September 01, 2022

The Indian Hotels Company Limited: Long-term rating upgraded to [ICRA]AA+ (Stable) for Rs. 300.00 crore NCD and withdrawn; [ICRA]AA+ (Stable)/[ICRA]A1+ assigned for the Rs. 15.00 crore bank lines

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	300.00	-	Upgraded to [ICRA]AA+ (Stable) from [ICRA]AA (Stable); withdrawn
Long-term fund-based facilities	-	15.00	[ICRA]AA+ (Stable) assigned
Short-term fund-based facilities (sub limit)	-	(15.00)	[ICRA]A1+ assigned
Total	**300.00**	**15.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in long-term rating factors the improvement in the capitalisation metrics and cash flow position of The Indian Hotels Company Limited (IHCL/the company), following the fund raising in FY2022, and significant improvement in operating metrics in Q1 FY2023. IHCL raised equity of Rs. 3,982.0 crore in FY2022 via rights issue and qualified institutional placement (QIP), the proceeds of which were primarily utilised for debt reduction. This has resulted in net cash[1] of Rs. 105.5 crore and Rs. 259.7 crore as on March 31, 2022 and June 30, 2022 respectively at a consolidated level, as against Rs. 3,089.5 crore of net debt (excluding lease liabilities) as on March 31, 2021. The reduction in debt has translated into comfortable capital structure and coverage metrics. The company's standalone occupancy improved to 70.4% in Q1 FY2023 (compared to 63.4% in Q1 FY2020), while its ARR stood at Rs. 11,397 (compared to Rs. 9,141 in Q1 FY2020) supported by sustenance of domestic leisure demand, improvement in business travel, weddings/social MICE and corporate events, amidst others. This, in turn, translated into an operating income of Rs. 1,266.1 crore in Q1 FY2023, higher by 24.1% compared to pre-Covid levels (Q1 FY2020). IHCL also reported its highest ever Q1 operating profit margin in the last 10 years at 29.8% in Q1 FY2023, aided by sustenance of cost saving initiatives undertaken in the last two years and benefits accruing from demand pickup and consequent operating leverage. The revenues and operating profits are likely to witness healthy improvement on full-year basis in FY2023. Over the medium term, healthy pickup in demand and expansion of IHCL's hotel portfolio are likely to aid revenue growth. Further, the expansion is likely to be asset-light with majority of the incremental properties being through the management contract route. The company is expected to incur 5% of revenues for normal capex and 10% of revenues as capex for expansion projects, on an annual basis, over the medium term. ICRA expects IHCL to be able to meet its medium-term commitments and yet be left with healthy cash/liquid investments surplus. In the absence of incremental borrowings, the company's capital structure and coverage metrics are likely to remain comfortable going forward.

The ratings remain supported by IHCL's parentage (Tata Sons Private Limited (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, should there be a need. The ratings also favourably factor in IHCL's dominant position in the Indian hotel industry and its strong brand equity, with RevPARs consistently higher than the industry average during the last several years. IHCL, at a consolidated level, operates

[1] Excludes lease liabilities

178 hotels (20,826 keys) across 4 continents, 12 countries and over 100 cities. Its geographic and segment diversification with the portfolio consisting of well-recognised brands across luxury (Taj), upscale/upper upscale (Vivanta/Seleqtions) and midscale/lean luxury (Ginger) segments mitigate the revenue concentration risk to a large extent.

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 periodic investments in ELEL Hotels and Investment Limited (ELEL), which holds the Sea Rock property. Significant improvement in operating performance of subsidiaries and adequate sweating of the Sea Rock asset would be critical for consolidated profitability improvement going forward. Akin to other hotel players, the operating performance of IHCL's properties remains vulnerable to industry cyclicality/seasonality, macro-economic cycles and exogenous factors (geo-political crisis, 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 a micro-market/particular segment.

The [ICRA]AA+ (Stable) rating on the company's Rs. 300.00-crore non-convertible debenture programme has been withdrawn based on confirmation from IHCL that there is no amount outstanding against the rated instrument and is in accordance with ICRA's policy on withdrawal and suspension. This has been done at the request of the company.

