October 06, 2023

TajGVK Hotels & Resorts Limited: Long-term rating upgraded to [ICRA]A (Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	72.13	32.15	[ICRA]A (Stable); rating upgraded from [ICRA]A- (Stable)
Short-term – Fund-based limits	30.00	30.00	[ICRA]A2+; rating reaffirmed
Short-term – Non-fund based limits – Interchangeable	(11.00)	-	-
Total	**102.13**	**62.15**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the long-term rating outstanding on the bank lines of TajGVK Hotels & Resorts Limited (TajGVK) factors in its healthy performance in FY2023 and Q1 FY2024, and anticipated sustenance of the same going forward amidst favourable demand outlook. TajGVK witnessed healthy growth in operating income (OI) in FY2023 (up 22.7% against pre-Covid levels in FY2020) and Q1 FY2024 (7.1% YoY) supported by steady demand from business travel, meeting, incentives, conferences and exhibitions (MICE) and transient passengers. The benefits from improved operating leverage and sustenance of cost-optimisation measures undertaken by the company over the last two-three years have resulted in sharp expansion in operating margins and cash accruals, with operating profit margins of 31.1% in FY2023 and 28.6% in Q1 FY2024, against pre-Covid operating margins of 24.2% (FY2020). Healthy accruals, along with scheduled loan repayments and loan pre-payments led to improvement in debt metrics as well. ICRA expects the favourable demand outlook for the domestic hospitality sector to augur well for the company in FY2024 as well, although the closure of Taj Banjara (Hyderabad) since February 2023 and the ongoing renovations for upgradation of properties could cap revenue growth and margins to an extent. Further, TajGVK has capex plans of close to Rs. 250 crore during the period FY2024 to FY2026 for its upcoming property in Bengaluru, and a part of this would be debt-funded (tied-up). ICRA expects the debt metrics to remain moderate going forward, despite sizeable debt-funded capex plans. TajGVK's liquidity is expected to remain adequate over the medium term.

The ratings also draw comfort from TajGVK's operational flexibility with The Indian Hotels Company Limited (IHCL) being the joint venture (JV) partner and the hotel operator, and well-established presence of TajGVK's properties in their respective markets. However, it has geographical concentration in Hyderabad. ICRA notes that while the GVK Group holds 49.47% stake in TajGVK, the intragroup transactions are minimal and are at arm's length. Further, it has not extended corporate guarantees or unsecured loans to any Group companies and ICRA does not expect the same going forward. TajGVK is not involved in any of the ongoing litigations against the GVK Group. The company has two directors from IHCL on its board. Any significant loans and advances to, or investments in GVK Group entities, or any adverse impact on the company due to the ongoing GVK Group litigations would be a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Operational flexibility enjoyed by TajGVK with IHCL being the JV partner and the hotel operator – IHCL holds 25.52% stake in TajGVK and has two representatives on its board. The company derives operational flexibility with IHCL being the hotel operator.

Healthy market position in Hyderabad; other properties also well established in 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—is a well-established property in the Hyderabad Central Business district (CBD), commanding a RevPAR premium compared to other properties in the vicinity. Apart from the three 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 property in Mumbai under a JV, Greenwoods Palaces & Resorts Private Limited—Taj Santacruz— has location-specific advantage (by virtue of its proximity to the Mumbai international airport).

Healthy improvement in revenues and margins with industry uptick; healthy demand outlook – TajGVK's OI improved to Rs. 383.6 crore in FY2023, higher by 22.7% over pre-Covid levels (FY2020) and 68.9% on YoY basis, supported by steady demand from business travel, MICE, and transient passengers. The demand momentum sustained in Q1 FY2024 as well, and TajGVK reported an OI of Rs. 91.6 crore, a 7.1% YoY increase over Q1 FY2023. Further, the improved operating leverage and sustenance of cost-optimisation measures undertaken by the company over the last two-three years resulted in healthy improvement in operating margins and accruals. TajGVK reported operating profit margins of 31.1% in FY2023 and 28.6% in Q1 FY2024, as against the pre-Covid operating margins of 24.2% (FY2020). ICRA expects the healthy demand outlook to augur well for the company in FY2024, although closure of Taj Banjara since February 2023 and ongoing renovations for upgradation of properties could cap revenue growth and margins to an extent.

Credit challenges

Exposed to geographical concentration risk with inventory concentrated in the Hyderabad market – TajGVK is a moderate scaled player in the Indian hotel industry with an inventory of 1,249 rooms (970 rooms at a standalone level and 279 rooms in the property under the JV, Greenwoods Palaces & Resorts Private Limited). Of TajGVK's six hotel properties at a consolidated level, three are in Hyderabad, comprising 48% of its total inventory. Owing to the high geographical concentration in Hyderabad, the company would be exposed to region-specific exogenous shocks and risks. It is constructing a premium hotel in Yelahanka, Bengaluru over the medium term, which upon commencement, would reduce geographic concentration to an extent.

