The Indian Hotels Company Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	393.00 (Enhanced from 344.00)	CARE AA; Positive / CARE A1+ (Double A; Outlook: Positive/ A One Plus)	Reaffirmed; Outlook revised from Stable
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**393.00 (₹ Three Hundred Ninety-Three Crore Only)**		
Non-Convertible Debentures	150.00	CARE AA; Positive (Double A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Non-Convertible Debentures	300.00	CARE AA; Positive (Double A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Non-Convertible Debentures	-	-	Withdrawn
Non-Convertible Debentures	-	-	Withdrawn
Total Long-Term Instruments	**450.00 (₹ Four Hundred Fifty Crore Only)**		
Commercial Paper	-	-	Withdrawn
Total Short-Term Instruments	**0.00 (₹ Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities, non-convertible debentures (NCD) of The Indian Hotels Company Limited (IHCL) considers IHCL's established parentage (With 35.74% stake held by Tata Sons Private Limited) by virtue of which the company enjoys significant financial flexibility, dominant position of the company in the Indian hospitality sector, strong brand image, its global presence and increasing focus on an asset light model. The ratings further consider the significant deleveraging exercise taken by IHCL to strengthen its balance sheet supported by increase in Average Room Rate (ARR) and occupancy levels in FY22 (FY refers to the time between April 01 to March 31). Consistent improvement in the operating metrics during the last two quarters, backed by increased domestic tourism and business travel activity, weddings/social MICE, and corporate events further adds comfort to the rating reaffirmation. Going forward, with industry leading pipeline of rooms mainly in the form of managed contracts, brand placement across different segments, marginal term debt obligations will further aid strengthening the position of IHCL in the domestic hospitality segment.

The rating strengths are however, marginally tempered by the current economic distress in both domestic and global regions leading to a check up on the leisure spendings, travel and other discretionary spending activities which impact the pricing power of the company. Further, IHCL's contingent exposure towards the rental dispute with Mumbai Port Trust (MPT) and delay in sea rock property development is also a key credit monitorable going forward. In addition to these, the company is also exposed to industry cyclicality/seasonality, macro-economic cycles, and other uncertain activities (geo-political crisis, terrorist attacks,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

disease outbreaks, etc). However varied geographies/segments/offering portfolio will partially shield company against some of these inherent risks.

CARE ratings have withdrawn the ratings assigned to the following NCD issue of IHCL with immediate effect, as the company has repaid the NCD issue of Rs 495 crore and Rs 250 crore (ISIN: INE053A07182 and INE053A08123 respectively) in full and there is no amount outstanding under the issue as on date. In addition, CARE have also withdrawn the term loans and CP issue of IHCL based on the NDC provided by the banker and redemption certificate of CP received from the IPA agent. The rating to the facilities stands withdrawn with immediate effect.

Rating sensitivities

Positive Rating Sensitivities

- ✓ Ability of the company to achieve a consistent operating profit margin of 25%.
- ✓ ROCE of more than 20%.
- ✓ Ability of the company to increase revenue contribution from management contracts to 20% of the total revenue.

Negative Rating Sensitivities

- × Deterioration in the overall gearing to more than 1.3x
- × Unanticipated occurrence of any event leading to disruption in travel/leisure activities

Outlook: Positive

The outlook is on account of expected healthy improvement in the occupancy levels and ARR for the company aided by strong demand from domestic segment. The company had witnessed a strong Q1FY23, which is historically highest for the company in terms of profitability and turnover. CARE expects that with no major debt obligation for the company, increased focus on the management contract approach, IHCL is in a strong position to further consolidate its position as one of the largest hospitality companies in India. With an expected addition of around 1000 rooms across various segment in FY23, IHCL further aims to improve its geographical presence supported by asset light strategy. The outlook may be revised to stable if the key operational metrics (Occupancy rate and ARR) of the company demonstrate significant decline in the next two quarters.

Detailed description of the key rating drivers

Key rating strengths

Dominant position in the Indian hospitality sector with strong brand equity and global presence

IHCL occupies a leading position in the Indian Hospitality industry through its diversified hotel inventory under 'Taj Hotels, Resorts and Palaces', Vivanta, SeleQtions and Ginger brands. IHCL has, over a period, strengthened its presence and operations across India and select overseas destinations. The company is also among the largest hospitality companies in Asia and has been recognised as the 'World's Strongest Hotel Brand' as per the Brand Finance Hotels 50 Report 2021 and Nation's strongest brand in 2022. The company has repositioned its brands and has a portfolio of economy, upscale, select hotels and luxury segments. The company has also strengthened its presence over the past few years with room inventory of 10,587 at the end of FY08 to a room inventory of 28107 rooms as of March 31, 2022 (Inclusive of pipeline). The company also has selective presence in the luxury segment in the US, the UK, Africa, Sri Lanka, the UAE, and Maldives through owned and managed properties. Apart from the room income, which accounts for 50% of the total consolidated revenues, the company also generates income from other avenues such as Food & Beverages (F&B), management fees, membership fees, etc. Income from management fees for FY22 stood at Rs 231 crore (PY: Rs.136.45 crore).

