

June 19, 2020

TajGVK Hotels & Resorts Limited: Ratings downgraded from [ICRA]A+ (Negative)/[ICRA]A1+ to [ICRA]A (Negative)/[ICRA]A1; outlook on the long-term rating remains negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	165.63	165.63	[ICRA]A (Negative); revised from [ICRA]A+ (Negative)
Short-term, Fund-based Limits	30.00	30.00	[ICRA]A1; revised from [ICRA]A1+
Short-term, Non-fund Based Limits (Interchangeable) ^	(11.00)	(11.00)	[ICRA]A1; revised from [ICRA]A1+
Total	195.63	195.63	

*Instrument details are provided in Annexure-1;

Rationale

The revision in ratings factors in the expected weakening in TajGVK Hotels & Resorts Limited's (TajGVK) FY2021 performance owing to sharp demand drop because of the Covid-19 pandemic, which has severely impacted the global hospitality sector. The extended pan-India lockdown since March 24, 2020 has resulted in a sharp fall in occupancy levels for the company. The company operated only one of its six hotels during the last two months, apart from Taj Santacruz, Mumbai (the hotel under the JV with a GVK group co.), which was catering to doctors and medical personnel. With demand hitting multi-year lows and start of the recovery being a few quarters away and contingent upon a cure or vaccine, ICRA expects TajGVK to witness a sharp fall in the revenues and margins in FY2021, despite significant cost pruning measures. As a result, TajGVK's accruals and liquidity position are likely to materially weaken in FY2021.

ICRA notes that the company has undrawn working capital lines and cash and liquid investments of Rs. 31.5 crore as of May 2020. Also, the company has operational receivables, anticipated income tax refunds and export credit totaling to Rs. 26.8 crore, the receipt of which could provide some respite to immediate term liquidity. Further, TajGVK has availed moratorium relief on its term loans for the period of March to Aug 2020. Nevertheless, considering that it has repayment obligations of Rs. 24.4 crore for FY2021 (after taking into account the moratorium) and anticipated weak accruals in FY2021, the company is likely to avail incremental debt to meet its operational and financial commitments. TajGVK's coverage metrics are also likely to weaken substantially in FY2021, given the higher debt and weaker accruals.

The ratings remain supported by the strong parentage of the company with The Indian Hotels Company Limited (IHCL; rated [ICRA]AA (Stable)) being one of the joint venture partners with 25.52% stake as of March 31, 2020; IHCL is also the hotel operator for TAJGVK's hotels. The ratings also factor in the strong brands from the 'Taj Hotels, Palaces, Safaris, Resorts' portfolio, and TAJGVK's dominant position in the Hyderabad market with over ~11% share of available premium inventory in the city, and the company's comfortable capital structure with gearing of 0.4 times as on December 31, 2019. TajGVK has high dependence on the Hyderabad market, with ~52% of its total inventory (including Taj Santacruz) and ~70% of its revenues in 9M FY2020 from the Hyderabad market. While it is expected to be one of the early recovery markets given the relatively low number of Covid-19 cases, TajGVK would be exposed to region-specific exogenous

shocks and risks. The ratings are also constrained by the company's moderate coverage metrics and profitability with debt/OPBDITA of 2.2 times as on December 31, 2019 and RoCE stood at 10.6% for FY2019.

Key rating drivers and their description

Credit strengths

Strong management experience; managed by the GVK Group and IHCL – Taj GVK, being a joint venture of the GVK group with IHCL – the largest domestic hotel owner cum operator, derives considerable operational flexibility with IHCL being the hotel operator and also having access to IHCL's established premium brands.

Healthy market position in Hyderabad; other properties also well-known in their 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 – which constituted to ~31% of TajGVK's revenues in FY2019 and 9M FY2020, is a well-established property in the Hyderabad Central Business District (CBD), 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 luxury property in Mumbai under a JV with GVK group company - 'Taj Santacruz', also has location advantage (in proximity to the domestic airport) and commands premium RevPAR.

Comfortable capital structure: With reduction in debt levels owing to term loan repayments and steady accretions to networth owing to healthy operating accruals over the past few years, the company's capital structure was comfortable with gearing of 0.4 times as on December 31, 2019. It is likely to remain comfortable going forward as well.

Credit challenges

Sharp revenue and margin decline expected for FY2021 on account of steep demand drop owing to the pandemic: Given the discretionary nature of spend (especially leisure travel), the travel and tourism industry is susceptible to exogenous shocks like wars, terror attacks and disease outbreaks. The extended pan-India lockdown since March 24, 2020 resulted in a sharp fall in occupancy levels for the company, with demand declining to the lowest levels that the industry has ever witnessed. With the start of a recovery likely to be a few quarters away and contingent upon a cure or a vaccine, ICRA expects the company to post sharp decline in revenues and margins for FY2021, despite extensive cost-saving measures.

