November 11, 2022

Oriental Hotels Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based	30.00	30.00	[ICRA]A+(Stable); reaffirmed
Short-term - Non-fund based – sub limit	(20.00)	(20.00)	[ICRA]A1; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factors in the Oriental Hotels Limited's (OHL) strong parentage by virtue of it being part of an associate of the Indian Hotels Company Limited (IHCL, rated [ICRA]AA+ (Stable)/[ICRA]A1+). OHL has strong operational and financial linkages with IHCL and enjoys financial flexibility/lender comfort arising from its parentage. Further, IHCL is expected to extend timely and adequate financial support to OHL in the future, as and when required. The ratings also positively factor in the well-established position of OHL's properties, especially the flagship ones, in their respective cities.

OHL reported an increase of 30.7% in operating income to Rs. 177.4 crore in H1 FY2023 as compared to pre-Covid levels of Rs. 135.7 crore in H1 FY2020 aided by improved demand, stemming from business travel, transient passengers, leisure travel and MICE events - both weddings and corporate MICE. The operating profit margin for H1 FY2023 also improved significantly to 27.1% compared to 7.2% in H1 FY2020, benefitting from improved operating leverage and sustenance of cost optimisation measures undertaken in the last two years. While OHL has relatively high debt levels for its scale of operations (total debt excl. lease of Rs. 235.2 crore as on September 30, 2022) due to debt-funded capex and net losses in the past, its coverage metrics have improved in H1 FY2023, on the back on healthy accruals. OHL's net debt/OPBDITA[1] improved to 2.0 times in H1 FY2023 as against 13.3 times in H1 FY2020. OHL's interest coverage metrics also improved to 4.7 times in H1 FY2023 from 0.7 times in H1 FY2020.

Going forward, the revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023. The revenue growth momentum is expected to sustain going forward, with healthy demand outlook for the hotel industry, while improved operating leverage and sustenance of cost-optimisation measures undertaken by the company during the pandemic period are likely to support accruals. Despite this, the company's scale is likely to remain moderate, along with concentration of revenues in the Chennai market. The company has total capex plans of around Rs. 65.0 crore over the period H2 FY2023 to FY2025 and this is likely to be funded through internal accruals. ICRA expects the coverage metrics to gradually improve from current levels over the medium term, supported by its anticipated healthy accruals and absence of debt-funded capex plans. OHL's liquidity position also expected to be adequate over the medium term.

[1] *Net Debt excl. lease = Total Debt – unencumbered cash and liquid investment; as on September 30, 2022, company had a total debt of Rs. 235.2 crore, unencumbered cash and liquid investment of Rs 75.5 crore and lease liabilities of Rs. 32.4 crore.*

Key rating drivers and their description

Credit strengths

Strong parentage – Tata Group companies hold 39.1% stake in OHL and the company is an associate of IHCL (28.6% stake). ICRA draws comfort from OHL's strong operational and financial linkages with IHCL. Further, OHL's properties are managed by IHCL, and the latter's representatives are part of OHL's board of directors. OHL has strong financial flexibility and lender/investor comfort arising from being an associate of IHCL. IHCL is expected to extend timely and adequate financial support to OHL in the future, on need basis.

Strong brands; well-established position of properties, especially the flagship ones, in the respective cities – OHL's hotels are operated under management contract by IHCL under its various brands. Also, its flagship properties – Taj Coromandel and Taj Fisherman's Cove – which constitute around 60% of OHL's consolidated revenues in H1 FY2023, are well-established properties in Chennai, the former being in the Chennai Central Business district and the latter being in the East Coast Road, near Mahabalipuram. Both these properties have been operational for the last several years and command an ARR premium compared to their competitor properties. Apart from these two properties, OHL has five other well-established properties spread across various locations in South India.

Healthy improvement in revenues and margins in H1 FY2023 – OHL's consolidated operating income increased by 30.7% to Rs. 177.4 crore in H1 FY2023 as compared to Rs. 135.7 crore in H1 FY2020 because of improved demand, stemming from business travel, transient passengers, leisure travel and MICE events - both weddings and corporate MICE. The improved operating leverage and sustenance of cost savings initiatives undertaken during the last two years have resulted in healthy improvement in operating margins and accruals. OHL has reported an operating profit margin of 27.1% and 12.7% in H1 FY2023 compared to 7.2% in H1 FY2020. Further, the company is likely to witness healthy improvement of revenues and operating profits on a full-year basis in FY2023.

Credit challenges

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

Moderate scale; heavy concentration in the Chennai market – OHL has relatively moderate scale of operations, with an aggregate inventory of 825 rooms as on date and operates across six locations in South India. While the company had 1,059 rooms until FY2019, the sale of the Vizag property (with 95 keys) in FY2019 and termination of licensing agreement at Vivanta Trivandrum wef. April 01, 2019 reduced OHL's room inventory to current levels. Also, around 60% of the company's revenues are derived from the Chennai market, exposing it to any localised downturn/unforeseen events or region-specific risks.

