January 09, 2025

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-overdraft-fund based	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-Is*

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 FY2024 and H1 FY2025, and anticipated sustenance of the same given the favourable demand outlook for the hospitality industry in the near-to-medium term. IHCL's consolidated operating income stood at Rs. 6,768.8 crore in FY2024, higher by 16.5% on YoY basis, supported by domestic leisure demand, business travel, weddings/social MICE[1] and corporate events, amongst others. The demand momentum sustained in H1 FY2025 as well, and IHCL reported an operating income of Rs. 3,376.4 crore, a 16.4% YoY increase over H1 FY2024. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last few years have resulted in healthy operating margins and accruals. IHCL reported consolidated operating margins of 31.9% in FY2024 and 28.2% in H1 FY2025, 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. ICRA expects IHCL's liquidity position to remain strong going forward.

The ratings remain supported by IHCL's parentage (Tata Sons Private Limited [Tata Sons], rated [ICRA]AAA (Stable)/[ICRA]A1+, holds 35.66% stake of IHCL), its strong financial flexibility and lender/investor comfort by virtue of the Tata Group lineage. There have been equity infusions from the parent in the past, and ICRA expects this to continue going forward as well, on need basis. 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 comprising well-recognised brands with presence across luxury/resorts (Taj and Tree of Life), upscale and upper upscale (Seleqtions, Vivanta and Gateway), 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.

IHCL's consolidated margins and profitability have been historically lower than the standalone numbers 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 the 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 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 an additional rent of Rs. 1,661.0 crore with effect from FY2007, IHCL has contested the same. The outcome of the litigation has been pending for the last several years and any adverse verdict for IHCL could result in a relatively significant cash outflow.

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

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the company's credit profile will remain strong supported by its healthy market position, cash accruals and strong liquidity position, amid favourable outlook for the industry.

Key rating drivers and their description

Credit strengths

Strong parentage – The Tata Group holds 38.12% stake in IHCL through Tata Sons (35.66% stake) and other Group companies as of September 30, 2024. 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, on need basis. 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 was through 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 232 hotels with a total inventory of 25,230 rooms under six brands—Taj, Tree of Life, Vivanta, Seleqtions, Gateway and Ginger as of October 31, 2024. Including those in the pipeline, the company has 350 hotels with an inventory of 42,584 rooms, and this is expected to increase to over 700 hotels by FY2030. Supported by its brand equity, the company has consistently commanded premium revenue per available rooms (RevPARs) compared to the industry over the last several years and this has continued in FY2024 and H1 FY2025 as well.

Geographical and segment diversification – IHCL's operations are spread across four continents, 13 countries and over 150 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 across luxury/resorts (Taj and Tree of Life), upscale and upper upscale (Seleqtions, Vivanta and Gateway), and midscale/lean luxury (Ginger) segments mitigate the revenue concentration risk to a large extent. This helps IHCL 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, 2024, 40% of the consolidated inventory was owned by IHCL (directly or via its Group companies), while the remaining was held through asset-light model. The share of management contract inventory has increased significantly over the last few years with focus on growing through an asset-light model. This has limited capex/investments and project implementation risk for the company. IHCL is looking at increasing its proportion of asset-light inventory further going forward to 75% by FY2030.

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 since then. It does not have any significant debt except lease liabilities as of September 30, 2024, and its unencumbered cash and liquid investments of over Rs. 2,400 crore as on the same date. The reduction in debt and improvement in accruals have resulted in comfortable capital structure and coverage metrics. The company's capital structure and coverage metrics are likely to remain comfsortable going forward.

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 allows 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 lower than the standalone numbers 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. IHCL's consolidated core return on capital employed (core RoCE) was at 19.7% in FY2024 vis-à-vis the standalone core RoCE of 44.5% in FY2024. 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. 1,661.0 crore with effect from FY2007, IHCL has contested the same. The outcome of the litigation has been pending for the last several years and any 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 healthy anticipated cash flow from operations, unencumbered cash and liquid investments of over Rs. 2400.0 crore, and undrawn lines of over Rs. 300.0 crore at a consolidated level as on September 30, 2024. Against this, the company has scheduled repayment of Rs. 56 crore in H2 FY2025, Rs. 22 crore in FY2026 and Rs. 40 crore in FY2027, on its existing debt. The company is expected to incur ~20-25% of earnings before interest, tax and depreciation (EBITDA) on normal capex and renovations, and ~15-20% of EBITDA on greenfield 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% women representation on board by FY2030, 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 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

Belonging to the Tata group, The Indian Hotels Company Limited (IHCL) is one of India's leading hospitality companies. IHCL and its subsidiaries have 232 operational hotels with 25,230 rooms (as on October 31, 2024). Further, a portfolio of over 118 hotels and 17,354 number of rooms are under development (39 Taj Hotels, 2 Tree of Life, 13 Seleqtions, 20 Vivanta, 14 Gateway and 30 Ginger Hotels,). IHCL's operations are spread across four continents, 13 countries and over 150 cities.