Moderate coverage metrics and profitability: The company had debt to the tune of Rs. 170.3 crore as on December 31, 2019. With decline in debt levels and healthy operating profits, the coverage indicators witnessed improvement on a y-o-y basis. However, it continued to remain moderate with the company's Total debt/OPBDITA of 2.2 times as on December 31, 2019 and RoCE stood at 10.6% for FY2019. With sharp fall in operating profits expected in the near term, the debt coverage indicators are likely to deteriorate in FY2021.

Revenues/inventory concentrated in the Hyderabad market: With revenues of Rs. 237.2 crore in 9M FY2020 and an inventory of 1,362 rooms (1,083 rooms at a standalone level), TajGVK is a moderate-scaled player in the Indian hotel industry. Also, ~52% of TajGVK's inventory and ~70% of its revenues in 9M FY2020 were derived from the Hyderabad market, although the launch of the Mumbai property through its JV in Q4 FY2016 has reduced the inventory concentration from previous levels of ~66% in FY2017. While Hyderabad is expected to be one of the early recovery markets given the relatively low Covid-19 cases, the company would be exposed to region-specific exogenous shocks and risks.

Liquidity position: Adequate

TajGVK's liquidity position is **adequate** with undrawn working capital lines of Rs. 19.9 crore and cash and liquid investments of Rs. 11.7 crore as of May 2020. Also, the company anticipates recovery of receivables, and export credit and likely income tax refund totaling to Rs. 26.8 crore in the near term. As against these sources of cash, the company has term loan repayment obligations of Rs. 24.4 crore for FY2021, after factoring in the moratorium relief availed on its term loans for the period of March to Aug 2020. Akin to other players in the hotel industry, the company has no capex plans in FY2021 and has deferred all its renovation-related expenses. TajGVK has also pruned its operating costs considerably. ICRA draws comfort from TajGVK's healthy financial flexibility and its strong relationship with the banks and expects the company to be able to meet its commitments in FY2021 through a combination of internal sources and incremental debt.

Rating sensitivities

Positive triggers – An upgrade in the near-term is unlikely given the negative outlook on the industry, driven by expectations of a severe impact of the pandemic on the travel and tourism business. Nonetheless, rapid recovery post the pandemic, demonstrated by sustained improvement in its operational metrics, profitability indicators and improvement in coverage metrics, could be a trigger for a change in outlook.

Negative triggers – Negative pressure on TajGVK's rating could arise upon a prolonged impact of the pandemic leading to muted operating metrics resulting in operating losses, deterioration in debt servicing indicators and liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hotel Industry
Parent/Group Support	The ratings draw comfort from the operational linkages with Indian Hotels Company Limited (IHCL; rated [ICRA]AA (Stable)), which holds 25.52% stake in company
Consolidation/Standalone	Consolidation

About the company

Incorporated in 2000, TajGVK is a joint venture between the Hyderabad-based GVK Group and IHCL (rated [ICRA]AA (Stable)). IHCL holds around 25.52% stake in TajGVK while the GVK group holds about 49.47% stake; balance is held by the public. TajGVK currently has six premium hotel properties (5-star/5-star Deluxe) with a cumulative inventory of 1,083 rooms. Of these hotels, four – namely 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). While these hotels are part of the standalone entity, the company also has a property named Taj Santacruz, Mumbai set up under an SPV named Green Woods Palaces & Resorts Private Limited in which TajGVK holds 48.99% stake.

Key financial indicators (Audited and Consolidated)

Consolidated	FY2018	FY2019
Operating Income (Rs. crore)	288.3	316.9
PAT (Rs. crore) ¹	21.0	24.3
OPBDIT/OI (%)	25.1%	22.0%
RoCE (%)	9.9%	10.6%
Total Outside Liabilities/TNW (times)	1.0	0.8
Total Debt/OPBDIT (times)	3.1	2.8
Interest Coverage (times)	2.9	3.2
DSCR (times)	1.3	1.2

Source: Company data;

PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, RoCE: Return on capital employed, TNW: Tangible net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
1 Term Loans	Long-term	165.63	165.63	[ICRA]A (Negative) 19-Jun-20	[ICRA]A+ (Negative) 22-Apr-20	[ICRA]A+ (Negative) 15-Apr-20	[ICRA]A+ (Stable) 30-Aug-19	[ICRA]A+ (Stable) 31-May-18	[ICRA]A+ (Stable) 23-Feb-17	
2 Fund-based Limits	Short-term	30.00	0.00	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3 Non-fund Based Limits ^	Short-term	(11.00)	0.00	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore

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

¹ The company also has a luxury property in Mumbai under a JV with GVK group - 'Taj Santacruz': company's share of profits from Taj Santacruz was Rs. 2.9 crore in FY2019 and Rs. 2.7 crore in 9M FY2020

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	August 2014	9.50%	December 2024	84.38	[ICRA]A (Negative)
NA	Term Loan 2	July 2014	9.20%	December 2023	81.25	[ICRA]A (Negative)
NA	Overdraft	NA	NA	NA	30.00	[ICRA]A1
NA	Letter of Credit / Bank Guarantee ^	NA	NA	NA	(11.00)	[ICRA]A1

Source: TajGVK Hotels & Resorts Limited

Annexure-2: List of entities considered for consolidated analysis

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

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