Key rating drivers and their description

Credit strengths

Strong parentage with Tata Sons Private Limited holding 35.74% shares in the company; financial support in the form of periodic equity infusion - 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, should there be a need. The company also enjoys considerable 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 was in the form of 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[2] positive as on March 31, 2022 and June 30, 2022.

One of the largest hotel chains in India; strong brand equity - IHCL, at the consolidated level, operates 178 hotels with a total inventory of 20,826 rooms under four brands – Taj, Vivanta, Seleqtions, and Ginger. Including those in pipeline, the company has 240 hotels with an inventory of 28,650 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 FY2022 and Q1 FY2023 as well.

Geographical diversification reduces the vulnerability of the company's revenues to any localised downturn/unforeseen events or region-specific risks, while presence across segments helps capture a wide range of customers – 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 brand). This helps the company capture a wide range of customers, including those travelling for leisure as well as business.

[2] Excludes lease liabilities

Diversified business model with mix of ownership and asset-light strategy; portfolio expansion through management contracts in the recent years has 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 June 30, 2022, 21% of the consolidated inventory was held by IHCL directly, 42% of the consolidated inventory was held via its Group companies and the remaining 37% was held through management contract. The share of management contract inventory has increased from 25% four 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.

Significant improvement in 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. This has resulted in net cash[3] of Rs. 105.5 crore and 259.7 crore as on March 31, 2022 and June 30, 2022 respectively, as against Rs. 3,089.5 crore of net debt (excluding lease liabilities) as on March 31, 2021. The reduction in debt has 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 (geo-political crisis, 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 a micro-market/particular segment.

Relatively weak performance of overseas subsidiaries and delay in Sea Rock asset development has 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 periodic investments in ELEL Hotels and Investment Limited (ELEL), which holds the Sea Rock property. IHCL's consolidated core return on capital employed (core RoCE[1]) pre-pandemic was at 8.2% in FY2020 vis-à-vis the standalone core RoCE of 19.9% in FY2020. Significant improvement in operating performance of subsidiaries and adequate sweating of the Sea Rock asset would be critical for its consolidated profitability improvement going forward.

Any unfavorable verdict on the ongoing lease rentals dispute with Mumbai Port trust (MPT) could result in relatively significant cash outflow - The company has an ongoing lease rental dispute with MPT, pertaining to Taj Mahal Palace & Tower, Mumbai. While MPT has claimed an additional rent of Rs. 577.4 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 profile is strong, aided by available cash and liquid investments of Rs. 1,276.0 crore as on June 30, 2022, and undrawn term loan and working capital facilities of Rs. 433.0 crore at a consolidated level. The anticipated business accruals are also likely to support IHCL's liquidity. As against this, the company has Rs. 184.0 crore repayment in H2 FY2023, Rs. 451.0 crore in FY2024 and Rs. 279.0 crore in FY2025, on its existing debt. The company is expected to incur 5% of revenues for normal capex and 10% of revenues as capex for expansion projects, on an annual basis, over the medium term. Further, IHCL enjoys strong financial flexibility and lender/investor comfort by virtue of the Tata Group lineage, and this is expected to continue

[3] Excludes lease liabilities

going forward as well. Overall, ICRA expects IHCL to be able to meet its medium-term commitments and yet be left with healthy cash/liquid investments surplus.

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 strong 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 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 Entities in the Hotel Industry Impact of parent or group support on an issuer's credit rating Policy on Withdrawal of Credit Ratings
Parent/Group support	Parent Company: Tata Sons Private Limited (Tata Sons) We expect IHCL's parent, Tata Sons (rated [ICRA]AAA (Stable)/[ICRA]A1+), to extend financial support to IHCL, should there be a need. Tata Sons has extended timely and adequate need-based financial support to IHCL in the past.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IHCL

About the company

Incorporated in 1902, by Jamshed N. Tata of the Tata group, The Indian Hotels Company Limited (IHCL) is one of India's leading hospitality companies. IHCL and its subsidiaries comprise of 178 operational hotels with 20,826 rooms (as on June 30, 2022). Further, a portfolio of over 62 hotels and 7,824 rooms are in the development stage (28 Ginger Hotels, 10 Vivanta, 10 Seleqtions and 14 Taj Hotels). IHCL's hotel portfolio is diversified across luxury (Taj; 46% of inventory), upscale/upper upscale (Vivanta and Seleqtions; 26% of inventory) and lean luxury/midscale (Ginger; 28% of inventory) segments. IHCL's operations are spread across four continents, 12 countries and over 100 cities.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	1,575.2	3,056.2
PAT (Rs. crore)	-694.2	-222.4
OPBDITA/OI (%)	-23.0%	13.2%
PAT/OI (%)	-44.1%	-7.3%
Total outside liabilities/Tangible net worth (times)	1.7	0.7
Total debt/OPBDIT (times)	-15.3	9.6
Interest coverage (times)	-0.9	0.9

