November 06, 2023

The Indian Hotels Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based facilities	15.00	15.00	[ICRA]AA+ (Stable); reaffirmed
Short-term fund-based facilities (sub limit)	(15.00)	(15.00)	[ICRA]A1+; reaffirmed
Total	**15.00**	**15.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for the bank lines of The Indian Hotels Company Limited (IHCL) factors in its healthy operating and financial performance in FY2023 and H1 FY2024, and anticipated sustenance of the same given the healthy demand outlook for the hospitality industry in the near to medium term. IHCL's operating income improved to Rs. 5,810.0 crore in FY2023, higher by 30.2% over pre-Covid levels and by 90.1% on YoY basis, supported by improvement of domestic leisure demand, improvement in business travel, weddings/social MICE[1] and corporate events, amidst others. The demand momentum sustained in H1 FY2024 as well, and IHCL reported an operating income of Rs. 2,899.6 crore, a 16.0% YoY increase over H1 FY2023. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last two years have resulted in healthy improvement in operating margins and accruals. IHCL reported operating profit margins of 31.1% in FY2023 and 26.4% in H1 FY2024, significantly higher than pre-Covid margins of 21.7% (FY2020). ICRA expects IHCL's revenue growth and margins to remain healthy going forward, albeit risk of vulnerability to exogenous shocks. The company's capital structure and coverage metrics continue to be comfortable and are likely to remain so over the medium term, in the absence of any large incremental borrowings. ICRA expects IHCL's liquidity position to remain strong going forward.

The ratings remain supported by IHCL's parentage (Tata Sons Private Limited, or Tata Sons, rated [ICRA]AAA (Stable)/[ICRA]A1+, holds 35.74% stake), its strong financial flexibility and lender/investor comfort by virtue of the Tata Group lineage. There have been equity infusions by the parent in the past, and ICRA expects this to continue going forward as well, if required. The ratings also favourably factor in IHCL's dominant position in the Indian hotel industry and its strong brand equity, with revenue per available room (RevPAR) consistently being higher than the industry average in the last several years. Its geographic and segment diversification with the portfolio consisting of well-recognised brands across luxury (Taj), upscale/ upscale (Vivanta/Seleqtions) and midscale/lean luxury (Ginger) segments mitigate the revenue concentration risk to a large extent. Further, its portfolio expansion through management contracts in recent years has limited capex/investments and project implementation risk for the company.

However, IHCL's consolidated margins and profitability have been historically weaker than the standalone margins and return on capital employed (RoCE) because of subdued performance of some of its key overseas properties and the sizeable investments in ELEL Hotels and Investment Limited (ELEL), which holds the Sea Rock property. While operating performance of subsidiaries has improved, further improvement in the subsidiaries' performance and adequate return from the Sea Rock asset would be critical for improvement in the consolidated profitability, going forward. The company has an ongoing lease rental dispute with the Mumbai Port Trust (MPT), pertaining to Taj Mahal Palace & Tower, Mumbai. While MPT has claimed

[1] MICE = Meeting, Incentives, Conferences and Exhibitions

an additional rent of Rs. 1,456.4 crore with effect from FY2007, IHCL has contested the same. The outcome of the litigation has been pending for the last several years and an adverse verdict for IHCL could result in relatively significant cash outflow.

Key rating drivers and their description

Credit strengths

Strong parentage – The Tata Group holds 38.19% stake in IHCL through Tata Sons (35.74% stake) and other Group companies. Tata Sons has demonstrated its financial support to IHCL over the years, by subscribing to various equity-raising activities of the company and ICRA expects the same to continue going forward as well, if required. The company also enjoys strong financial flexibility and significant lender/investor comfort by virtue of the Tata Group lineage. IHCL had an equity infusion of Rs. 3,982.0 crore in FY2022; of which Rs. 1,982.0 crore was in the form of rights issue and the remaining as qualified institutional placements (QIP). Part of the rights issue was subscribed by Tata Sons. The fund infusion, along with improvement in accruals from the business, have resulted in the company becoming net cash positive since FY2022.

One of the largest hotel chains in India; strong brand equity – IHCL, at the consolidated level, operates 192 hotels with a total inventory of 22,465 rooms under four brands—Taj, Vivanta, Seleqtions, and Ginger. Including those in the pipeline, the company has 274 hotels with an inventory of 33,527 rooms, and this is expected to increase to over 300 hotels by FY2026. Supported by its brand equity, the company has consistently commanded premium RevPARs compared to the industry over the last several years and this has continued in FY2023 and H1 FY2024 as well.

Geographical and segment diversification – IHCL's operations are spread across four continents, 12 countries and over 100 cities. The geographical diversification reduces the vulnerability of the company's revenues to any localised downturn/unforeseen events or region-specific risks and helps in capitalising on demand growth across regions. Further, the hotel portfolio is diversified across segments, with presence in luxury (Taj brand), upscale and upper upscale (Seleqtions/Vivanta) and midscale/lean luxury (Ginger). This helps the company capture a wide range of customers, including those travelling for leisure as well as business.

