Oriental Hotels Limited

October 21, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	184.00 (Reduced from 190.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	0.02	CARE A1 (A One)	Assigned
Total Bank Facilities	**184.02 (Rs. One Hundred Eighty-Four Crore and Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the outlook for Oriental Hotels Limited (OHL) from Negative to Stable. The revision in outlook takes into consideration a faster than expected recovery in demand for the hospitality sector, strongly aided by easing of restrictions imposed on account of the Covid-19 pandemic. Going ahead, CARE expects increased level of vaccination, would auger well for the industry as the demand for leisure and travel leading to higher occupancy and ARR levels. The reaffirmation of rating favourably takes into account the benefits derived by OHL from being associated with 'The Indian Hotels Company Limited' (IHCL, rated CARE AA; Stable/ 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 the overhang of any likelihood of a third Covid-19 wave disrupting the revival in the hospitality sector, subdued operational performance in FY21 and Q1FY22 due to Covid-19. The ratings are further constrained by geographical revenue concentration risk, seasonality associated with the hotel industry and competition in the key markets of OHL.

Key Rating Sensitivities

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Faster recovery, 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- Factors that could lead to negative rating action/downgrade:

- 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

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, 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.

Key Rating Weaknesses

Decline in Operational performance, exacerbated by Covid 19

OHL witnessed reduction in occupancy levels at 34% in FY 21 (59% in FY20) primarily affected by a lacklustre H1 due to Covid 19. The average room rates (ARR) also declined from 7423 in FY20 to 5134 in FY21. The demand gradually picked up from H2FY21 due to gradual lifting up of restrictions. However, due to second wave of Covid 19, the operations were again impacted in April and May month of Q1FY22 due to lockdown restrictions imposed by respective State Governments. With gradual ease in restrictions since June 2021, all the company's hotels have been operational, and the company has witnessed higher occupancy and ARR in Q2 FY22.

During Q1FY22, at individual hotel level, occupancy levels increased in four of OHL's properties i.e., Taj Coromandel, Chennai (from 50% to 71%), Taj Fisherman's Cove, Chennai (from 30% to 52%), Mangalore (from 14% to 33%), and Coimbatore (from 30% to 36%). The Madurai property showed dip in occupancy owing to renovation while Coonoor property was closed owing to lockdown in Q1FY22.

All the hotels have been operational since June 2021. The occupancy level is expected to be higher in H2 FY22 on account of festive season, increase in vaccination, pent-up demand for leisure travel. However, it is contingent to the possibility of third wave of Covid-19 which may affect the business of the company adversely. In Q1 FY22, OHL reported a top line of Rs.25.40 crore with a loss of Rs.16.83 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 59% of the operating income of OHL in FY21 (PY: 58%).

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.

Outlook on Hotel Industry

The second wave of Covid snapped the momentum gained in the second half of FY21 for the hospitality industry. The path to recovery, that the industry was slowly but steadily treading, has been derailed now. The hospitality industry is expected to report losses in FY22 as well although the same shall be lower compared with the operating loss witnessed in FY21.

Sustained cost-saving initiatives of fixed costs undertaken by the players in FY21, and better operating leverage will be the supportive factors. With the rise in occupancies, costs in FY22 are expected to inch-up marginally, however, it would still be lower than the pre-covid levels. CARE Ratings expects the industry to pick up gradual pace from October 2021 onwards, though, revival may be gradual over 18 months to hit the pre-covid level occupancies and average room rates (ARRs); with likely resumption of international travel and corporate business. ARR is likely to witness a 7%-10% uptick y-o-y but expected to be 30%-35% down from pre-covid levels. ARR normalcy may only be achieved post recovery in occupancies. Recovery for some select players may be faster owing to strong brand recall and scale, leveraged balance sheets, though remains an overhang on profitability. Due to the pandemic, the industry players have undertaken realignment of the cost structures, which in CARE Ratings' view has formed a strong base for future profitability.

As travels and tourism witnessed an uptick post relaxation of the lockdowns since June 2021 and decline in covid-19 infection figures. Post May2021, the travel aggregators have reported a sudden surge in bookings, both for the 'staycation' and 'workcation' segments. Positive market sentiment also stems from vaccination of a large of part of population including the hotel staff for the larger hotel chains. The leisure locations are particularly attracting attention. While international travel demand is expected to remain muted in the next 2-3 quarters largely due to continuing restrictions, the domestic tourism is expected to be the growth driver in the near-to-medium term. The bookings for the peak season of October-December are usually made in advance during summers by international tourists, however, not much traction has been observed yet for the upcoming season on account of the prevailing uncertainties. The restrictions on international travel could be a silver lining in as much as some proportion of these tourists instead opting for domestic travel. It is noteworthy to mention that around 25million tourists from India travel to international locations annually. Due to the pandemic, large pie in this population of tourists is expected to stay in the country and explore domestic destinations.

Furthermore, among the leisure and business segments, the leisure segment is likely to revive earlier than the business segment. During the past two lockdowns, several corporates have successfully tested and implemented the alternative work-from-home model of operating both for internal as well as external interactions. The minimal cost and added convenience associated with the model could imply that a significant portion of companies might persist with holding webinars and online conferences, instead of conferences requiring collective travel and stay at hotels, even after the crisis tides over. The corporate and meetings, incentives, conferences, and exhibitions (MICE) segment is unlikely to pick up before FY23.While some green shoots are visible, the road to recovery is still quite long and pick-up in momentum is not expected before Q3FY22.That said, the occupancies may take at least6-8quarters to return to pre-covid levels. Further, brownfield expansions within the industry shall be pushed ahead by few quarters as well, owing to the already under-utilized inventory.

Liquidity position
Adequate: The Company has cash and liquid investments of Rs.44.42 crore and undrawn working capital lines of Rs. 30.0 crore as on September 30, 2021. The company had also secured additional financing in the form a term loan sanction of Rs.100 crore in June 2020 of which Rs. 50.00 crore remain unutilized (availability period till December 2021). This loan has a moratorium of 2 years. Also, the company has additional financing of Rs.74.00 crore in the form of ECLGS of Rs.Rs.47 crore is drawn till September 30, 2021.
The company has repaid Rs.6 crore in May 2021 and balance Rs.14 crore is to be made in November 2021. It has Rs.31.28 crore repayment upcoming in FY23. 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
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hotel

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; Stable/ CARE A1+') and its associates hold 37.85% equity stake in OHL and another promoter, the Dodla Reddy (D Varada Reddy) family holds 28.59% stake as on March 31, 2021.

Brief Financials (Rs. crore)	FY20(A)	FY21 (A)	Q1FY22 (UA)
Total operating income	298.78	118.04	25.40
PBILDT	46.35	-29.77	-11.77
PAT	-3.78	-53.58	-16.83
Overall gearing (times)	0.73	0.97	-
Interest coverage (times)	1.93	-1.35	NM

NM: Not meaningful; A: Audited; UA: Unaudited
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 for this company*:* Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	November 2024	184.00	CARE A+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	0.02	CARE A1

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Jan-19)
3	Fund-based - LT-Term Loan	LT	184.00	CARE A+; Stable	-	1)CARE A+; Negative (05-Jan-21)	1)CARE A+; Stable (07-Nov-19)	-
4	Fund-based - ST-Bank Overdraft	ST	0.02	CARE A1				

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

Annexure 4 Complexity level of various instruments rated for this Company

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

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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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