Moderate coverage metrics – The company has relatively high debt levels for its scale of operations (total debt excl. lease of Rs. 235.2 crore as on September 30, 2022) due to debt-funded capex and net losses in the past. On back of healthy accruals, OHL's net debt/OPBDITA[2] improved to 2.0 times in H1 FY2023 as against 13.3 times in H1 FY2020. OHL's interest coverage metrics also improved to 4.7 times in H1 FY2023 from 0.7 times in H1 FY2020. ICRA expects the coverage metrics to gradually improve from current levels over the medium term, supported by its anticipated healthy accruals and absence of debt-funded capex plans.

[2] *Net Debt excl. lease = Total Debt – unencumbered cash and liquid investment; as on September 30, 2022, company had a total debt of Rs. 235.2 crore, unencumbered cash and liquid investment of Rs 75.5 crore and lease liabilities of Rs. 32.4 crore.*

Environmental and Social Risks

Environmental considerations – Akin to other hotel companies, OHL 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 OHL 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. OHL is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk.

Liquidity position: Adequate

OHL's liquidity is expected to remain adequate, supported by its anticipated healthy accruals from operations. Further, the company had unencumbered cash and liquid investments of Rs. 75.5 crore and undrawn working capital limit of Rs. 30.0 crore as of September 30, 2022. As against these sources of cash, the company has principal repayment obligations of Rs. 18.2 crore in H2 FY2023, Rs. 64.2 crore in FY2024 and Rs. 68.1 crore FY2025 on its existing loans. It has capex plans of around Rs. 65.0 crore over the period H2 FY2023 to FY2025 and the same is expected to be funded entirely through internal accruals. The company also enjoys strong financial flexibility and lender/investor comfort by virtue of its parentage, and this is expected to continue going forward as well. Further, IHCL is expected to extend timely and adequate financial support to OHL in the future, on need basis.

Rating sensitivities

Positive factors – Significant geographic diversification and sustained improvement in the company's scale and earnings resulting in improvement of credit metrics, or improvement in the credit profile of the parent entity (IHCL) or strengthening of OHL's operational/ financial linkages with the parent could also result in an upgrade.

Negative factors – Negative pressure on OHL's ratings could arise if the company witnesses pressure on earnings or weakening of debt metrics and liquidity position. Further, any deterioration in the credit profile of the parent entity (IHCL) or weakening of OHL's operational/financial linkages with the parent, IHCL could also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology for Hotels Rating Approach - Implicit parent or group support
Parent/Group support	Parent company: The Indian Hotels Company Limited (IHCL, rated [ICRA]AA+ (Stable)/[ICRA]A1+) We expect IHCL to extend timely and adequate financial support to OHL, should there be a need.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of consolidation provided in Annexure-2

About the company

Oriental Hotels Limited (OHL/the company) is an associate of The Indian Hotels Company Limited (IHCL) and owns seven hotels with an aggregate inventory of 825 rooms in South India as on date. The hotels operate under the 'Taj', 'Seleqtions', 'Vivanta' and 'Gateway' brands. While the hotels are spread across six south Indian cities, the company's two flagship properties – Taj Coromandel and Taj Fisherman's Cove – both located in Chennai, contribute around 60% of revenues.

Apart from the standalone operations, the company also has a wholly owned subsidiary – a JV - TAL Hotels and Resorts Limited (21.7% stake); and two associates – Taj Madurai Limited (26% stake) and Lanka Island Resorts Limited (associate of OHL International (HK) Limited, 23.1% stake) as on March 31, 2022. The standalone operation constitutes over 99% of OHL's consolidated revenues. IHCL and other Tata group companies own 39.1% stake in the company while Late Mr. D. S. Reddy's (a Chennai-based industrialist) family members own 28.5% stake (as on September 30, 2022).

Key financial indicators (audited)

OHL Consolidated	FY2021	FY2022	H1 FY2023
Operating income	115.9	219.4	177.4
PAT	-53.6	-12.8	22.5
OPBDIT/OI	-27.6%	10.7%	27.1%
PAT/OI	-46.2%	-5.9%	12.7%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	0.7
Total debt/OPBDIT (times)	-7.9	11.9	2.8
Interest coverage (times)	-1.5	1.1	4.7

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

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 Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Nov 11, 2022	Sep 02, 2021	Sep 01, 2020	April 16, 2020	Mar 31, 2020
1	Fund Based/ CC	Long term	30.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund based Sub-limits	Short term	(20.00)	--	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	NCD	Long term	--	--	-	-	-	-	[ICRA]A+ (Stable) withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Short Term - Non-fund based –Sub limit	Very 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**CC**	NA	NA	NA	30.00	[ICRA]A+ (Stable)
NA	**LC/BG - Sublimit**	NA	NA	NA	(20.00)	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	OHL Ownership	Consolidation Approach
OHL International (HK) Limited	100.0%	Full Consolidation
TAL Hotels and Resorts Limited	21.7%	Equity method
Taj Madurai Limited	26.0%	Equity method
Lanka Island Resorts Limited (associate of OHL International (HK) Limited)	23.1%	Equity method

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

K Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

Kishore Kumar A
+91 44 4596 4312
kishore.a@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches