October 07, 2022

TajGVK Hotels & Resorts Limited: Ratings upgraded to [ICRA]A-/[ICRA]A2+ from [ICRA] BBB+; ratings removed from watch with developing implications and stable outlook assigned on long-term rating

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	145.28	72.13	Upgraded to [ICRA]A- from [ICRA]BBB+; rating removed from watch with developing implications and stable outlook assigned
Short-term, Fund-based Limits	30.00	30.00	Upgraded to [ICRA]A2+ from [ICRA] A2; rating removed from watch with developing implications
Short-term, Non-fund Based Limits (Interchangeable)	(11.00)	(11.00)	Upgraded to [ICRA]A2+ from [ICRA] A2; rating removed from watch with developing implications
Total	**175.28**	**102.13**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings factors in the improved operating performance in Q1 FY2023 and reflection of the same in the debt metrices and liquidity profile of TajGVK Hotels & Resorts Limited (TajGVK/ the company). Further, while the revenue growth momentum is expected to sustain going forward, with healthy demand outlook for the hotel industry, improved operating leverage and sustenance of cost-optimisation measures undertaken by the company during the pandemic period are likely to support accruals and debt metrics.

The company has reported healthy uptick in Q1 FY2023, with demand stemming from leisure travel, social MICE/weddings and pickup in business/diplomat travel. TajGVK reported revenues of Rs. 85.5 crore in Q1 FY2023, 18.4% higher than the pre-Covid revenues of Rs. 72.2 crore in Q1 FY2020, supported by healthy improvement in occupancy. The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 34.5% in Q1 FY2023, compared to 25.5% in Q1 FY2020. As a result of its healthy accruals, TajGVK's liquidity position has also improved, and the company prepaid its principal repayment obligations falling due till Dec 2022, by June 2022. Further, the company had undrawn lines of Rs. 30 crore and cash balances of Rs. 24 crore as on Aug 15, 2022, as against balance principal repayment obligation of only Rs. 15.8 crore for FY2023 for its existing loans.

Going forward, the revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023. The company has capex plans of close to Rs. 250 crore over the period FY2023 to FY2026, for its upcoming property in Yelahanka, Bengaluru, and despite this, the coverage metrics to remain moderate over the medium term, supported by its anticipated healthy accruals. ICRA expects the company's liquidity position to remain adequate over the medium term. The ratings also draw comfort from TajGVK's operational flexibility with IHCL being the JV partner and the hotel operator, and well-established presence of TajGVK's properties in their respective markets. However, the company has geographic concentration in Hyderabad.

Key rating drivers and their description

Credit strengths

Operational flexibility enjoyed by TajGVK with IHCL being the JV partner and the hotel operator – IHCL holds 25.52% stake in TajGVK and has one representative on TajGVK's board. The company derives operational flexibility with IHCL being the hotel operator.

Healthy market position in Hyderabad; other properties also well established in respective markets – The company has a strong presence in the Hyderabad market and its properties are well established, with existence for several years. TajGVK's flagship 5-star deluxe property—Taj Krishna—is a well-established property in the Hyderabad CBD (central business district), commanding a significant RevPAR premium compared to other properties in the vicinity. Apart from the four properties in Hyderabad, TajGVK has two other properties, one each in Chennai and Chandigarh, which are also well established in their respective cities. The company's property in Mumbai under a JV, Greenwoods Palaces & Resorts Private Limited—Taj Santacruz—also has location-specific advantage (by virtue of its proximity to the international airport).

Healthy improvement in operating metrics in Q1 FY2023 with industry uptick; improvement in margins and accruals as well – The company has reported healthy demand uptick in Q1 FY2023, in line with the industry, with demand stemming from leisure travel, social MICE/weddings and pickup in business/diplomat travel. TajGVK reported revenues of Rs. 85.5 crore in Q1 FY2023, 18.4% higher than the pre-Covid revenues of Rs. 72.2 crore in Q1 FY2020, supported by healthy improvement in occupancy. The benefits from operating leverage and sustenance of cost optimisation measures undertaken during the pandemic, resulted in an improvement in operating margins to 34.5% in Q1 FY2023, compared to 25.5% in Q1 FY2020. As a result of its healthy accruals, TajGVK's liquidity position also improved, and the company prepaid its principal repayment obligations falling due till Dec 2022, by June 2022. Going forward, the revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023.

Credit challenges

Exposed to geographical concentration risk with inventory concentrated in the Hyderabad market – TajGVK is a moderate-scaled player in the Indian hotel industry with an inventory of 1,362 rooms (1,083 rooms at a standalone level and 279 rooms in the property under the JV, Greenwoods Palaces & Resorts Private Limited). Of TajGVK's seven hotel properties at a consolidated level, four are in Hyderabad, comprising 52% of its total inventory. Owing to the high geographical concentration in Hyderabad, the company would be exposed to region-specific exogenous shocks and risks. The company is looking at setting up a premium hotel in Bengaluru over the medium term. The hotel, upon commencement, would reduce the company's geographic concentration to an extent.