Strong parentage and strategic importance to the Tata group; demonstrated support from parent, proven track record of management

IHCL is a part of the USD 150+ billion Tata Group which comprises over 100 operating companies in seven business sectors, namely, communications and information technology, engineering, materials, services, energy, consumer products, and chemicals. The group has operations in more than 100 countries across six continents, and its companies export products and services to 85 countries. IHCL is one of the largest companies in terms of market capitalisation within the Tata group, with market capitalisation of Rs.48,500 crore as of October 03, 2022. The company enjoys strong support from its key promoter Tata Sons Private Limited (TSPL) (35.74% stake) and is also an important strategic business for the Tata group.

Widespread portfolio across geographies and price points and strong pipeline

As of March 31, 2022, IHCL has a vast room inventory of 20851 rooms spread across 88 locations in India and is present in geographies such as India, Asia, the US, Middle East, Africa, and the UK. The company offers rooms across different price points through its different brands Taj (luxury), Vivanta (upscale) and Ginger (economy). The widespread portfolio makes the company better placed to overcome downturn as well as any adverse geographical impact.

Further, the company also have a strong pipeline of 7166 rooms with management contracts being the majority part of the pipeline. As a part of the IHCL strategic plans, the company expects adopt asset light approach and hence is increasing its focus on management contracts.

Improved operational performance backed by rebound in the tourism

Operating income of the company increased by ~91% driven by increased occupancy rate during FY22 coupled with healthy improvement in average room rate (ARR) in both owned category and management rooms category. During FY22, the company had recorded an occupancy level of 53% (PY: 39%) supported by an ARR of Rs 9717 leading to healthy revival in the scale of operations after two muted years.

Significant improvement in the capital structure

During FY22, IHCL has raised ~ Rs 4000.00 crore in the form of right issue and QIP placement for debt reduction at both IHCL standalone and its subsidiaries level. This had resulted in the reduction of total debt to Rs 3887.87 crore (PY: Rs 5518.33 crore) as on March 31, 2022. Further, the company is net debt negative (Excluding lease liabilities). Post the fund infusion, the over all gearing of the company had reached below unity.

Future expansion plans with continued focus on asset light strategy

HCL has been expanding its footprint mainly through management contracts. As on March 31, 2022, the company has 12929 rooms under management contracts (Inclusive of rooms under pipeline) which accounts to ~46% of the total room inventory of the company, which is in line with the company's projection of having 50% managed rooms by FY25. During FY22, the company earned Rs 231.38 crore (PY: Rs.136.45 crore) through management and operating fees on consolidated basis. Although it accounts for over 7% of its consolidated revenue, the income from management contracts is expected to increase gradually.

Key rating weaknesses

US subsidiary and Roots Corporation continue to make losses

IHCL's two major operating subsidiaries – Roots Corporation Ltd. (RCL) and United Overseas Holdings Inc. (USA) (UOH, Inc.) which were posting losses historically. In FY22, the company had acquired the entire shareholding of RCL and made it wholly owned subsidiary of IHCL and bringing "Ginger" in the brand hold of IHCL. RCL operates the economy brand 'Ginger' through RCL, which has a room inventory of 4756 rooms, and it operates two hotels and 299 rooms through UOH. The company has also started an exercise, wherein, it is repositioning the 'Ginger' brand from 'economy' hotel to 'lean-luxe' hotel and increasing ARRs by Rs.1,000-1,500.

However, for the Q1FY23, both the subsidiaries had demonstrated healthy improvement in their operational performance and have reached around 80% of their pre covid operating levels.

Litigation with Mumbai Port Trust

There is a long-pending lease rental-related dispute with Mumbai Port Trust (MPT) on which the Taj Mahal Palace, Mumbai, is located, wherein MPT has demanded an additional rental claim of Rs.577.43 crore (13 times the previous annual rental) from 2006-07. The hotel stands on a 4,000 sq m plot belonging to the MPT. The company has filed a 'notice of motion' before the Bombay High Court for a stay against any further proceedings by the lessor, pending the resolution of this dispute. The matter is sub-judice and any adverse outcome could impact IHCL's liquidity and profitability significantly.

