CareEdge RATINGS

Oriental Hotels Limited

September 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.00 (Enhanced from 115.00)	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

Reaffirmation of ratings on 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, association with 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 continues to lead to strong operating profitability and healthy financial risk profile.

Ratings are partly tempered by its moderate scale of operations and concentrated revenue profile, susceptibility to macro-economic factors, seasonal uncertainty and uncertain global economic outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in scale with reduction in dependence on Chennai markets and operating profit margin of 30% for long term on a sustained basis.

Negative factors

- In case of weakening of linkages with IHCL.
- Unanticipated occurrence of 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 parent and subsidiaries. Details of subsidiaries and associates which have been consolidated as on March 31, 2024, are given in Annexure – 6.

Furthermore, CARE Ratings has factored in the linkages with IHCL.

Outlook: Stable

'Stable' outlook indicates stability in the company's scale of operations 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 key rating drivers:

Key strengths

Strong linkages with IHCL, market leader in India

IHCL and its affiliates have significant stake in OHL, 39.09% as on June 30, 2024. IHCL is part of the Tata group (recorded overall revenue of US$165 billion in FY24 and market capitalisation of US$365 billion as on March 31, 2024), which comprises over 100 operating companies in business sectors, including 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 seven hotels. Major hotels are operated under "Taj" brand. Taj Coromandel, Chennai and Taj Fisherman's Cove, Chennai contributes over 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 using its brands. The company would continue to benefit from its association with IHCL offering high level of standardisation in services, experience, and products specific to category under which the particular hotel caters.

Strong operating profitability margins supported by healthy revenue per available room

The company continues to operate at strong margins. The company posted profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 24.32% (27.56%) in FY24 (FY23), which sharply rose from 10.70% in FY22 and operating loss in FY21. Continuous strength in ARR, which stood at ₹10,155 (₹9,904) in FY24 (FY23) and occupancy level, which stood at 71% (69%) in FY24 underscore the reason for strong operating profitability. However, moderation was observed in FY24 and Q1FY25 considering renovation being undertaken at Taj Malabar Cochin, Taj Coromandel's ballroom, Gateway Conoor and Gateway Madurai. Industry is benefiting from supply growth lagging to catch up with robust demand growth, which is expected to continue for the next 2-3 fiscal years. Over the medium term, strong demand and slow supply is expected to keep operating profitability strong. Also, as most hotels of the company's portfolio, particularly rooms, have been renovated or are expected to be renovated

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

by October 2024, they may boost ARRs and occupancy leading to improvement in PBILDT margin it the range of 28%-30% over the medium term.

Healthy capital structure and debt coverage metrics
The company has healthy net worth at ₹618 crore (₹538 crore) and overall gearing at 0.33x (0.40x) as on March 31, 2024 (2023). The company has undertaken most capital expenditure (capex) in terms of renovation of Taj Malabar Cochin, Taj Coromandel's ballroom, Gateway Conoor and Gateway Madurai in FY24 and H1FY25. The capital structure has been continuing to strengthen despite capex due to scheduled repayment of term loans with negligible reliance on fund based working capital utilisation.
With comfortable debt position and healthy profitability, the company's debt coverage metrics is also healthy. Interest coverage ratio was 5.57x (5.33x) in FY24 (FY23) and net debt (includes lease liabilities) to PBILDT was at 1.90x (1.63x) in FY24 (FY23). These metrics are expected to remain healthy over the medium term with continued strong profitability.

Key weaknesses

Moderate scale of operations and concentration risk
The company's moderate scale of operations is signified by its portfolio of seven hotels with 825 operational keys, being stagnant. The company maintained its topline at ₹389 crore in FY24 similar to FY23 despite renovation being undertaken in Taj Malabar Cochin, Gateway Conoor and Gateway Madurai, supported by improvement in average room rate (ARRs) and occupancy levels in available rooms in FY24. Overall, ARR was ₹10,155 (₹9,904) in FY24 and occupancy level was at 71% (69%). Further, the company's revenue is largely concentrated to Chennai with over 60% revenue being generated from Taj Coromandel, Chennai and Taj Fisherman's Cove. This concentration jumped in FY24 considering renovations being undertaken in other hotels, however, this is expected to subside to long term average over the medium term. With no major addition in hotels and/or rooms, the company's scale is expected to remain moderate.

Macroeconomic factors and seasonal uncertainty
The company is exposed to changes in macroeconomic 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 socioeconomic factors, which lead to inherent cyclicality in the hospitality industry. These risks can impact the company's occupancy rate, and hence, its profitability. However, these risks are mitigated to an extent through extensive presence across the value chain and a strong brand image. Adverse event in global/domestic market would lead to fall in willingness to spend on travel/leisure segment, as individuals will prefer to save for 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 characterised by cash and cash equivalents of ₹19 crore as on March 31, 2024, and ₹7.1 crore as on June 30, 2024, and almost undrawn working capital limit of close to ₹15 crore. Furthermore, the company is expected to garner gross cash accruals (GCA) of over ₹80 crore against repayments of ₹68 crore in FY25, hence there shall be adequate cushion for above repayments. Historically, the company's working capital utilisation is negligible owing to the negative operating cycle. The company has healthy capital structure providing headroom to raise additional debt if required.

Environment, social, and governance (ESG) risks: Increasing awareness among 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 the company's achievement against it.

Environment:

- Maintain majority of energy to come from renewable sources by 2030– The company's green power mix was 74% (70%) in FY24 (FY23).
- 100% of wastewater recycled by 2030 – In FY24 (FY23), 1,24,240 KL (1,57,307 KL), water saved through recycling and rainwater harvested.

Social

- Provided educational assistance for children by paying their school fees and supported over 500 fishermen's family by distributing 125 kgs rice bags.
- Contributed by providing dry rations like aata, rice, wheat, oils and pulses to a home for the homeless orphans who are differently abled with multiple disabilities and absolutely destitute and deserted senior citizens

Governance

- The company's Board of Directors 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 against its achievements.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hotels & Resorts
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Leisure services	Hotels and resorts

OHL is part of 'Taj Hotels Resorts and Palaces', umbrella brand for the Tata group company, '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 Dodla Reddy and his family (DPS Reddy group) and Pramod Ranjan, Managing Director and Chief Executive Officer of OHL.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 |(UA)
Total operating income	389	389	82
PBILDT	107	95	12
PAT	54	50	-1
Overall gearing (times)	0.40	0.33	-
Interest coverage (times)	5.33	5.57	3.17

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Dec 2029	130.00	CARE A+; Stable
Fund-based - ST-Bank Overdraft	-	-	-	-	0.02	CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	130.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Oct-23)	1)CARE A+; Stable (28-Oct-22)	1)CARE A+; Stable (21-Oct-21)
2	Fund-based - ST-Bank Overdraft	ST	0.02	CARE A1	-	1)CARE A1 (09-Oct-23)	1)CARE A1 (28-Oct-22)	1)CARE A1 (21-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	OHL International (HK) Ltd.	Full	Wholly owed subsidiary
2	Taj Madurai Ltd.	Moderate	Associate (26% stake held by OHL)
3	Lanka Island Resorts Ltd.	Moderate	Associate (23.08% stake held by OHL)
4	TAL Hotels & Resorts Ltd	Moderate	Joint venture (21.74% stake held by OHL)

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Akhil Kumar Associate Director **CARE Ratings Limited** Phone: 91-120-4451986 E-mail: akhil.kumar@careedge.in Yash Omprakash Gupta Assistant Director **CARE Ratings Limited** E-mail: yash.gupta@careedge.in

About us:

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