

Oriental Hotels Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Term Loan	190.0	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed; Outlook revised from Stable

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating continue to favorably take into account the benefits derived by Oriental Hotels Limited (OHL) from being associated with 'The Indian Hotels Company Limited' (IHCL, rated CARE AA+; Negative/ CARE A1+) & its associates, and strong brand image and long standing track record of operations of the company with well-established hotel properties in certain key markets. The rating further derives strength from the fair degree of financial flexibility demonstrated by OHL with regards to raising funds.

The rating is, however, constrained by subdued operational performance in FY 20 and H1 FY21 due to Covid 19 and expectation of slow recovery. The ratings are further constrained by revenue concentration risk, seasonality associated with the hotel industry and competition in the key markets of OHL.

Rating Sensitivities

Positive Factors

- Faster recovery post the pandemic, demonstrated by sustained improvement in its operational metrics, profitability indicators and improvement in coverage metrics
- Increase in scale with reduction in dependence on Chennai market

Negative Factors

- Weakening in linkages with IHCL
- Prolonged impact of the pandemic leading to further weakening in operating and financial metrics, deterioration in debt servicing indicators and liquidity position of the company

Outlook: Negative A 'Negative' outlook has been assigned on account of disruption in operations due to COVID19 outbreak. CARE expects the occupancy rates and RevPAR's to substantially decline in FY21 and recovery is expected to be gradual. Reduced profitability coupled with further debt raising may impact the capital structure. The outlook may be revised to 'Stable' on sustained improvement in occupancy levels and RevPAR resulting in improvement in revenues and margins.

Detailed description of the key rating drivers

Key Rating Strengths

Associate of IHCL which has a dominant position in the Indian hospitality sector

Incorporated in 1903, IHCL is promoted by the Tata Sons Limited (TSL). IHCL has long-standing operations spanning over 100 years and operates the largest chain of hotels in South Asia. IHCL has a dominant position in the Indian hospitality industry catering to various economic segments through its different brands. IHCL has strengthened its presence & operations across various geographical continents over time under its umbrella brand of 'Taj Hotels Resorts and Palaces'. The group also has selective presence in the luxury segment in the USA, the UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties.

Operational synergy and demonstrated financial support from the group

IHCL has stake in OHL is both in terms of ownership and management of operations of the properties by way of operating agreement. The overall operational aspects as well as decision making with regards to any significant operational/capex including human resource are also overseen by IHCL. All the properties are operated under the Brands owned by IHCL (Taj, SeleQtions, Vivanta, Gateway) and offer high level of standardization in services, experience and products specific to the category under which the particular hotel falls.

Longstanding track record of operations with strong brand image

OHL has a long-standing track record of operations spanning over four decades. The company has 7 hotels catering to various economic categories and under different brands such as Taj, SeleQtions, Vivanta, and Gateway.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Key Rating weaknesses

Decline in Operational performance, exacerbated by Covid 19

OHL witnessed reduction in occupancy levels at 59% in FY 20 (67% in FY19) while the average room rates (ARR) grew by 10% in FY20. The decline total no of rooms in FY19 and FY20 is on account of sale of Vizag hotel in September 2018(97 rooms at Vizag) and the termination of lease agreement of Trivandrum in FY 20 which has resulted in moderation in the revenue and other operational parameters.

At individual hotel level, occupancy levels declined in four of OHL's properties i.e. Taj Fisherman's Cove, Chennai (from 69% to 52%), Mangalore (from 73% to 52%), Coimbatore (from 63% to 58%) and Madurai (from 65% to 55%) property in FY20. The Madurai property showed dip in occupancy owing to the opening up new hotel (Mariott) while Coimbatore's performance was due to reduced business traffic in the city. Mangalore underwent renovation in the same period.

Almost all of OHL's properties were shutdown in Q1; thus severely impacting its Q1 performance and its expectation for this year. However gradually all hotels have opened up since September 2020. The occupancies have increased month on month since Q2FY20. In Q2FY20, OHL reported a topline of Rs. 17.93 crore with an operating loss of Rs. 12.45 crore; an improvement over Q1 topline of Rs. 7.55 crore with an operational loss of Rs. 21.15 crore.

Revenue concentration risk with major share of income generated from two properties in Chennai market

The flagship hotels of the company are Taj Coromandel (Chennai) and Taj- Fisherman's Cove, (Chennai), which collectively accounted for nearly 58% of the operating income of OHL in FY20 (PY: 52%).

Seasonal industry scenario associated with the hotel industry and the increasing competition

Chennai market has seen addition of room inventory in the upscale category over the past few years, leading to relatively lower ARR and occupancy across hotels in the recent past. However, in the short to medium term the market offers significant growth potential with several companies having large-scale production units in Chennai.

Liquidity position

Adequate: The Company has cash and liquid investments of Rs. 32.5 crore and undrawn working capital lines of Rs. 30.0 crore as on November 30, 2020. The Company has also secured additional financing in the form a term loan sanction of Rs. 100 crore of which Rs. 50.0 crore is unutilized. This loan has a moratorium of 2 years.

The Company has repaid its debt obligation for the current FY and has Rs. 20 crore repayment upcoming in FY 22. There is minimal capex expected in the current financial year. Furthermore, being an associate of IHCL, the company is able to raise financing at competitive rates.

Analytical approach: Standalone and factoring in linkages with The Indian Hotels Company Limited (IHCL).

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Hotel Industry](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

About the Company

Oriental Hotels Limited (OHL) is part of the 'Taj Hotels Resorts and Palaces', the umbrella brand for the Tata group company, 'The Indian Hotels Company Limited' (IHCL), its subsidiaries and associates. IHCL (rated 'CARE AA+; Negative/ CARE A1+') and its associates hold 38.18% equity stake in OHL and another promoter, the Dodla Reddy(D Varada Reddy)family holds 29.22% stake as on Sept 30th, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	352.37	298.78
PBILDT	57.52	46.35
PAT	89.44	-3.78
Overall gearing (times)	0.72	0.73
Interest coverage (times)	2.12	1.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	8.60%	November 2023	190.00	CARE A+; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (02-Apr-20)	1)CARE A+; Stable (07-Nov-19)	1)CARE A+; Stable (03-Jan-19)	1)CARE A+; Stable (29-Dec-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (03-Jan-19)	1)CARE A+; Stable (29-Dec-17)
3.	Fund-based - LT-Term Loan	LT	190.00	CARE A+; Negative	-	1)CARE A+; Stable (07-Nov-19)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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