Key financial indicators (Audited)

Consolidated	FY2023	FY2024
Operating income	5,810.0	6,768.8
PAT	971.4	1,201.6
OPBDIT/OI (%)	31.1%	31.9%
PAT/OI (%)	16.7%	17.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.5
Total debt/OPBDIT (times)	1.7	1.3
Interest coverage (times)	7.6	9.8

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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 09, 2025	Nov 06, 2023	Sep 01, 2022	Sep 02, 2021
1	**Fund-based facilities**	Long-term	15.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
2	**Fund-based facilities (sub limit)**	Short-term	(15.00)	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
3	**Non-convertible debentures**	Long-term	-	-	-	[ICRA]AA+ (Stable); Withdrawn	[ICRA]AA (Stable)

4	**Non-convertible debentures**	Long-term	-	-	-	-	[ICRA]AA (Stable); Withdrawn
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
Piem Hotels Limited	58.65%	Full Consolidation
Benares Hotels Limited	51.97%	Full Consolidation
United Hotels Ltd.	55.00%	Full Consolidation
Roots Corporation Limited	100.00%	Full Consolidation
Inditravel Limited	81.19%	Full Consolidation
Taj Trade and Transport Company Limited	75.30%	Full Consolidation
KTC Hotels Limited	100.00%	Full Consolidation
Northern India Hotels Limited	55.23%	Full Consolidation
Taj Enterprises Limited	93.40%	Full Consolidation
Skydeck Properties and Developers Private Limited	100.00%	Full Consolidation
Sheena Investments Private Limited	100.00%	Full Consolidation
ELEL Hotels & Investments Limited	100.00%	Full Consolidation
Luthria & Lalchandani Hotel & Properties Private Limited	100.00%	Full Consolidation
Ideal Ice & Cold Storage Company 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
Zarrenstar Hospitality Private Limited	100.00%	Full Consolidation
United Overseas Holdings Inc	100.00%	Full Consolidation
St. James Court Hotel Limited	78.95%	Full Consolidation
Taj International Hotels Limited	100.00%	Full Consolidation
Taj International Hotels (H.K.) Limited	100.00%	Full Consolidation
PIEM International (H.K.) Limited	58.65%	Full Consolidation
IHOCO BV	100.00%	Full Consolidation
IHMS Hotels (SA) (Pty) Limited	100.00%	Full Consolidation
Good Hope Palace Hotels Proprietary Limited	100.00%	Full Consolidation
Demeter Specialities Pte Ltd	100.00%	Full Consolidation
IH Hospitality GmbH	100.00%	Full Consolidation
Taj SATS Air Catering Limited	51.00%	Full Consolidation
Oriental Hotels Limited	35.67%	Full Consolidation
Taj Karnataka Hotels and Resorts Limited	45.02%	Equity Method
Taj Kerala Hotels and Resorts Limited	28.78%	Equity Method
Taj GVK Hotels and Resorts Limited	25.52%	Equity Method
Taj Safaris Limited	42.20%	Equity Method

Company Name	IHCL's Ownership	Consolidation Approach
Kaveri Retreats and Resorts Limited	50.00%	Equity Method
TAL Hotels and Resorts Limited	27.60%	Equity Method
Taj Madurai Limited	26.00%	Equity Method
Taida Trading & Industries Limited	36.79%	Equity Method
Lanka Island Resort Limited	24.66%	Equity Method
TAL Lanka Hotels PLC	24.62%	Equity Method

Source: IHCL annual report FY2024 and H1 FY2025 results; As per the published consolidated financial statements of IHCL, Taj SATS Air Catering Limited (TSACL) and Oriental Hotels Limited have been consolidated as per the equity method, the entities being a joint venture and an associate, respectively. With effect from July 23, 2024, IHCL has been fully consolidating TSACL, due to modifications in shareholding agreement. However, for analytical purposes, ICRA has fully consolidated these entities as IHCL is expected to extend financial support to them, if needed.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

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

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

Sriraman Mohan
+91 44 4596 4316
sriraman.mohan@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.

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ICRA

ICRA Limited

Registered Office

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

Branches