March 24, 2020

Orange County Resorts & Hotels Limited: Rating of [ICRA]BBB+(Stable) Re-affirmed

Summary of rated instruments

Instrument*	Previously Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	60.00	60.00	[ICRA]BBB+ (Stable); re-affirmed
Total	**60.00**	**60.00**	

*Instrument details in Annexure - I

Rationale

The re-affirmation of the rating considers the extensive experience of OCL's promoters in the hospitality business, the strong brand identity as one of the top luxury resorts in the country and favourable locations of the company's resorts. Even amidst the economic slowdown the company was able to sustain and grow its occupancy both in FY2019 and 10MFY20, wherein the occupancy stood at 51% and 56% respectively. Coupled with the 15.7% growth in average room rate in 10MFY2020 the company's revenues witnessed healthy growth. Operating margins revived to a certain extent in FY2019 (17.1%: PY 14.1%:) and 10MFY2020 (26.3%) after its steep decline in FY2018 on account of floods and landslides in Coorg and Kabini. Further, the steady operations of all its three properties in Karnataka coupled with the commencement of its new hotel in Kalahari Game Reserve in Botswana, Africa on November 9, 2019 is expected to support the scale of operations over the medium term. Further, the company has plans of opening two new hotels, one in Kumta (South Goa) and another in Mandu (Madhya Pradesh) during FY2023 and FY2025 respectively. The timely commencement of operations of the said property will remain a key rating monitorable.

The rating is, however, constrained by moderate scale of operations, high geographical concentration with revenues predominantly being derived from Karnataka, high operational cost and manpower manning requirements and competition from other luxury players in the respective locations. The company is also expected to face stiff competition from other established players surrounding the Central Kalahari Game Reserve till operations at the Botswana property stabilise. Further, the current outbreak of Covid-19 globally and its impact on the travel and hospitality industry over the immediate term would have an impact on occupancies and ARR, although the exact impact of the same is yet to be ascertained.

Key rating drivers

Credit Strengths

- **Extensive experience of the promoters in the hospitality industry** – OCL was incorporated in 1993 with 10 rooms at the current location of the Coorg resort. Over the years the company has upgraded the amenities and rooms at the resort and has also geographically diversified to Kabini (Karnataka), Hampi (Karnataka), and Botswana (Africa) and is currently setting up two new properties – one each in Mandu, Madhya Pradesh and Kumta, South Goa.

[1] *100 lakh = 1 crore = 10 million*

- **Strong brand positioning, location and connectivity of the two main properties** (Coorg and Kabini) continues to support high Average Total Rates (ATRs[i]) in the range of Rs. 22,000-27,000; stabilisation of operations at its Botswana property is expected to provide increased brand recall with its high-end foreign tourists.

Credit Challenges

- **Moderate scale of operations** – The company has moderate scale of operations with revenues of Rs. 81.4 crore during FY2019 thereby restricting operational and financial flexibility to a certain extent. Further, relatively higher fixed costs (number of employees per room) compared to other luxury brands in the country also continues to affect the company's margins given the moderate scale.
- **Lack of geographical diversification** – Currently the company's entire revenues are being derived from Karnataka; however, its newly commenced hotel in Botswana, Africa and upcoming properties in Madhya Pradesh and South Goa are expected to mitigate the same to a certain extent.
- **Significant debt-funded capital expenditure –** The company's plans to set up a new resort in Mandu and Kumta through debt-funded (65%) capex of about Rs. 95 crore, 3-5 years. Higher than expected capital expenditure or borrowings could impact the credit profile of the company, and would be a monitorable.
- **Stiff competition from other luxury resorts, however OCL's strong brand has supported significantly high ARRs –** The company faces stiff competition in all its three operating hotels in Karnataka from other luxury brands, however the company's strong brand recall is expected to support its ATRs over the medium term.

Liquidity Position: Adequate

The liquidity profile of the company is adequate with net cash accruals expected to be around Rs.15 crore-19 crore as against the interest and repayments of Rs.13.5 crore in FY20 and Rs.13.9 croreFY21. Further, the capex of Rs. 95 crore towards its new project in Mandu and south Goa will be funded 65% through debt and remaining from internal accruals and funding from promoters. Cash and liquid investments of Rs.17.0 crore as on September 30,2019 provides additional cushion to the liquidity risk profile.

Rating Sensitivity factors

Positive Triggers

- Timely completion and stabilization of the projects in Madhu and Goa leading to increase in scale of operations. ROCE of >16% coupled with healthy capital structure and total debt/OPBITDA of not more than 2.5 times on a sustained basis

Negative Triggers

- Weakening in the operational performance, delay in stabilization of new projects or higher than expected capital expenditure leading to an overall weakening in the liquidity risk profile, with DSCR less than 1.3 times on a sustained basis.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Hotel Industry
Parent/Group Support	NA

Analytical Approach	Comments
Consolidation / Standalone	The rating is based on standalone financial statements of the company

About the company:

Orange County Resorts & Hotels Limited (OCL / the company) is engaged in providing boutique luxury hospitality services wherein it currently owns and manages three luxury resorts in Karnataka and one luxury resort in Botswana, Africa. The African operations are under a wholly owned subsidiary incorporated during FY2020.

The company is promoted by the House of Ramapuram group which is engaged in plantation business in Thrissur, Coorg and Mangalore with land bank of about 1,500 acres which produce coffee, spices, cashew and rubber. With a view to diversify the family's line of business, the promoter group set up a luxury resort at the centre of their coffee plantations in Coorg under the brand '*Orange County*' during 1992 with an initial inventory of 10 cottages. As time progressed, the inventory in Coorg was expanded to 63 cottages and the group also set up a new resort in Kabini with an inventory of 37 cottages during 2007. The company set up a new palace resort in Hampi with 46 rooms during FY2017. Further the company also commenced its international operations as on November 9,2019 with a twelve-cottage luxury resort in Botswana, Africa. The total employee strength of OCL currently is around 600 employees. The company is also currently setting up two new properties – one in Kumta (South Goa) and Mandu (Madhya Pradesh) which are expected to be operationalized in FY2023 and FY2025 respectively. The company had also rebranded its properties from 'Orange County' to Evolve Back during FY2018.

Key financial indicators (audited)

Standalone	FY2018	FY2019
Operating Income (Rs. crore)	73.7	81.4
PAT (Rs. crore)	2.7	5.4
OPBDIT/OI (%)	14.1%	17.1%
RoCE (%)	5.5%	9.8%
Total Debt/TNW (times)	0.7	0.5
Total Debt/OPBDIT (times)	4.8	2.7
Interest coverage (times)	2.3	3.6

Source: the company

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs.crore)	Amount Outstanding as on March 31, 2019 (Rs Crore)	Date & Rating 24-March 2020	Date & Rating in FY2019 08-Jan 2019	09-Oct 2018	Date & Rating in FY2018 27-July 2017	Date & Rating in FY2017 -
1	Term Loans	Long Term	60.00	30.5	[ICRA]BBB+ (Stable	[ICRA]BBB+ (Stable)	-	-	-
2	NCD	Long Term		-	-		[ICRA]A- (Stable); withdrawn	[ICRA]A- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2017	NA	FY2023	100.00	[ICRA]BBB+ (Stable)

Source: the company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: company

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