Oriental Hotels Limited

October 9, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	115.00 (Reduced from 164.00)	CARE A+; Stable	Reaffirmed
Short Term Bank Facilities	0.02	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings on the bank loan facilities of Oriental Hotels Limited (OHL) continues to derive significant strength from its strong linkages with The Indian Hotels Company Limited (IHCL, rated 'CARE AA+; Stable/CARE A1+'). The company has strong operational synergies with IHCL, strong brand image of "Taj" and other brands derived from IHCL and well established hotel properties in Southern India. Furthermore, positive turnaround in the domestic hospitality industry led to strong operating profitability and healthy financial risk profile.
The ratings are partly tempered by its moderate scale of operations along with concentrated revenue profile, susceptibility to macro-economic factors and seasonal uncertainty and uncertain global economic outlook.

Rating sensitivities
Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale with reduction in dependence on Chennai markets along with sustained operating profit margin of 28% for long term.

Negative factors – Factors that could lead to negative rating action/downgrade:

- In case of weakening of linkages with IHCL.
- Unanticipated occurrence of any event leading to disruption in travel/leisure activities.

Analytical approach: Consolidated

CARE Ratings takes a consolidated view of the parent (OHL) and its subsidiaries owing to significant business and financial linkages between the parent and the subsidiaries. The details of the subsidiaries and associates which have been consolidated as on March 31, 2023 are given in Annexure – 6.
Furthermore, CARE Ratings has factored in the linkages with IHCL.

Outlook: Stable

The outlook is 'Stable' indicates stability in the scale of operations of the company benefitting from its continued association with the strong brands derived from IHCL. No new hotel addition is expected over the medium term in OHL's portfolio.

Detailed description of the key rating drivers:

Key strengths

Strong linkages with IHCL, market leader in India: IHCL and its affiliates have significant stake in OHL i.e. 39.09% as on June 30, 2023. IHCL is a part of the Tata group (recording overall revenue of US$150 billion in FY23 and market capitalization of ₹24 trillion as on July 31, 2023) which comprises over 100 operating companies in various business sectors, namely, information technology, communications, engineering, materials, services, energy, consumer products, and chemicals.
OHL draws significant benefits from its association with IHCL reflected in its portfolio of 7 hotels. The major hotels are operated under "Taj" brand. Taj Coromandel, Chennai and Taj Fisherman's Cove, Chennai contributes more than 60% of its total operating income (TOI). Other hotels, all in South India, are operated under 'Taj', 'Vivanta' and 'SeleQtions' and the company provides management fees to IHCL for the using its brands. The company would continue to benefit from its association with IHCL offering high level of standardization in services, experience, and products specific to the category under which the particular hotel falls.

Strong operating profitability margins supported by healthy revenue per available room: The company recovered strongly post uplifting of COVID-19 restrictions and posted record high revenue and profits. The company posted PBILDT margin of 28% in FY23 sharply rising from 11% in FY22 and operating loss in FY21. The turnaround in operating profitability margins are supported by healthy occupancy levels (69% in FY23 vs 54% in FY22) leading to improvement in ARR of ₹9,900 in FY23 vs ₹6,750 in FY22). The performance was even better than pre-COVID fiscal years (occupancy was 59%-67% while ARR was ₹6,700-₹7400 during FY19-FY20) despite lower FTAs. The industry overall is benefitting from low new supply of hotels against robust demand which is expected to continue over the next 2-3 fiscal years. Over the medium term, operating profitability is expected to be in the range of 27%-29% over the medium term.

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

Healthy capital structure and debt coverage metrics: The company has robust net worth at ₹538 crore (₹440 crore) and overall gearing at 0.40x (0.64x) as on March 31, 2023 (2022). In FY24, the company is expected to undertake capex of about Rs.100 crore, however, majority of it would be funded through internal accruals with some debt maybe taken if required.
With comfortable debt position and improved profitability in FY23, the company's debt coverage metrics have also significantly strengthened. The interest coverage ratio was 5.88x (1.06x) in FY23 (FY22) and net debt (includes lease liabilities) to PBILDT was at 1.56x (9.02x) in FY23 (FY22). These metrics are expected to remain healthy over the medium term with continued strong profitability.

