

## Oriental Hotels Limited

January 03, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities@	-	-	<b>Withdrawn</b>
<b>Total Bank Facilities</b>	-		
Non-Convertible Debenture (NCD) issue	<b>200.00</b> <b>(Rupees Two hundred crore only)</b>	<b>CARE A+; Stable</b> <b>(Single A Plus;</b> <b>Outlook: Stable)</b>	<b>Reaffirmed</b>

*Details of instruments/facilities in Annexure-1*

*@ The rating assigned to the long term bank facilities is withdrawn as the term loan has been repaid in full and there is no amount outstanding as on date.*

### Detailed Rationale & Key Rating Drivers

*The rating continue to favourably take into account the benefits derived by Oriental Hotels Limited (OHL) from being part of the Taj group of hotels including the synergies of operations with 'The Indian Hotels Company Limited' (IHCL, rated CARE AA+; Stable/ CARE A1+) & its associates, demonstrated funding support from the Tata group in the past and the longstanding 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 also takes into account the improved operational and financial performance during FY18 (refers to period from April 01 to March 31) and improvement in capital structure during H1FY19 (refers to period from April 01 to Sep 30).*

*The rating is, however, constrained by revenue concentration risk, seasonality associated with the hotel industry and competition in the key markets of OHL.*

*Going forward, the ability of the company to improve its profitability amidst the competitive industry scenario, and improvement in capital structure will be the key rating sensitivities.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Part of the Taj group 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 is 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 Taj brand (which is owned by IHCL) and offer high level of standardization in services, experience and products specific to the category under which the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

particular hotel falls. OHL has request-based access to the central treasury operations of IHCL, which along with its associates have extended funding support to OHL by way of ICDs in the past.

***Longstanding track record of operations with strong brand image***

OHL has a long-standing track record of operations spanning over four decades. The company's hotels fall under three different categories of branding such as Taj luxury, Vivanta Taj and Gateway hotels, catering to different economic segments and which carry a strong and reputed brand image.

***Stable occupancy levels along with improved room rates witnessed in FY18***

OHL witnessed stable occupancy levels at 66% with growth in average room rates (ARR) by 6% in FY18. The company has been able to improve/maintain its occupancy levels over the last few years on account of improved general business environment and the strong brand image. During FY18, the company has witnessed improvement in occupancy levels in most of its properties except for Fisherman's Cove, Chennai (from 65% to 53%), Vishakapatnam (from 79% to 68%) & Coonoor (from 61% to 59%) property. Revenue from Fisherman's Cove, Chennai moderated due to renovation undergone during the period.

***Improved financial performance during FY18***

During FY18, the company witnessed y-o-y growth of 7% in total operating income, contributed by increase in income from room rentals and food & beverages (F&B). OHL witnessed increase in F&B sales from most of its properties. The overall growth in income from room rentals and F&B was 5% (PY: 10%) and 10% (PY: 3%), respectively in FY18. Improvement in ARR coupled with stable occupancy levels has resulted in higher revenue from room rentals.

PBILDT margin improved to 17.62% in FY18 (PY: 16.39%). The company achieved PAT of Rs.6 crore and GCA of Rs.45 crore in FY18 on TOI of Rs.366 crore in FY18 as against PAT of Rs.2 crore and GCA of Rs.34 crore on TOI of Rs.342 crore in FY17.

In September 2018, the company has received Rs.120 crore from the sale of its Vishakhapatnam property and the refund of the security deposit Rs.48 crore on termination of lease agreement of the Trivandrum property. Trivandrum hotel lease termination will be effective from April 01, 2019.

***Improvement in capital structure during H1FY19***

Overall gearing as on March 31, 2018 stood at 1.28x as against 1.36x as on March 31, 2017. Interest coverage stood at 2.09 times in FY18 and Total debt to GCA was 7.01 years as on March 31, 2018. With the proceeds received from sale of Visakhapatnam property and refund of security deposit from Trivandrum property, the company has prepaid its entire term loan from bank. This has resulted in improvement in the capital structure of the company with the overall gearing improving to 0.74x as on September 30, 2018.

Also, being part of the Taj Group, the company enjoys high financial flexibility. The company has NCD repayment of Rs.250 crore (including interest) due in November 2019. Same is expected to be met partly out of internal accruals and partly through refinancing from banks or from group companies.

***Liquidity position***

The total cash & liquid investments stood at Rs.73 crore as on September 30, 2018. The company also has sanctioned working capital limits of Rs.30 crore, the utilization of the same has been minimal in the past one year ended September 2018.

**Key Rating weaknesses**

***Revenue concentration risk with Major share of income generated from two properties***

The majority of the income of OHL originates from its luxury and semi-luxury properties, out of which, the contribution from the two hotels in Chennai remains high. The income from these properties represented 48% (PY: 49%) of the company's income in FY18 and 50% in H1FY19.

***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.

**Analytical approach:** Standalone and factoring in linkages with The Indian Hotels Company Limited (IHCL).

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Service Sector Companies](#)

[Rating Methodology - Hotel Industry](#)

[CARE's policy on Short Term Rating](#)

[Financial ratios \(Non-Financial Sector\)](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

**About the Company**

Oriental Hotels Limited (OHL) is part of the 'Taj Hotels Resorts and Palaces', the umbrella brand of the Tata group company, 'The Indian Hotels Company Limited' (IHCL), its subsidiaries and associates in the hospitality industry. OHL was promoted in September 1970 by the Reddy family and IHCL. As on September 30, 2018, Tata group companies including IHCL (rated 'CARE AA+; Stable', 'CARE A1+') and its associates held 33.6% equity stake in OHL, while the Reddy family held 17.7% stake. As on March 31, 2018 OHL had a portfolio of nine hotels having inventory of 1,060 rooms, located in four states of South India. All the nine hotels of OHL are managed by IHCL (which acts as the operator of the properties) under the Taj brand name and management fee is paid for the same by OHL to IHCL. The flagship hotels of the company are Taj Coromandel (Chennai) and Vivanta Taj- Fisherman's Cove, (Chennai). During September 2018, OHL had sold its property in Vishakhapatnam and agreed to terminate its lease of Trivandrum property effective April 01, 2019.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	342	366
PBILDT	56	65
PAT	2	6
Overall gearing (times)	1.36	1.28
Interest coverage (times)	1.74	2.09

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	November 21, 2014	10.25%	November 21, 2019	100.00	CARE A+; Stable
Debentures-Non Convertible Debentures	November 21, 2014	Coupon rate: 2% p.a; YTM: 10.25%	November 21, 2019	100.00	CARE A+; Stable

#### 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (08-April-2015)
2.	Debentures-Non Convertible Debentures	LT	200.00	CARE A+; Stable	-	1)CARE A+; Stable (29-December-2017)	1)CARE A+; Stable (07-December-2016) 2)CARE A+ (21-October-2016)	1)CARE A+ (08-February-2016)
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (29-December-2017)	1)CARE A+; Stable (07-December-2016)	-

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