



## Press Release

### Ambuj Hotel & Real Estate Private Limited

April 17, 2020

#### Rating

Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	40.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
<b>Total</b>	<b>40.00</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The rating assigned to the bank facilities of Ambuj Hotel & Real Estate Private Limited (AHREPL) derives comfort from its experienced promoters and well established track record in the hospitality industry, long term contracts with IRCTC with a renewability clause, improvement in scale of operations in FY19 and in 9MFY20 with satisfactory profitability, satisfactory financial risk profile marked by gradual improvement in capital structure and satisfactory debt protection metrics and its healthy growth prospect. However, the rating strengths are partially offset by its small scale of operations with range bound profit margins, tender driven nature of business in a fragmented catering industry and high sector concentration.

#### Key Rating Sensitivities:

##### Upward Factor:

- Substantial and sustained growth in operating income and improvement in working capital management leading to improvement in liquidity
- Taking up of new railway contracts and renewal of the existing contracts while maintaining its profitability and debt protection metrics
- Sustained improvement in debt protection metrics

##### Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin
- Any stretch in the working capital cycle driven by stretch in receivables affecting the financial risk profile, particularly liquidity.



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- Deterioration in overall gearing to over 1.5x and interest coverage to below 2x

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- **Experienced promoters and well established track record in the hospitality industry**

The promoters of AHREPL are well qualified and have extensive experience in the hospitality industry as well as in on-board catering services. Mr. Neeraj Kumar Singh (MD) and his wife Mrs. Neelu Singh have three decades of experience in hotel business. Mr. Neeraj Singh looks after marketing, financial and legal matters of the company and Mrs. Singh looks after the day-to-day affairs and administration of the company. They are supported by a team of well-trained professionals.

- **Long-term contracts with Indian Railways with a renewability clause**

AHREPL is engaged in the business of providing catering services to Indian Railways through its contract with IRCTC. Further, the contracts for all the trains are having a renewal clause which states that after completion of the original tenure of 5 years, the contract may be renewed for further 5 years basis satisfactory performance of the Licensee.

- **Improvement in scale of operation in FY19 and in 9MFY20 with satisfactory albeit range bound profitability**

Following a drop in revenue in FY18 due to disruption owing to GST implementations, the company recorded a healthy y-o-y growth of ~32% in FY19 from Rs.56.00 crore in FY18 to Rs.73.57 crore in FY19 on account of high revenues from catering business. The growth was mainly driven by higher revenue earned owing to Kumbh Mela leading to higher passenger traffic during FY19. The EBITDA margin and the PAT margin of the company remained range bound and stable in the range of 9%-10% and in the range of 3-4% respectively during FY17-FY19. However, there was marginal moderation in the profit margins in FY19 due to increase in cost of raw material and employee costs. During 9MFY20, the company recorded a total operating income of ~Rs.59 crore with marginal improvement in profit margins backed by increase in food rates during FY20 coupled with increase in number of travellers served.



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- **Satisfactory financial risk profile marked by gradual improvement in capital structure and satisfactory debt protection metrics**

The financial risk profile of the company remained satisfactory over the past the fiscals marked by its comfortable capital structure with lower reliance on external borrowings. Further, the overall gearing ratio witnessed gradual improvement as on the past three account closing dates driven by steady accretion of profit to net worth and stood satisfactory at 0.79x as on March 31, 2019 (1.15x as on March 31, 2018). Further, total indebtedness of the company as reflected by TOL/TNW also remained stable and comfortable at 0.89x as on March 31, 2019. Moreover, the debt protection metrics also remained satisfactory, with interest coverage ratio and Total debt to GCA at 2.91x and 4.78x respectively in FY19. The debt protection metrics witnessed improvement in FY19 driven by improvement in cash accruals. Infomerics expects that the financial risk profile of the company will continue to remain satisfactory in the near term on the back of its low near term debt repayment obligation and satisfactory capital structure.

- **Growth prospect**

India's railway network is recognized as one of the largest railway systems in the world under single management. The Government of India has focused on investing on railway infrastructure by making investor-friendly policies. It has moved quickly to enable Foreign Direct Investment (FDI) in railways to improve infrastructure for freight and high-speed trains. Thus, gradual expansion of operations of Indian Railways would create additional opportunities for the catering service providers.

### **Key Rating Weaknesses**

- **Small scale of operations**

Notwithstanding the growth in FY19, the scale of operations of the company remained small over the past three fiscals with a total operating income of Rs.75.45 crore. Small scale of operations restricts the financial risk profile of the company to an extent.

- **Tender driven nature of business in a fragmented catering industry**

The company acquires orders mainly by bidding for tender's floated by Indian Railways/IRCTC. The company's scale of operations is hence susceptible to its ability to successfully bid for new tenders and renewability of previous ones. The company's revenue



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is dependent on success of winning the tenders in a competitive bidding process, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output. Moreover, the company is largely dependent on timely payments by Indian Railways for the work undertaken. Delay in payments can have a negative impact on the business. Further, with fragmented nature of the catering industry particularly to Railways may limit the scope of growth of the players in this industry and presence of low cost caterers may resulting in pricing pressures.

- **High sector concentration**

The company is majorly making its revenues and profits from railways hence the business is susceptible to railway traffic growth and dynamics of Indian railways. Further, the company lacks pricing power as the food rates are fixed through tender.

### **Analytical Approach: Standalone**

### **Applicable Criteria:**

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity - Adequate**

The liquidity position of the company is expected to remain adequate as the company is expected to generate steady cash accrual in the range of ~Rs.6-9 crore during FY21-22 as against its nil debt repayment during the aforesaid period. However, its cash credit limits remained highly utilized during the past 12 months ended March, 2020 indicating a low liquidity buffer.

### **About the Company**

Incorporated in the year 1984, Varanasi based Ambuj Hotel and Real Estate Private Limited (AHREPL) is primarily engaged in the business of providing catering services to India Railways through its contracts with IRCTC. The company also runs a three star hotel named 'Hotel Siddhartha' that is located at Sigra in Varanasi. However, the major source of revenue (~96% in FY19) comes from railway catering business. The company started providing on board catering services to Indian Railways in 2013. The company is also associated with PLM



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hospitality LLP (Management is common) incorporated in 2013, however currently the same has no business activity.

### Financials: Standalone

For the year ended*/As on	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	57.32	75.45
EBITDA	5.69	6.91
PAT	2.25	2.75
Tangible Net worth	19.03	21.78
EBITDA Margin (%)	9.93	9.16
PAT Margin (%)	3.91	3.63
Overall Gearing Ratio (x)	1.15	0.79

\*As per Infomerics Standards

**Status of non-cooperation with previous CRA: NIL**

**Any other information: Nil**

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	8.00	IVR BBB-/Stable	-	-	-
2.	Overdraft	Long Term	5.30	IVR BBB-/Stable	-	-	-
3.	Proposed Overdraft	Long Term	14.70	IVR BBB-/Stable	-	-	-
4.	BG	Long Term	12.00	IVR BBB-/Stable	-	-	-

**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](http://www.infomerics.com).



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### 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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/Outlook
Long Term Bank Facilities - CC	-	-	-	8.00	IVR BBB-/Stable
Long Term Bank Facilities – Overdraft	-	-	-	5.30	IVR BBB-/Stable
Long Term Bank Facilities – Proposed Overdraft	-	-	-	14.70	IVR BBB-/Stable
Long Term Bank Facilities – BG	-	-	-	12.00	IVR BBB-/Stable