Diversified business model with mix of ownership and asset-light strategy; portfolio expansion through management contracts in recent years limited capex – IHCL's hotel portfolio comprises a mix of owned and leased properties at the standalone level, properties held by subsidiaries, joint ventures (JVs) and associates, as well as hotels under management contracts. As on September 30, 2023, 20% of the consolidated inventory was held by IHCL directly, 40% of the consolidated inventory was held via its Group companies and the remaining 40% was through management contracts. The share of management contract inventory has increased from 25% five years ago, with the company focusing on growing through an asset-light model over the last few years. This has limited capex/investments and project implementation risk for the company. Going forward, the company is also looking at increasing its proportion of inventory under management contract to 50% by FY2026.

Comfortable capital structure and coverage metrics – The company had an equity infusion of Rs. 3,982.0 crore in FY2022, the proceeds of which were primarily utilised for debt reduction. The company has remained conservative on borrowings in the last one year. It does not have any significant debt except lease liabilities as of September 30, 2023, and its unencumbered cash and liquid investments stood at Rs. 1,395.0 crore. The reduction in debt and improvement in accruals have resulted in comfortable capital structure and coverage metrics. In the absence of incremental borrowings, the company's capital structure and coverage metrics are likely to remain comfortable going forward as well.

Credit challenges

Vulnerability of revenues to inherent industry cyclicality, economic cycles and exogenous events – The operating performance of the properties remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geopolitical crises, terrorist attacks, disease outbreaks, etc). Nonetheless, the risk to revenues is partially mitigated by

IHCL's geographically and segment diversified portfolio, which allow it to withstand any demand vulnerability related to any micro-market/particular segment.

Relatively weak performance of overseas subsidiaries and delay in Sea Rock asset development constrained profitability – IHCL's consolidated margins and profitability have been historically weaker than the standalone margins and RoCE because of subdued performance of some of its key overseas properties and the sizeable investments in ELEL, which holds the Sea Rock property. IHCL's consolidated core return on capital employed (core RoCE) was at 16.7% in FY2023 vis-à-vis the standalone core RoCE of 37.2% in FY2023. While operating performance of subsidiaries has improved, further improvement in the subsidiaries' performance and adequate return from the Sea Rock asset would be critical for improvement in the consolidated profitability, going forward.

Any unfavorable verdict on ongoing lease rentals dispute with Mumbai Port Trust could result in relatively significant cash outflow – The company has an ongoing lease rental dispute with the Mumbai Port Trust (MPT), pertaining to Taj Mahal Palace & Tower, Mumbai. While MPT has claimed an additional rent of Rs. 1,456.4 crore with effect from FY2007, IHCL has contested the same. The outcome of the litigation has been pending for the last several years and an adverse verdict for IHCL could result in relatively significant cash outflow.

Liquidity position: Strong

IHCL's liquidity position is expected to remain strong, supported by its anticipated cash flow from operations, unencumbered cash and liquid investments of Rs. 1,395.0 crore, and undrawn lines of over Rs. 300.0 crore at a consolidated level as on September 30, 2023. Against this, the company has Rs. 1.7 crore repayment in H2 FY2024, Rs. 242.0 crore in FY2025 and Rs. 3.5 crore in FY2026, on its existing debt. The company is expected to incur 5% of revenues for normal capex and 10% as capex for expansion projects, on an annual basis, over the medium term. Overall, ICRA expects IHCL to be able to meet its medium-term commitments and yet be left with healthy cash/liquid investments surplus.

Environmental and Social Risks

Environmental considerations – Akin to other hotel companies, IHCL 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 provides a safeguard in these circumstances. The company has also been actively taking measures to improve its environmental impact such as recycling through rainwater harvesting and reusing wastewater; minimising the waste sent to landfill by composting organic waste; and reducing greenhouse gas (GHG) emissions by adopting renewable energy at various hotels. Further, the company also has its own ESG framework, 'Paathya', which includes goals such as 100% wastewater recycling, waste management, EarthCheck certification of hotels, and all hotels being single-use plastic free (beyond mandated list) by 2030.

Social considerations – Akin to other hotel companies, the company would need to adapt to the evolving social fabric (including changing consumer preferences and social trends) from time to time and relies heavily on human capital. IHCL is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk. In terms of initiatives, IHCL has set a target of 25% participation of women in the workforce by FY2025, to improve its diversity.

Rating sensitivities

Positive factors – ICRA could consider upgrading if the company is able to demonstrate sustained period of strong cashflow generation along with healthy return on capital employed while maintaining superior credit profile and liquidity position.

Negative factors – Negative pressure on IHCL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt arising from capex/increase in owned assets, resulting in deterioration in coverage metrics on sustained basis.

Weakening in the parent's (Tata Sons Private Limited, rated [ICRA]AAA (Stable)/[ICRA]A1+) credit profile or IHCL's operational/financial linkages with the parent could also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology - Hotels
Parent/Group support	Parent Company: Tata Sons Private Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+) ICRA expects Tata Sons to extend timely and adequate financial support to IHCL, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IHCL. Details of consolidation provided in Annexure-II.