Sea Rock property still awaiting clearances

Since acquiring the property, a decade back, IHCL is still awaiting clearances from the Coastal Regulation Zone to rebuild the property. The funding pattern of the Capex to rebuild the property will determine the impact on IHCL's capital structure. The company has made a part payment towards acquisition of equity shares of ELEL Hotels and Investments Limited and made it a wholly owned subsidiary as on December 28, 2021. However, as per management, the company will not be infusing funds for sea rock property but will bring an external party for development once all the approvals are in place.

Macro-economic factors and seasonal uncertainty

The company is exposed to the changes in the macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors, which leads to inherent cyclicality in the hospitality industry. These risks can impact the occupancy rate of the company and, thereby, the company's profitability. However, these risks are to an extent mitigated by the company through a judicious mixture of owned and leased hotels and through its extensive presence across the value chain and a strong brand image.

Uncertain global economic outlook

The global economy is still in a state of uncertainty driven by heightened recession fears, increased interest rates, Russia-Ukraine conflict and various other socio-political events. In such circumstances, the willingness to spend of travel/leisure segment will be limited as the individual will prefer to save for a future uncertainty rather than luxury. Instances/Decisions like these will adversely impact the performance of the industry on both operational and financial aspects.

Hospitality Industry Outlook

After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in Covid cases have helped improve travel sentiment. Though the Omicron wave caused a temporary blip, FY22 has witnessed a sharp rebound in revenues. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE (meetings, incentives, conferences, and exhibitions). The sector is on track to achieve or even surpass the pre-Covid level occupancies in FY23. Demand for leisure travel, business travel for client meetings as well as project work are gaining steam.

Liquidity: Strong

Liquidity is marked by strong accruals against repayment obligations and liquid investments to the tune of Rs.1276 Crore as on June 30, 2022 (Up from Rs 1180 crore as on March 31, 2022). With a gearing of 0.60 times as of March 31, 2022, the company has sufficient gearing headroom, to raise additional debt for its capex. With an average utilisation of less 10% for the past twelve months, the company more than adequate to meet its incremental working capital needs over the next one year.

Further, the company is also net debt (Excluding lease liabilities) negative considering the funds raised from QIP and rights issue.

Analytical approach: Consolidated. The list of subsidiaries considered for consolidation is given as Annexure-6.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hotel
Policy on Withdrawal of Ratings

About the company

Incorporated in 1903, IHCL is promoted by Tata Sons Pvt Limited. It has long-standing operations spanning over 100 years and operates the largest chain of hotels in South Asia. IHCL, its subsidiaries and associates are widely recognised under the umbrella brand name 'Taj Hotels Resorts and Palaces', which has 240 hotels with a room inventory of 28,650 rooms (With Pipeline) globally across four continents, 12 countries and in over 100 locations. This includes presence in India, North America, the UK, Africa, Middle East, Malaysia, Sri Lanka, Maldives, Bhutan, and Nepal. IHCL has presence across luxury, upscale and value segments of the market through its various brands, i.e., Taj Hotels Resorts and Palaces, Vivanta, SeleQtions, AMA and Ginger, respectively. The group also has presence in air catering, spas, wildlife lodges and service apartments.

Brief Financials (₹ crore)- Consolidated	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (Published)
Total operating income	1,603.42	3,057.41	1,293
PBILDT	-332.30	406.05	405
PAT	-795.63	-264.97	166
Overall gearing (times)	1.78	0.60	-
Interest coverage (times)	-0.84	0.98	6.50

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (MM-YY)	Coupon Rate (%)	Maturity Date (MM-YY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2026*	0.00	Withdrawn
Fund-based/non-fund-based-LT/ST	-	-	-	-	103.00	CARE AA; Positive / CARE A1+
Non-fund-based-LT/ST	-	-	-	-	290.00	CARE AA; Positive / CARE A1+
Debentures-Non-Convertible Debentures	INE053A07182	20-01-2017 00:00:00	7.85	April, 2022	0.00	Withdrawn
Debentures-Non-Convertible Debentures	INE053A08107	22-04-2020 00:00:00	7.65%	23/04/2023	150.00	CARE AA; Positive
Debentures-Non-Convertible Debentures	INE053A08115	28-05-2020 00:00:00	7.95	05/06/2023	300.00	CARE AA; Positive
Debentures-Non-Convertible Debentures	INE053A08123	23-07-2021 00:00:00	6.75	22-Jul-2024	0.00	Withdrawn
Commercial Paper-Commercial Paper (Standalone)	INE053A14360	31/10/2021	0	15/03/2022	0.00	Withdrawn