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

Moderate coverage metrics – While the healthy accruals resulted in improvement in TajGVK's debt metrics, it remains moderate with DSCR of 1.6 times for FY2023. ICRA expects the coverage metrics to remain moderate over the medium term, given TajGVK's sizeable debt-funded capex plans.

Liquidity position: Adequate

TajGVK's liquidity profile remains adequate supported by strong accruals and cash flow from operations. Further, it had undrawn working capital lines of Rs. 30.0 crore and Rs. 40.0 crore of free cash as on June 30, 2023. As against these sources of cash, the company has principal repayment obligations on of Rs. 15.6 crore in H2 FY2024, Rs. 39.4 crore in FY2025 and Rs. 21.6 crore in FY2026 on existing and sanctioned loans. Further, TajGVK has capex plans of close to Rs. 250 crore during the period

FY2024 to FY2026 for its upcoming property in Yelahanka, Bengaluru, and part of would be debt-funded (tied-up). Overall, ICRA expects the company to meet its medium-term commitments through internal sources of funds and tied-up debt and be left with adequate buffer in working capital/cash surplus.

Rating sensitivities

Positive factors – A sustained improvement in operational metrics and profitability indicators, along with adequate deleveraging, leading to significant improvement in debt metrics, could be a trigger for improvement in the rating.

Negative factors – Negative pressure on TajGVK's ratings could arise if the company witnesses pressure on earnings, or there is weakening of debt metrics or liquidity position. Further, any significant loans and advances or investments in GVK Group entities or any adverse impact on the company due to the ongoing GVK group litigations would also be a rating sensitivity. Specific credit metrics that could lead to a downgrade would be net debt/OPBDITA > 2.7 times on a sustained basis.

Environmental and social risks

Environmental considerations – TajGVK, akin to other hotel players, is exposed to natural disasters 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 TajGVK is accentuated by its geographical 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. TajGVK is also vulnerable to data security and data privacy risks, like other hotels. Hence, there is moderate exposure to social risk.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Hotel Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's consolidated financial profile

About the company

TajGVK is a JV between GVK Group and The Indian Hotels Company Limited (IHCL) (rated [ICRA]AA+ (Stable) / [ICRA]A1+). GVK Group holds about 49.47% stake through Ms. G. Indira Krishna Reddy (wife of Mr. G.V.K. Reddy, holding a 49.46% stake and Ms. Shalini Bhupal (daughter of Mr. G.V.K. Reddy, holding a 0.01% stake) and IHCL holds around 25.52% stake in TajGVK (as on June 30, 2023). The balance is held by the public. The company currently has six premium hotel properties with a cumulative inventory of 1,240 at a consolidated level. Taj Krishna, Taj Deccan, and Vivanta, Begumpet—are located in Hyderabad with a total inventory of 601 rooms. The company owns a 149-room hotel in Chandigarh (Taj Chandigarh) and a 220-room hotel in Chennai (Taj Club House). It owns a 279-room property, Taj Santacruz in Mumbai, through its JV Green Woods Palaces & Resorts Private Limited, in which it holds a 48.99% stake. The company is also constructing a hotel in Yelahanka, Bengaluru. Taj Banjara (122 rooms) was a part of its portfolio earlier. It has remained closed since February 2023 due to non-finalisation of lease extension agreement and will be handed over to the landowner shortly.

Key financial indicators (audited)

TajGVK (Consolidated)	FY2022	FY2023
Operating income	227.1	383.6
PAT	9.9	79.8
OPBDIT/OI	23.0%	31.1%
PAT/OI	4.4%	20.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.6
Total debt/OPBDIT (times)	4.1	1.2
Interest coverage (times)	2.8	7.7

Source: Company, ICRA Research; Note: Amounts in Rs. crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; Total debt includes lease liabilities of Rs. 43.9 crore in FY2022 and Rs. 44.0 crore in FY2023.

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 of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021						
					Oct 06, 2023	Oct 07, 2022	Aug 23, 2021	Jan 07, 2021	Nov 30, 2020	Sep 28, 2020	Jul 10, 2020	Jun 19, 2020	Apr 22, 2020	Apr 15, 2020
1	Long-term – Fund-based – Term Loan	Long term	32.15	32.15	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+&	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)
2	Short-term – Fund-based limits	Short term	30.00	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+
3	Short-term – Non-fund based limits – Interchangeable	Short term	-	--	-	[ICRA]A2+	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+

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Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based - Term Loan	Simple
Short Term - Fund Based Limits	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	**Term loan-I**	FY2015	8.50%	FY2025	32.15	[ICRA]A (Stable)
NA	**Overdraft**	NA	NA	NA	30.00	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

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

Source: Company

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