

## Rating Rationale

### Ambience Hotels & Resorts Pvt Ltd

December 19, 2017

Brickwork Ratings assigns rating for the Proposed Bank Loan Facilities amounting to Rs. 470 Crs and reaffirms rating for existing bank loan facilities amounting to Rs. 521.52 Crs of Ambience Hotels & Resorts Pvt Ltd.

#### Particulars:

Facility Rated	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present		Previous	Present
Fund Based: Proposed	NA	470.00	Long Term	NA	Provisional BWR BBB (SO) [Pronounced Provisional BWR Triple B (Structured Obligation)] Outlook: Stable
Fund Based: Existing	481.52	481.52		BWR BB (Pronounced BWR Double B) Outlook: Stable	BWR BB (Pronounced BWR Double B) Outlook: Stable (Reaffirmed)
Non-Fund Based	40.00	40.00	Short Term	BWR A4 (Pronounced BWR A Four)	BWR A4 (Pronounced BWR A Four) (Reaffirmed)
<b>Total</b>	<b>521.52</b>	<b>991.52</b>	<b>INR 991.52 Crores (INR Nine Hundred Ninety One Crores and Fifty Two Lakhs Only)</b>		

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

**Note: On sanction & release of proposed term loan, the existing fund based limits will be repaid.**

#### Rationale/Rating Sensitivities:

BWR has principally relied upon the audited financial results of the company up to FY17, projected financial statements up to FY19, publicly available information and information/clarifications provided by the company.

The rating for the proposed limits takes into account the proposed reduction in interest rate, elongation in repayment period and creation of DSRA as a security. The company will repay the existing term loans once the proposed facilities are raised. However, since the limits are yet to be sanctioned, the rating assigned is *Provisional* and will be confirmed on receiving the final sanction letter. Any variation in the actual terms of sanction from the recommended terms may warrant an appropriate rating action.

The ratings continue to factor the consistent improvement in the financial performance of the company marked by improvement in revenue, reduction in net losses and increased cash accruals, track record of the Ambience group, established brand name “The Leela”, sustained occupancy, healthy operating margins and group support. The ratings however, continue to remain constrained by continuous net losses reported by the company and cyclicalities associated with the hospitality sector.

Going forward the ability of the company to receive sanction for the proposed limits as per the proposed terms, maintain occupancy levels, strengthen its capital structure and improve its profitability as also the liquidity position while ensuring timely debt servicing shall remain key rating sensitivities.

**Key Rating Drivers:**

Key Terms of the Refinancing: The Company has engaged the services of a reputed fund arranger and they have proposed key terms of refinancing such as a reduction in the interest rate from existing 12.50% to 10%, elongation of the repayment period from existing residual period of 6 years to 10 years and creation of DSRA equivalent to one quarter’s principal and one month’s interest. With the conclusion of this exercise, the company’s profitability, liquidity and debt servicing ability will improve significantly.

Healthy Operating Margins & Expected Improvement in Net Profit: Even though the company has reported net losses, it has healthy operating margins. The EBITDA margin has remained in the range of 39%-44% over the past four years. AHRPL reported an Operating Profit Margin of 40.61% for FY17.

Despite healthy operating margins, the company has been reporting net losses due to high interest cost. The company recorded interest & financial charges of Rs. 62.91 Crs resulting into a net losses of Rs. 8.89 Crs for FY17. However, the company has reported positive cash accruals of Rs. 25.47 Crs for FY17. Also, once the refinancing is complete, the company’s interest cost will reduce considerably leading to healthy net profits and improved liquidity.

**Analytical Approach:** BWR has assessed the company on a standalone basis. The ‘Structured Obligation’ rating has been assigned for the proposed facilities considering the credit enhancement available in the form of DSRA. Please refer to the 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 improve its profitability and liquidity. The rating outlook may be revised to 'Negative' if there is any further deterioration in the profit margins and liquidity profile.

**About the Company:**

Incorporated in 1994 at New Delhi, Ambience Hotels & Resorts Pvt Ltd (AHRPL) is operating a five star hotel and serviced Apartments under ‘The Leela’ brand name. The hotel is a 322 key five star property operated under the brand name of Leela. The company also operates a 90 key serviced apartments’ property in the same premises.

*For other details, a reference can be made to our rationale dated November 28, 2017.*

**Rating History for the last three years:**

Sl. No.	Facility	Current Rating (Dec 2017)			Rating History			
		Type	Amount (Rs Crs)	Rating	2017	2016	2015	2014
<b>Fund Based</b>								
1.	Proposed TL	Long Term	470.00	Provisional BWR BBB (SO)	NA	NA	NA	NA
2.	CC/OD		40.00	BWR BB	BWR BB	BWR B+	BWR B+	NA
3.	TL		441.52					
<b>Non-Fund Based</b>								
1.	BG/LC	Short Term	40.00	BWR A4	BWR A4	BWR A4	NA	NA
<b>Total</b>			<b>991.52</b>	<b>INR 991.52 Crores (INR Nine Hundred Ninety One Crores and Fifty Two Lakhs Only)</b>				

**Hyperlink/Reference to Applicable Criteria:**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Services Sector](#)
- [Structured Obligation \(SO\) Instruments](#)



Analytical Contacts	Media
<u>RK Sharma</u> GM - Ratings	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>
<a href="mailto:analyst@brickworkratings.com">analyst@brickworkratings.com</a>	<b>Relationship Contact</b>
	<a href="mailto:bd@brickworkratings.com">bd@brickworkratings.com</a>
<b>Phone: 1-860-425-2742</b>	

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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

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been 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 Nationalized 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, 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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