Vulnerability of revenues inherent to hospitality industry cyclicality, economic cycles and exogenous events – Akin to other players in the industry, the company is exposed to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when TajGVK's performance was significantly impacted by the pandemic.

Moderate coverage metrics – While the healthy accruals have resulted in improvement in TajGVK's debt metrics, it remains moderate with Total debt/OPBDITA of less than 2.0 times as on June 30, 2022, and interest coverage of 7.2 times in Q1 FY2023. ICRA expects the coverage metrics to remain moderate over the medium term, despite sizeable debt-funded capex plans, supported by its anticipated healthy accruals.

Environmental and Social Risks

Environmental considerations – TajGVK, akin to other hotel players, is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The risk for TajGVK is accentuated by its geographic concentration. The company has been actively taking measures to improve its environmental impact by reducing energy, water and plastic consumption, and increasing green initiatives among others.

Social considerations – Akin to other hoteliers, the company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) from time to time and relies heavily on human capital. TajGVK is also vulnerable to data security and data privacy risks, like other hotels. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

TajGVK's liquidity profile remains adequate supported by healthy anticipated business accruals and cash flow from operations. Further, the company had undrawn working capital lines of Rs. 30.0 crore and Rs. 24 crore of free cash as on August 15, 2022. Aided by its improved cash flows, the company prepaid its principal obligations until December 2022, by June 2022. Thus, the company has balance principal repayment obligations of only Rs. 15.8 crore for FY2023. For FY2024 and FY2025, the company has Rs. 48.3 crore and Rs. 35.4 crore of principal repayment obligations on existing loans. Further, TajGVK has capex plans of close Rs. 250 crore over the period FY2023 to FY2026 for its upcoming property in Bengaluru, and part of this is likely to be debt-funded. Despite this, the company's liquidity position is expected to remain adequate going forward, supported by its anticipated accruals.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators, along with adequate deleveraging, leading to significant improvement in debt metrics, could be a trigger for improvement in the rating.

Negative factors – Negative pressure on TajGVK's ratings could arise from relatively slow recovery in its portfolio's operating metrics leading to sustained pressure on its earnings and profitability or cost overrun in the upcoming project, leading to weakening of debt coverage metrics and liquidity position. Any significant loans and advances or investments in GVK group entities would also be a rating sensitivity. Specific credit metrics that could lead to a downgrade would be net debt (excluding lease liabilities)/OPBDITA > 3x on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's consolidated financial profile

About the company

TajGVK is a joint venture between the Hyderabad-based GVK Group and IHCL (rated [ICRA]AA+ (Stable)/[ICRA]A1+). GVK Group holds about 49.47% stake through Mrs. Shalini Bhupal (daughter of Mr. G.V.K. Reddy, holding a 37.40% stake) and Mrs. G. Indira Krishna Reddy (wife of Mr. G.V.K. Reddy, holding a 12.07% stake) and IHCL holds around 25.52% stake in TajGVK. The balance is held by the public. The company currently has seven premium hotel properties with a cumulative inventory of 1,362 rooms at a consolidated level. Taj Krishna, Taj Deccan, Taj Banjara and Vivanta, Begumpet—are located in Hyderabad with a total inventory of 714 rooms. The company also owns a 149-room hotel in Chandigarh (Taj Chandigarh) and a 220-room hotel in Chennai (Taj Club House). The company owns a 279-room property, Taj Santacruz in Mumbai, through its JV Green Woods Palaces & Resorts Private Limited, in which it holds a 48.99% stake. The company is also constructing a hotel in Yelahanka, Bengaluru.

Key financial indicators (audited)

TajGVK Consolidated	FY2021	FY2022
Operating income	94.2	227.1
PAT	-26.4	9.9
OPBDIT/OI	-1.5%	23.0%
PAT/OI	-28.1%	4.4%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	-154.6	4.1
Interest coverage (times)	-0.1	2.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; Total debt includes lease liabilities of Rs.43.7 crore in FY2021 and Rs. 43.9 crore in FY2022.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021							Date & Rating in FY2020
					October 07, 2022	August 23, 2021	January 07, 2021	November 30, 2020	September 28, 2020	July 10, 2020	June 19, 2020	April 22, 2020	April 15, 2020	August 30, 2019
1	Term Loans	Long-term	72.13	72.13	[ICRA]A- (Stable)	[ICRA]BBB+&	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Fund-based Limits	Short-term	30.00	0.00	[ICRA]A2+	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Non-fund Based Limits	Short-term	(11.00)	0.00	[ICRA]A2+	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long- Term Loan	Simple
Short -term – Fund-based limits	Simple
Short-term Non-fund based limits (Interchangeable)	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2015	8.50%	FY2025	72.13	[ICRA]A-(Stable)
NA	Overdraft	NA	NA	NA	30.00	[ICRA]A2+
NA	Letter of Credit / Bank Guarantee	NA	NA	NA	(11.00)	[ICRA]A2+

Source: TajGVK Hotels & Resorts Hotels Limited

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Greenwood Palaces & Resorts Private Limited	48.99%	Equity Method

Source: TajGVK Hotels & Resorts Hotels Limited

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