Oriental Hotels Limited

October 28, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	164.00 (Reduced from 184.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	0.02	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**164.02 (₹ One Hundred Sixty-Four Crore and Two Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Oriental Hotels Limited (OHL) takes into account the operational synergies driven by virtue of being The Indian Hotels Company Limited group of companies, strong brand image and well-established hotel properties in Southern India. The ratings further consider the improvement in the operational metrics of the company coupled with various cost measures taken by the company to further enhance its margins in FY22 (FY refers to the time period between April 01 to March 31) and H1FY23. With uncertain economic conditions in domestic and global markets coupled, the ability of the company to maintain sustained occupancy levels with healthy Average Room Rate (ARR) will be a key monitorable from rating perspective.

The rating strengths are however, marginally tempered by significant repayment obligations for the company in the next 3 years, and inherent risk in the form of industry cyclicality /seasonality, macro-economic cycles, and other uncertain activities (geo-political crisis, terrorist attacks, and disease outbreak)

Rating Sensitivities

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

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

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

- × Weakening linkages with IHCL
- × Unanticipated occurrence of any event leading to disruption in travel/leisure activities

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.

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

Operational synergy and demonstrated financial support from the group

IHCL has a 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.

Strong operational turnaround in FY22 and H1FY23.

The operations of the company had witnessed a strong turn around in H2FY22, driven by removal of regulation in most parts of India, and increased domestic tourism. The company has recorded an occupancy rate of 56% in FY22 (PY: 34%) driven by increased travel/corporate booking in the two flagship entities of OHL and Vivanta, Coimbatore. This demand has also positively affected the average room rate leading to a Y-o-Y growth rate of 31.44%.

The momentum has continued for H1FY23 where the company had recorded an occupancy rate of 74% with ARR of Rs 8932.05.

Strong brand recall for the flagship properties

"Taj Coromandel" and "Taj Fisherman Cove" are the two flagship properties of OHL and operated around 46% of the total room inventory. In addition, the cumulative revenue contribution of these properties is around 66% of the total operating income (TOI) of the company (PY:61.34%). Both these properties have a very strong brand recall in South India and are the preferred location for MICE category and government delegations.

Healthy financial performance with recovering margins, however significant improvement in H1FY23.

Driven by the increased domestic travel, the total operating income increased by 90.68% driven by increased room rates supported by higher occupancy levels. Further, the growth rate is also on account of base effect, where the year FY21 was very bad owing to Covid related restrictions. However, the company is yet to reach the Pre covid level. Various cost measures adopted by the company had led to better absorption of fixed costs for the company leading to healthy operating profits in FY22 as against net loss in FY21.

Key Rating Weakness

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, RussiaUkraine 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: Adequate.

Adequate liquidity characterized by cash and cash equivalents to the tune of Rs 61.60 crore as on March 31, 2022, as against scheduled repayment obligation of Rs 14.00 crore. The company has raised the new ECLGS limits of Rs 27.00 crore for its working capital management in FY22. Further, the company has completely repaid one of its term loan worth Rs 50.00 crore in H1 FY23. Historically, the working capital utilization of the company is nil owing to the negative operating cycle for the company

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
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

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; Positive/ CARE A1+') and its associates hold 28.55% equity stake in OHL and another promoter, Mr. Dodla Reddy (D Varada Reddy; part of DPS Reddy group) family holds 33.57% stake as on March 31, 2022.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (P)
Total operating income	115.78	218.77	181.63
PBILDT	-32.02	22.97	52.53
PAT	-53.38	-13.38	22.01
Overall gearing (times)	0.97	1.09	0.88
Interest coverage (times)	-1.46	1.03	5.11

A: Audited; P: Published.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 (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	164.00	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 (₹ 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	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (02-Apr-20)	1)CARE A+; Stable (07-Nov-19)
2	Fund-based - LT-Term Loan	LT	164.00	CARE A+; Stable	-	1)CARE A+; Stable (21-Oct-21)	1)CARE A+; Negative (05-Jan-21)	1)CARE A+; Stable (07-Nov-19)
3	Fund-based - ST-Bank Overdraft	ST	0.02	CARE A1	-	1)CARE A1 (21-Oct-21)	-	-

*Long Term / Short Term

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 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 Ratings Ltd. 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 CARE Ratings Limited:

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