Positive Indian hospitality industry outlook: The domestic hospitality sector's demand outlook is positive, indicating a promising future for the industry. The hospitality sector's RevPAR, which is estimated to reach ₹ 4,000-4,100 by the end of FY23, reflects marginal growth over FY19 levels, thanks to the strong recovery in occupancy and average rates. The RevPAR's recovery was mainly driven by ARR, with weddings and domestic leisure travel being significant contributors to the ARR jump in FY23. Despite the possibility of inflation putting pressure on the growth rate in FY24, the ARR has already recovered above the pre-pandemic level indexed at 105-107 when compared to FY19 levels. Leveraging India's G-20 presidency, the ICC Cricket World Cup, and the resumption of foreign inbound travel, along with robust domestic leisure travel, the sector's ARR should continue to inch higher in FY24, boosting RevPAR. CareEdge estimates that RevPAR should grow 3-5% over FY23 levels. All key performance indicators such as RevPAR, ARR, and occupancy rate are ahead of pre-pandemic levels, and the industry is on its way back to profitability. Domestic hotel players are now in a favourable position to resume pending projects and undertake new ones, given the improved revenues and enhanced accruals cushioned by the realignment of the cost structure by the players. This, in turn, will boost the sector's supply.

Key weaknesses

Moderate scale of operations along with concentration risk: The company's moderate scale of operations is signified by its portfolio of 7 hotels with 827 operational keys, being stagnant or declining over historical past. Though, there has been significant jump in total operating income in FY23 of 80% year on year (Y-o-Y) to ₹395 crore, this has been largely driven by higher occupancy levels and appreciation in ARRs. Further, the company's revenue is largely concentrated to Chennai with more than 60% revenue being generated from Taj Coromandel, Chennai and Taj Fisherman's Cove. With no major addition in hotels and/or rooms, the company's scale is expected to remain moderate.

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 its extensive presence across the value chain and a strong brand image. The global economy is still in a state of uncertainty driven by inflationary environment, heightened recession fears, increased interest rates, continuing Russia- Ukraine conflict and various other socio-political events. Any adverse event in global market would lead to fall in willingness to spend on travel/leisure segment as the individual will prefer to save for a future uncertainty rather than luxury. Though, the current demand uptrend in the hospitality industry is driven by boost from domestic customers, foreign tourists are required to diversify the customer base and sustain current occupancy levels and ARRs.

Liquidity: Adequate

Adequate liquidity characterized by cash and cash equivalents to the tune of ₹40 crore as on March 31, 2023, and undrawn working capital limit of close to ₹25 crore. Furthermore, the company is expected to garner GCA of more than ₹80 crore against repayments of ₹30 crore in FY24, hence there shall be adequate cushion for above repayments. The company is undertaking capex which would be in the range of ₹100 crore including maintenance capex in FY24 which would be funded through mix of internal resources and debt. Historically, the working capital utilization of the company is nil owing to the negative operating cycle for the company.

Environment, social, and governance (ESG) risks: The increasing awareness among the consumers for greener environment and equitable society could risk the brand image issues among hoteliers if there is significant lapse in ESG metrics relative to peers. The company has continued to focus on its ESG metrics through its programme "Paathya". Below are some of the key target areas and company's achievement against it.

Environment:

- Maintain majority of Energy to come from Renewable sources by 2030– The company's green power mix was 70% in FY23.
- 100% of waste water recycled by 2030 – In FY23, 1,57,307 KL Water saved through recycling & Rainwater harvested.

Social

- Provided educational assistance for children by paying their school fees and have supported more than 500 fishermen's family by distributing 125 kgs rice bags.
- Contributed groceries to old age homes and orphanages, stationery items to the children in the orphanages, and linen to the elderly people in the old age homes.

Governance

- The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors.

CARE Ratings take comfort from the progress on OHL's targets vis a vis its achievements.

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 and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Leisure Services	Hotels & Resorts

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+; Stable/ CARE A1+') and its associates hold 39.09% equity stake in OHL. Other key promoters are Mr. Dodla Reddy and his family (DPS Reddy group) as well as Mr. Pramod Ranjan, Managing Director and Chief Executive Officer of OHL.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	219	395	94
PBILDT	23	112	23
PAT	-20	54	7
Overall gearing (times)	0.64	0.40	-
Interest coverage (times)	1.06	5.58	5.11

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	March 2026	115.00	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	-	0.02	CARE A1

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 2023-2024	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
1	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (02-Apr-20)
2	Fund-based - LT-Term Loan	LT	115.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Oct-22)	1)CARE A+; Stable (21-Oct-21)	1)CARE A+; Negative (05-Jan-21)
3	Fund-based - ST-Bank Overdraft	ST	0.02	CARE A1	-	1)CARE A1 (28-Oct-22)	1)CARE A1 (21-Oct-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: Name of the companies consolidated

Sr. No.	Name of Entity	% shareholding
	Subsidiaries	
1	OHL International (HK) Ltd.	100
	Joint Venture	
1	TAL Hotels & Resorts Ltd	21.74
	Associates	
1	Taj Madurai Ltd.	26.00
2	Lanka Island Resorts Ltd.	23.08

Note on the 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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