Hyperlink/Reference to Applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Short Term Debt](#)

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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 Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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