The Indian Hotels Company Limited

September 25, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	393.00	CARE AA+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the rating to bank loan facilities The Indian Hotels Company Limited (IHCL).

The rating assessment continues to consider IHCL's market leadership position in the Indian hotels industry supported by its iconic Brand of "Taj" and pan-India network of hotels. The company has a portfolio of 224 operational hotels with 24,519 room keys across brands with major being Taj, Vivanta, SeleQtions, Gateway and Ginger as on June 30, 2024. The company has strong operating profitability supported by healthy revenue per available room. IHCL has 40%:60% mix of capital heavy to capital light (operating leases and managed contracts) portfolio of operational hotels which provides boost to its operating profitability considering higher contribution margin and is also expected to partially reduce volatility in operating profitability during downturn. The ratings are further strengthened by its strong promoter group and strategic importance of IHCL to the Tata group and its robust financial risk profile. There have been equity infusions in the past from the promoter group and CARE Ratings continues to factor the group support, when needed.

On of the key risks that partly temper the rating include IHCL's susceptibility to macroeconomic factors, seasonal uncertainty, and uncertain global economic outlook. The company has ongoing litigation with Mumbai Port Trust leading to significant contingent liability. CARE Ratings understands that Sea Rock property is still awaiting clearance from the Coastal Regulation Zone to rebuild the property.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Rise in turnover and reducing the significant cyclicality associated with the hospitality industry leading to consistent robust cashflow generation on a sustained basis.
- Return on Capital Employed (ROCE) of over 20% on a sustained basis.

Negative factors

- Any significant deterioration in the profitability margins and/or large debt-funded capital expenditure leading to weakening of debt coverage metrics particularly net debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) of 1.75x on a sustained basis.
- Unanticipated occurrence events, leading to disruption in travel/leisure activities.
- Significantly scaling down of linkages with the parent, Tata Sons Private Limited (TSPL).

Analytical approach: Consolidated

- CARE Ratings has considered a consolidated view of IHCL and its subsidiaries, owing to significant business and financial linkages between the parent and subsidiaries/associates. Details of subsidiaries and associates consolidated as on March 31, 2024, are listed under Annexure – 6. The rating continues to factor in linkages with strong promoter, TSPL.

Outlook: Stable

The outlook is 'Stable' indicating expectation of sustenance of its strong business risk profile backed by healthy occupancy levels and average room rate (ARR) in the medium term. In the absence of plans for incremental borrowings, IHCL's capital structure and debt coverage metrics are likely to remain robust going forward.

Detailed description of key rating drivers:

Key strengths

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

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, chemicals, etc. The group has operations in over 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 ~₹99,818 crore as on September 12, 2024. The company enjoys strong support from its key promoter TSPL (35.66% stake as on June 30, 2024) and is an important strategic business for the Tata group.

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

Iconic Brand of "Taj" and pan-India network of hotels making it market leader in India
As a brand with over 120 years legacy and continuing to meet latest market dynamics, "Taj" is one of the well-known hotel brands on a global arena. As per Brand Finance report 2022, Taj was rated as the "World's strongest Hotel brand". In the domestic market, Taj is an epitome of luxury, managing iconic properties including "The Taj Mahal Palace & Tower, Mumbai ", "Taj Lake Palace, Udaipur", "Taj Falaknuma Palace, Hyderabad", "Taj Mansingh, Delhi", among others. The properties having "Taj" brand are either historical palace/high-end luxury properties, through which, the company targets luxury and international travellers. IHCL has also solidified other brands in the last five years that were lagging behind, through sharp demarcation of each brand and their value propositions. However, concentration of Taj hotels remains high in IHCL's overall enterprise revenue at 72% in FY24. As on June 30, 2024, the company has 224 operational hotels with 24,000+ operational rooms across India and abroad with total 150+ locations, under its brands Taj, Vivanta, SeleQtions, Ginger, Gateway, Ama and Tree of Life. The company is expected to add ~2,500-2,700 rooms (mix of owned and managed) in FY25.

Mix of owned, operating lease and managed hotels portfolio expected to partially reduce volatile operating profitability
IHCL operates its hotel business with a mix of owned assets, operating leases and managed contracts. Under management contracts, the company gets management fees in the form of base fee, incentive fee and reimbursements. Currently, the company has 40:60% operational portfolio of capital heavy (owned) to capital light (operating leases and managed contracts) hotels. Presence of management contracted assets partially safeguard operating margins during industry downturns, as base incentive (percentage of revenue) and reimbursements would significantly flow through to operating profitability, while owned assets may face pressure on profitability. The company also gets a boost to operating profitability, as management contracted fees has significantly high contribution margin. On the contrary, during upcycles, owned assets are expected to provide significant scale and profitability to the company.