Source: Company, Annual Report and ICRA Research; Amount in Rs crore; All ratios are as per ICRA's calculations; PAT: Profit after tax; OPBDITA: 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 on July 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					01-Sep-22	02-Sep-21	10-Sep-20	14-Apr-20	25-Nov-19
1	Fund-based facilities	Long-term	15.00	-	[ICRA]AA+ (Stable)	-	-	-	-
2	Fund-based facilities (sub limit)	Short-term	(15.00)	-	[ICRA]A1+	-	-	-	-
3	NCD	Long-term	300.00	-	[ICRA]AA+ (Stable); Withdrawn	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	NCD	Long-term	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
5	NCD	Long-term	-	-	-	-	-	-	[ICRA]AA (Stable); Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities – Overdraft	Simple
Short-term fund-based facilities – Working Capital Demand Loan (sub limit)	Simple
Non-Convertible Debenture Programme	Very Simple (Fixed Rate Instrument Without Call Option)

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	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+
INE053A07174	NCD	Nov-2011	10.10%	Nov-2021	300.00	[ICRA]AA+ (Stable); Withdrawn

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
Subsidiaries		
KTC Hotels Ltd.	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 Pvt. Ltd	100.00%	Full Consolidation
IHOCO BV	100.00%	Full Consolidation
Taj International Hotels Ltd.	100.00%	Full Consolidation
Taj International Hotels (H.K.) Ltd.	100.00%	Full Consolidation
United Overseas Holdings Inc	100.00%	Full Consolidation
IHMS Hotels (SA) (Pty) Ltd.	100.00%	Full Consolidation
Ideal Ice & Cold Storage Company Limited	100.00%	Full Consolidation
Good Hope Palace Hotels Proprietary Limited	100.00%	Full Consolidation
Genness Hospitality Private Limited	100.00%	Full Consolidation
Qurio Hospitality Private Limited	100.00%	Full Consolidation
Roots Corporation Ltd.	97.22%	Full Consolidation
Taj Enterprises Ltd.	93.40%	Full Consolidation
Inditravel Ltd.	78.88%	Full Consolidation
Taj Trade and Transport Co Ltd.	73.03%	Full Consolidation
St. James Court Hotel Ltd.	72.25%	Full Consolidation
United Hotels Ltd.	55.00%	Full Consolidation
Benares Hotels Ltd.	51.68%	Full Consolidation
PIEM International (H.K.) Ltd.	51.57%	Full Consolidation
Piem Hotels Ltd.	51.57%	Full Consolidation
Northern India Hotels Ltd.	48.56%	Full Consolidation
Joint Ventures		
Taj SATS Air Catering Ltd.	51.00%	Equity Method
Taj Karnataka Hotels and Resorts Ltd.	44.27%	Equity Method

Company Name	IHCL's Ownership	Consolidation Approach
Taj Kerala Hotels and Resorts Ltd.	28.78%	Equity Method
Taj GVK Hotels and Resorts Ltd.	25.52%	Equity Method
Taj Safaris Ltd	41.81%	Equity Method
Kaveri Retreats and Resorts Ltd.	50.00%	Equity Method
TAL Hotels and Resorts Ltd.	27.49%	Equity Method
Associates		
Oriental Hotels Limited	35.67%	Equity Method
Taj Madurai Limited	26.00%	Equity Method
Taida Trading & Industries Ltd.	34.78%	Equity Method
Lanka Island Resort Ltd.	24.66%	Equity Method
TAL Lanka Hotels PLC	24.62%	Equity Method
Bjets PTE Ltd	45.69%	Equity Method
Zarrenstar Hospitality Private Limited	50.00%	Equity Method

Source: IHCL annual report FY2022

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