About the company

Incorporated in 1902 by Jamshetji N. Tata, the legendary founder of the Tata Group, The Indian Hotels Company Limited (IHCL) is one of India's leading hospitality companies. IHCL and its subsidiaries comprise 192 operational hotels with 22,465 rooms (as on September 30, 2023). Further, a portfolio of over 82 hotels and 11,062 rooms are in the development stage (27 Ginger Hotels, 21 Vivanta, 13 Seleqtions and 21 Taj Hotels). IHCL's hotel portfolio is diversified across luxury (Taj; 47% of inventory), upscale/upper upscale (Vivanta and Seleqtions; 28%) and lean luxury/midscale (Ginger; 24%) segments. IHCL's operations are spread across four continents, 12 countries and over 100 cities.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	3,056.2	5,810.0
PAT	-222.4	971.4
OPBDIT/OI	13.2%	31.1%
PAT/OI	-7.3%	16.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	9.6	1.7
Interest coverage (times)	0.9	7.6

Source: Company, ICRA Research; 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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Nov 06, 2023	Sep 01, 2022	Sep 02, 2021	Sep 10, 2020	April 14, 2020
1	**Fund-based facilities**	Long-term	15.00	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-
2	**Fund-based facilities (sub limit)**	Short-term	(15.00)	-	[ICRA]A1+	[ICRA]A1+	-	-	-
3	**Non-convertible debentures**	Long-term	-	-	-	[ICRA]AA+ (Stable); Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)
4	**Non-convertible debentures**	Long-term	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Stable)
5	**Non-convertible debentures**	Long-term	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities	Simple
Short-term fund-based facilities (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	Long-term fund-based facilities	NA	NA	NA	15.00	[ICRA]AA+ (Stable)
NA	Short-term fund-based facilities (sub limit)	NA	NA	NA	(15.00)	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	IHCL's Ownership	Consolidation Approach
KTC Hotels Limited	100.00%	Full Consolidation
Sheena Investments Private Limited	100.00%	Full Consolidation
ELEL Hotels & Investments Limited	100.00%	Full Consolidation
Skydeck Properties and Developers Private Limited	100.00%	Full Consolidation
Luthria & Lalchandani Hotel & Properties Private Limited	100.00%	Full Consolidation
IHOCO BV	100.00%	Full Consolidation
Taj International Hotels Limited	100.00%	Full Consolidation
Taj International Hotels (H.K.) Limited	100.00%	Full Consolidation
United Overseas Holdings Inc	100.00%	Full Consolidation
IHMS Hotels (SA) (Pty) Limited	100.00%	Full Consolidation
Ideal Ice & Cold Storage Company Limited	100.00%	Full Consolidation
Good Hope Palace Hotels Proprietary Limited	100.00%	Full Consolidation
Zarrenstar Hospitality Private Limited	100.00%	Full Consolidation
Genness Hospitality Private Limited	100.00%	Full Consolidation
Qurio Hospitality Private Limited	100.00%	Full Consolidation
Kadisland Hospitality Private Limited	100.00%	Full Consolidation
Suisland Hospitality Private Limited	74.00%	Full Consolidation
BAHC Pte. Limited	51.57%	Full Consolidation
Roots Corporation Limited	100.00%	Full Consolidation
Taj Enterprises Limited	93.40%	Full Consolidation
Inditravel Limited	78.88%	Full Consolidation
Taj Trade and Transport Company Limited	73.03%	Full Consolidation
St. James Court Hotel Limited	76.68%	Full Consolidation
United Hotels Ltd.	55.00%	Full Consolidation
Benares Hotels Limited	51.58%	Full Consolidation
PIEM International (H.K.) Limited	51.57%	Full Consolidation
Piem Hotels Limited	51.57%	Full Consolidation
Northern India Hotels Limited	48.56%	Full Consolidation
Taj SATS Air Catering Limited	51.00%	Full Consolidation
Oriental Hotels Limited	35.67%	Full Consolidation
Taj Karnataka Hotels and Resorts Limited	44.27%	Equity Method

Company Name	IHCL's Ownership	Consolidation Approach
Taj Kerala Hotels and Resorts Limited	28.78%	Equity Method
Taj GVK Hotels and Resorts Limited	25.52%	Equity Method
Taj Safaris Ltd	41.81%	Equity Method
Kaveri Retreats and Resorts Limited	50.00%	Equity Method
TAL Hotels and Resorts Limited	27.49%	Equity Method
Taj Madurai Limited	26.00%	Equity Method
Taida Trading & Industries Limited	34.78%	Equity Method
Lanka Island Resort Limited	24.66%	Equity Method
TAL Lanka Hotels PLC	24.62%	Equity Method

Source: IHCL annual report FY2023; As per the published consolidated financial statements of IHCL, TajSATS Air Catering Limited and Oriental Hotels Limited have been consolidated as per the equity method, the entities being a joint venture and an associate, respectively. However, for analytical purposes, ICRA has fully consolidated these entities as IHCL is expected to extend all manner of financial support to them, if needed.

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About ICRA Limited:

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