**Prepaid Term Loans*

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/non-fund-based-LT/ST	LT/ST*	103.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jan-22)	1)CARE AA; Stable / CARE A1+ (16-Mar-21) 2)CARE AA; Stable / CARE A1+ (07-Jan-21) 3)CARE AA+; Negative / CARE A1+ (15-Apr-20)	1)CARE AA+; Stable / CARE A1+ (07-Oct-19)
2	Non-fund-based-LT/ST	LT/ST*	290.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (06-Jan-22)	1)CARE AA; Stable / CARE A1+ (16-Mar-21) 2)CARE AA; Stable / CARE A1+ (07-Jan-21) 3)CARE AA+; Negative / CARE A1+ (15-Apr-20)	1)CARE AA+; Stable / CARE A1+ (07-Oct-19)
3	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE AA; Stable (07-Jan-21) 2)CARE AA+; Negative (15-Apr-20)	1)CARE AA+; Stable (07-Oct-19)
4	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE AA; Stable (07-Jan-21) 2)CARE AA+; Negative (15-Apr-20)	1)CARE AA+; Stable (07-Oct-19)
5	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (06-Jan-22)	1)CARE AA; Stable (07-Jan-21) 2)CARE AA+; Negative (15-Apr-20)	1)CARE AA+; Stable (07-Oct-19)
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Jan-21) 2)CARE AA+; Negative (15-Apr-20)	1)CARE AA+; Stable (07-Oct-19)

7	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (31-Dec-20) 2)CARE A1+ (15-Apr-20)	1)CARE A1+ (03-Dec-19)
8	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA; Stable (06-Jan-22)	1)CARE AA; Stable (16-Mar-21) 2)CARE AA; Stable (07-Jan-21) 3)CARE AA+; Negative (28-May-20) 4)CARE AA+; Negative (15-Apr-20)	1)CARE AA+; Stable (03-Dec-19)
9	Debentures-Non Convertible Debentures	LT	150.00	CARE AA; Positive	-	1)CARE AA; Stable (06-Jan-22)	1)CARE AA; Stable (07-Jan-21) 2)CARE AA+; Negative (15-Apr-20)	-
10	Debentures-Non Convertible Debentures	LT	300.00	CARE AA; Positive	-	1)CARE AA; Stable (06-Jan-22)	1)CARE AA; Stable (07-Jan-21) 2)CARE AA+; Negative (28-May-20)	-
11	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE AA; Stable (06-Jan-22) 2)CARE AA; Stable (30-Jun-21)	-	-
12	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)CARE A1+ (06-Jan-22) 2)CARE A1+ (12-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Complex
3	Debentures-Non-Convertible Debentures	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based/non-fund-based-LT/ST	Simple
6	Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6: Name of the companies consolidated with IHCL

Name of the Subsidiary	% Of holding as on March 31, 2022
Piem Hotels Ltd.	51.57
Benares Hotels Ltd.	51.68
United Hotels Ltd.	55
Roots Corporation Ltd.	100
Inditravel Ltd.	78.88
Taj Trade & Transport Company Ltd.	73.03
KTC Hotels Ltd.	100
Northern India Hotels Ltd.	48.56
Taj Enterprises Ltd.	93.4
Ideal Ice & Cold Storage Company Ltd.	100
Skydeck Properties and Developers Private Ltd.	100
Sheena Investments Private Ltd.	100
ELEL Hotels and Investments Ltd.	100
Luthria and Lalchandani Hotel and Properties Private Ltd.	100
Genness Hospitality Private Limited	100
Qurio Hospitality Private Limited	100
United Overseas Holdings Inc.	100
St. James Court Hotel Ltd.	72.25
Taj International Hotels Ltd.	100
Good Hope Palace Hotels Proprietary Limited	100
IHMS Hotels (SA) Proprietary Ltd.	100
Taj International Hotels (H.K.) Ltd.	100
Piem International (HK) Ltd.	51.57
IHOCO BV.	100
Oriental Hotels Ltd.	35.67
Taj Madurai Ltd	26
Taida Trading & Industries Ltd	34.78
Zarrenstar Hospitality Private Limited	50
Lanka Island Resorts Ltd.	24.66
TAL Lanka Hotels Plc	24.62
Bjets Pte Ltd.	45.69
Taj GVK Hotels and Resorts Ltd.	25.52
Taj Kerala Hotels and Resorts Ltd.	28.78
Taj Karnataka Hotels and Resorts Ltd.	44.27
Taj SATS Air Catering Ltd.	51
Taj Safaris Ltd.	41.81
Kaveri Retreat & Resorts Ltd	50
TAL Hotels & Resorts Ltd.	27.49

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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