

Press Release

Ambience Hotel & Resorts Pvt Ltd.

November 26, 2019

Ratings

| Sl. No. | Instrument/Facility | Amount (Rs. Crores) | Supported Rating* | Rating Action |
|---------|-----------------------------------|---------------------|---|---------------|
| 1. | Long Term - Fund Based Facilities | 515.00 | IVR A- (CE)/Stable Outlook (IVR A Minus [Credit Enhancement] with Stable Outlook) | Assigned |
| 2. | Short Term - Fund Based Facility | 50.00 | IVR A2+ (CE) (IVR A Two Plus [Credit Enhancement]) | Assigned |
| | Total | 565.00 | | |

* CE rating based on corporate guarantee of Ambience Developers & Infrastructure Pvt. Ltd., Rated IVR A-/ Stable by Infomerics

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from corporate guarantee of Ambience Developers & Infrastructure Pvt Ltd (ADIPL), the group profile and favourable terms of repayment post refinancing of debt. The rating however is constrained by weak profitability parameters, competitive nature of industry and working capital intensive operations.

The rating of the instrument is based on the corporate cross-guarantee wherein the monthly lease rentals, parking and signage income of ADIPL and all the receivables of AHRPL are escrowed to meet the principal and interest payments of both the firms. Given this condition and considering the annual receivables of both the firms under the escrow mechanism, results in an enhancement in the rating of the said instrument to **IVR A- (CE)/Stable** and **IVR A2+ (CE)** against the unsupported rating of **IVR BBB/Stable**.

Key Rating Sensitivities

- **Upward Rating Action -**
 - Improved profitability will be crucial for the company in near term to prevent any stress on its liquidity
- **Downward Rating Action -**
 - Continued negative profitability

- Any further deterioration in debt protection metrics
- Any further increase in debt

Detailed Description of Key Rating Drivers

Key Rating Strengths

Ambience group profile and availability of corporate guarantee

Ambience group has an established track record in the real estate sector. Ambience Hotel and Resorts Pvt Ltd (AHRPL) and Ambience Developers and Infrastructure Pvt Ltd (ADIPL) have provided corporate guarantees to each others' loans. ADIPL (rated IVR A-/Stable), which owns a mall in Gurgaon at Ambience Island has a sound credit profile with increasing operating income from the lease rentals in past three years. Although the capital structure of the guarantor is debt heavy, the escrow mechanism in place provides additional comfort to its repayment ability.

Favourable terms post refinancing of the existing debt with escrow mechanism

The company has refinanced its existing debt with a more favourable bank loan having tenure of 15 years and lower interest rates in the initial years owing to which its debt coverage parameters have improved. The said refinancing also involves an escrow mechanism wherein all the cashflows will be routed through an escrow account and the company would get funds for its expense after the bank obligations are paid.

Improving operating income

The operating income of AHRPL has improved to Rs. 95.62 crore as on September 30, 2019, which is 9.71% y-o-y growth from the previous year. The scale is expected to improve further in H2FY20 as second half generally sees the crest of seasonality cycle for the industry.

Key Rating Weaknesses

Weak Profitability parameters

Hotel industry being cyclical and dependent on the general economic scenario in the country, AHRPL's operating income saw fluctuating top-line due to which the company reported negative profitability for the past five years as its broader expenses remained constant for the

said period. Going forward, with the reduced interest payments the profitability is expected to improve in next few years.

Stressed capital Structure

Although the refinancing of existing debt has eased the debt payments for few initial years, the overall capital structure of the company is stressed with overall gearing ratio of 3.61x in FY19, an increase from 2.67x of FY18. The long term debt to equity ratio moved from 2.38x in FY18 to 3.10x in FY19 while the TOL/TNW stood at 4.69 in FY19

Analytical Approach & Applicable Criteria:

- Rating of Structure Debt Transactions (Non securitisation Transactions)
- Rating Methodology for Service Sector Companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The liquidity position of company is projected to improve going forward owing to the increased gross cash accruals on the back of reduced interest payments after refinancing of the existing debt. Overall the liquidity position is expected to be adequate.

About the company

Ambience Hotel & Resorts Limited, incorporated on 12th October, 1994, as a public limited company is into the business of hotels, motels & resorts. It has developed a 322 keys Five Star Deluxe Hotel and 90 keys Serviced Apartments on 5.30 acres of land as an integral part of Ambience Island township at NH-8, Gurgaon, Haryana. The said Hotel is presently fully operational under the brand name 'The Hotel Leela Ambience, Guragon'.

Financials (Standalone)

(Rs. Crore)

| For the year ended / As on | 31-Mar-18 (A) | 31-Mar-19 (A) |
|-----------------------------------|----------------------|----------------------|
| Total Operating Income | 195.49 | 196.84 |
| EBITDA | 71.89 | 73.71 |
| PAT | -9.88 | -8.49 |
| Total Debt | 449.38 | 579.22 |
| Tangible Net worth | 168.54 | 160.51 |
| EBIDTA Margin (%) | 36.77 | 37.45 |
| PAT Margin (%) | -4.78 | -3.79 |
| Overall Gearing ratio (x) | 2.67 | 3.61 |

* Classification as per Infomerics' standards

Any other information: N.A

Rating History for last three years:

| Name of Instrument/ Facilities | Current Rating (Year 2019-20) | | | Rating History for the past 3 years | | |
|-----------------------------------|-------------------------------|--------------------------------|--|-------------------------------------|----------------------------|----------------------------|
| | Type | Amount outstanding (Rs. crore) | Rating | Rating assigned in 2018-19 | Rating assigned in 2017-18 | Rating assigned in 2016-17 |
| Fund Based Facilities | Long Term (TL & CC) | 515.00 | IVR A-(CE)/Stable Outlook (IVR A Minus [Credit Enhancement] with Stable Outlook) | -- | -- | -- |
| Fund Based Facilities | Short Term (Overdraft) | 50.00 | IVR A2+ (CE) (IVR A Two Plus [Credit Enhancement]) | -- | -- | -- |
| | Total | 565.00 | | | | |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Analyst:

Name: Mr. Sriram Rajagopalan

Tel: (022) 62396023

Email: srajagopalan@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Sr. no | Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. crores) | Rating Assigned/ Outlook |
|---------------|-----------------------------------|-------------------------|-------------------------|----------------------|--------------------------------------|---|
| 1 | Long Term Fund Based (Term Loan) | -- | -- | -- | 495.00 | IVR A- (CE)/Stable Outlook (IVR A Minus [Credit Enhancement] with Stable Outlook) |
| 2 | Long Term Fund Based (CC) | -- | -- | -- | 20.00 | |
| 3 | Short Term Fund Based (Overdraft) | -- | -- | -- | 50.00 | |
| Total | | | | | 565.00 | |