Strong operating profitability margins supported healthy revenue per available room
The company continues to operate at strong margins with FY24 being the second successive year of record revenue and profits. The company posted a PBILDT margin of 32% (31%) in FY24 (FY23), which sharply rose from 13% in FY22 and operating loss in FY21. Continuous strength in ARR, which stood at ₹15,414 (₹13,736) in FY24 (FY23) and occupancy level, which improved to 77% in FY24 from 72% in FY23 at standalone level, underscore the reason for strong operating profitability. 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. The company's key properties in metro cities are at prime locations, where new supply is difficult to come by. The company has benefitted from renovations undertaken in the last few fiscal years, re-jig in effective utilisation of brands and enhanced manpower productivity. In the medium term, healthy pickup in demand and expansion of IHCL's hotel portfolio are likely to aid revenue growth and operating profitability is expected to be in the range of 30%-33% in the medium term.

Historically, IHCL's consolidated margins and profitability have been relatively lower compared to the standalone margins and ROCE, because of subdued performance of some of its key overseas properties and operating performance improvement in such properties shall strengthen consolidated profitability, going forward.

Robust capital structure and debt coverage metrics
The company's net worth stood strong at ₹8927 crore as on March 31, 2024, against ₹7,439 crore as on March 31, 2023. The company had deleveraged its balance sheet significantly in the last three fiscal years, particularly in FY22, backed by inflow of ~₹4000 crore through qualified institutional placement (QIP) and rights issue. The company has been generating significant cash flow from operations leading to limited reliance on debt. The company's overall gearing stood at 0.31x (0.42x) as on March 31, 2024 (2023) dropping significantly from 1.78x as on March 31, 2021. Major portion of the current debt are lease liabilities with modest reliance on working capital borrowings. With no major incremental debt expected, overall gearing is expected to be in the range of 0.21x-0.25x in the medium term.

With comfortable debt position and strong profitability in FY24, the company's debt coverage metrics also remain robust. Interest coverage ratio was 10.13x (7.66x) in FY24 (FY23) and net debt (includes lease liabilities) to PBILDT was at 0.23x (0.73x) in FY24 (FY23). These metrics are expected to remain robust in the medium term with continued strong profitability.

Key weaknesses

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.

Litigation with Mumbai Port Trust leading to contingent liability
There is a long-pending lease rental-related dispute with Mumbai Port Trust (MPT), on which, the Taj Mahal Palace, Mumbai, is located. MPT has demanded rental claim of ₹1,661 crore as on March 31, 2024, 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 further proceedings by the lessor, pending resolution of this dispute. The matter is sub-judice and adverse outcomes may impact IHCL's liquidity and profitability significantly.

Liquidity: Strong
IHCL's strong liquidity is supported by healthy cash & cash equivalents and significant generation of gross cash accruals (GCA) and modest bank limit utilisation. The company had generated GCA of ₹1809 crore in FY24 and net cash flow from operations of ₹1883 crore. The company's repayment obligations (including lease liabilities) in FY25 is ~₹265 crore and ~₹55-60 crore in FY26, which can be easily serviced by its cash flow from operations. The company had cash & bank balances of ₹1,462 crore as on March 31, 2024, while liquid investments were ₹724 crore as on March 31, 2024. The company had modestly utilised its fund based working capital limits (6%) in 12-months ended June 2024. Currently, the company has robust capital structure, providing headroom for incremental debt if required, however, no major incremental debt is envisaged as on date. IHCL's liquidity further gets a boost from the promoter's strong financial flexibility. The company has an ongoing lease rental dispute with MPT, outcome of the litigation has been pending for several years and an adverse verdict for IHCL could result in relatively significant cash outflow.

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 a 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:
- 50% of Energy from Renewable Sources by 2030 – The company's green power mix was 37% in FY24 for entire portfolio and 51% of IHCL owned hotels. Around 43 hotels run on green energy with seven hotels operating with 100% green energy.
- 5% of Hotel Guest Parking Area Allotment to EV Charging Stations by 2030 – The company has installed 343 EV Charging Stations across 146 properties in India.
- 100% recycling of waste water by 2030 – In FY24, 48% of total waste water was recycled.

Social:
- Employee Related achievements in FY24 (FY23) –20% (18.50%) employees being women with 209 (194) women in leadership positions and 148 (41) differently abled employees. The company had reported 75.40% (73.6%) employee retention rate in FY24 (FY23). IHCL conducted 21,514 safety training.
- Target of one lakh plus young livelihoods to be empowered by 2030 – About 13,000 youth skilled in since 2020.

Governance
- Target of 25% Women Representation in Board by 2030 – 17% (14%) achieved in FY24 (FY23).
- Target of 100% Board Level Committee Chaired by Independent Director by 2030 – 100% was achieved in FY23 itself and sustained in FY24.
- Target of three Board Members with Expertise in Sustainability/ ESG by 2030 - 100% was achieved in FY24.

CARE Ratings take comfort from progress on IHCL'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 & resorts

Incorporated in 1903, IHCL is promoted by TSPL. 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 218 operational hotels with a room inventory of 24,136 rooms as on March 31, 2024, globally across four continents, 13 countries and in over 150 locations. This includes presence in India, North America, the UK, Africa, the Middle East, Malaysia, Sri Lanka, Maldives, Bhutan, and Nepal. IHCL has presence across luxury, upscale and value segments of the market through its brands, Taj Hotels Resorts and Palaces, Vivanta, SeleQtions, Ginger, Gateway, AMA, and Tree of Life. The group also has presence in air catering, spas, wildlife lodges and service apartments.

Brief Financials (₹ crore) - Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	5810	6769	1550
PBILDT	1806	2164	450
PAT	1053	1330	260
Overall gearing (times)	0.42	0.31	-
Interest coverage (times)	7.66	10.13	9.02

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/Non-fund-based-LT/ST	-	-	-	-	93.00	CARE AA+; Stable / CARE A1+
Non-fund-based-LT/ST	-	-	-	-	300.00	CARE AA+; Stable / 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/Non-fund-based-LT/ST	LT/ST	93.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Positive / CARE A1+ (07-Oct-22)	1)CARE AA; Stable / CARE A1+ (06-Jan-22)
2	Non-fund-based-LT/ST	LT/ST	300.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (04-Oct-23)	1)CARE AA; Positive / CARE A1+ (07-Oct-22)	1)CARE AA; Stable / CARE A1+ (06-Jan-22)

3	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Jan-22)
4	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (06-Jan-22)
5	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE AA; Stable (06-Jan-22)
6	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE AA; Stable (06-Jan-22)
7	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Oct-23)	1)CARE AA; Positive (07-Oct-22)	1)CARE AA; Stable (06-Jan-22)
8	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (04-Oct-23)	1)CARE AA; Positive (07-Oct-22)	1)CARE AA; Stable (06-Jan-22)
9	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE AA; Stable (06-Jan-22) 2)CARE AA; Stable (30-Jun-21)
10	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (07-Oct-22)	1)CARE A1+ (06-Jan-22) 2)CARE A1+ (12-Nov-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/Non-fund-based-LT/ST	Simple
2	Non-fund-based-LT/ST	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 Entity	Extent of consolidation	Rationale for consolidation
	Indian Subsidiaries		
1	PIEM Hotels Limited	Full	Subsidiary
2	Benares Hotels Limited	Full	Subsidiary
3	United Hotels Limited	Full	Subsidiary
4	Roots corporation Limited	Full	Wholly owned subsidiary
5	Inditravel Limited	Full	Subsidiary
6	Taj Trade and Transport Company Limited	Full	Subsidiary
7	KTC Hotels Limited	Full	Wholly owned subsidiary
8	Northern India Hotels Limited	Full	Subsidiary
9	Taj Enterprises Limited	Full	Subsidiary
10	Skydeck Properties and Developers Private Limited	Full	Wholly owned subsidiary
11	Sheena Investments Private Limited	Full	Wholly owned subsidiary
12	ELEL Hotels and Investments Limited	Full	Wholly owned subsidiary
13	Luthria and Lalchandani Hotel and Properties Private Limited	Full	Wholly owned subsidiary
14	Ideal Ice Limited	Full	Wholly owned subsidiary

Sr. No.	Name of Entity	Extent of consolidation	Rationale for consolidation
15	Genness Hospitality Private Limited	Full	Wholly owned subsidiary
16	Qurio Hospitality Private Limited	Full	Wholly owned subsidiary
17	Kadisland Hospitality Private Limited	Full	Wholly owned subsidiary
18	Suisland Hospitality Private Limited	Full	Subsidiary
19	Zarrenstar Hospitality Private Limited	Full	Wholly owned subsidiary
	Foreign Subsidiaries		
20	United Overseas Holdings Inc and its subsidiaries	Full	Wholly owned subsidiary
21	St. James Court Hotel Limited	Full	Subsidiary
22	Taj International Hotels Limited	Full	Wholly owned subsidiary
23	Taj International Hotels (H.K.) Limited	Full	Wholly owned subsidiary
24	PIEM International (H.K) Limited	Full	Subsidiary
25	IHOCO BV	Full	Wholly owned subsidiary
26	IHMS Hotels (SA) Proprietary Limited	Full	Wholly owned subsidiary
27	Good Hope Palace Hotels Proprietary Limited	Full	Wholly owned subsidiary
28	Demeter Specialites Pte Ltd	Full	Wholly owned subsidiary
29	IH Hospitality GmbH	Full	Wholly owned subsidiary
	Joint Venture		
30	Taj SATS Air Catering Limited	Moderate	Joint Venture
31	Taj Karnataka Hotels and Resorts Limited	Moderate	Joint Venture
32	Taj Kerala Hotels and Resorts Limited	Moderate	Joint Venture
33	Taj GVK Hotels and Resorts Limited and its joint venture	Moderate	Joint Venture
34	Taj Safaris Limited	Moderate	Joint Venture
35	Kaveri Retreat & Resorts Limited	Moderate	Joint Venture
36	TAL Hotels & Resorts Limited and its subsidiaries and an associate	Moderate	Joint Venture
	Associates		
37	Oriental Hotels Limited	Moderate	Associate
38	Taj Madurai Limited	Moderate	Associate
39	Taida Trading & Industries Limited	Moderate	Associate
40	Lanka Island Resorts Limited	Moderate	Associate
41	TAL Lanka Hotels PLC	Moderate	Associate

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.

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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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