

July 27, 2017

Orange County Resorts & Hotels Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Proposed NCD programme	100.00	[ICRA]A- (Stable) / assigned
Total	100.00	

*Instrument details are provided in Annexure-1

Rating Action

ICRA has assigned the long-term rating of [ICRA] A- (pronounced ICRA A minus) to the proposed NCD programme of Orange County Resorts & Hotels Limited (OCL / the company)¹. The outlook on the long term rating is “Stable”.

Rationale

The rating factors in the extensive experience of OCL’s promoters in the hospitality business and favourable locations of the company’s resorts with strong connectivity from Bangalore, Mangalore and Mysore supporting steadily high occupancies. ICRA also notes that the company’s strong brand equity has supported robust ARR’s at its Coorg and Kabini properties over the years. Further, a healthy mix of revenues from direct bookings and tie-ups with travel agents in conjunction with minimal dependence on Foreign Tourist Arrivals (FTAs) is expected to support stable operations of the company going forward. The company’s financial profile is characterised by steady improvement in margins, healthy capitalisation and coverage indicators and comfortable working capital intensity. ICRA believes that its presence with high end super luxury villas in Mandu and near Central Kalahari Game Reserve in Botswana, wherein hotels traditionally command relatively higher ARR’s, are expected to support realizations and margins of the company going forward.

The rating is, however, constrained by moderate scale of operations, high geographical concentration with entire revenues being derived from Karnataka and competition from other players like Vivanta by Taj in Coorg and Jungle Lodges and Resorts in Kabini. Further, the company is also expected to face stiff competition from other established players surrounding the Central Kalahari Game Reserve till operations at the Botswana property stabilise. Further, significant debt-funded capital expenditure plans to the tune of Rs.90.0 crore funded partially by the proposed NCD programme of Rs.50.0 crore towards expansion in Botswana and Mandu and upgrading the Kabini property are expected to affect the company’s cash flows and capitalisation and coverage indicators. Date of commencement of operations along with performance of the upcoming properties at Mandu and Botswana and the recently commercialised Hampi property are expected to define the revenue and margin trajectory of the company. That said, higher than expected capital expenditure or borrowings could impact the credit profile of the company, and would warrant a review of the outstanding credit rating.

¹ For complete rating scale and definition, refer ICRA’s website (www.icra.in) or other ICRA rating publications

Key rating drivers

Credit Strengths

- **Extensive experience of the promoters in the hospitality industry** – OCL was incorporated in 1993 with 10 tents at the current location of the Coorg resort; over the years the company has upgraded the amenities and rooms at the resort and has also geographically diversified to Kabini and Hampi.
- **Favourable locations of the company's properties** – OCL continues to witness healthy occupancy levels at its properties on the back of favourable locations wherein average occupancies at the company's Coorg and Kabini properties are in the range of 70-75%
- **Strong brand equity** – continues to support higher rack rates and consequent healthy Average Room Rates (ARRs) in the range of 22,000-24,500; commencement of operations at its Botswana property is expected to strengthen OCL's brand at the international level
- **Healthy business mix** – OCL derives revenues from both direct bookings and tie-ups with travel agents; relatively low dependence on foreign tourist arrivals (FTAs) likely to support stable operations at existing properties of the company going forward
- **Strong financial profile** – The company's margins have steadily improved over the last few years, supported by healthy ARR and stable occupancy levels; capitalisation and coverage indicators continue to remain comfortable

Credit Weaknesses

- **Moderate scale of operations** – The company has moderate scale of operations with revenues of Rs.76.8 crore during FY2017 thereby restricting operational and financial flexibility to a certain extent
- **Lack of geographical diversification** – Currently the company's entire revenues are being derived from Karnataka; however, upcoming properties in Madhya Pradesh and Botswana are expected to mitigate the same to a certain extent
- **Significant debt-funded capital expenditure** – ICRA expects the company's cash flows, net margins capitalisation and coverage indicators to be affected by the company's plans to set up a new resort in Mandu and acquire a resort in Botswana through debt-funded capex of about Rs.90 crore over the next one to three years; higher than expected capital expenditure or borrowings could impact the credit profile of the company, and would warrant a review of the outstanding credit rating.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in the Hotel Industry](#)

About the company:

OCL is involved in providing hospitality services wherein it currently owns and manages three luxury resorts in Karnataka. The company is promoted by the House of Ramapuram Group (the group) which is also into the plantation business (coffee, spices, cashew and rubber) in Thrissur, Coorg and Mangalore with a land bank of about 1,500-2,000 acres. To diversify the family's line of business, the promoter group set up a luxury resort at the centre of their coffee plantations in Coorg under the brand 'Orange County' during 1992 with an initial inventory of 10 cottages. Over the years, the inventory in Coorg was expanded to 63 villas and the company has also set up a new resort in Kabini with an inventory of 37 cottages during 2007. During FY2017, the company set up a new palace resort in Hampi with an inventory of 46 suites. The current employee strength of the company is around 600 employees. OCL is

currently setting up two new properties – one each in Central Botswana and Mandu (Madhya Pradesh), operations for which are expected to commence during August 2017 and October 2019 respectively.

Key Financial Indicators of OCL		
	FY2016	FY2017 (Prov)
Operating income (Rs. Crore)	62.2	76.8
PAT (Rs. Crore)	4.0	11.7
OPBDITA/ OI (%)	21.0%	23.6%
RoCE (%)	15.1%	13.7%
Total Debt/ TNW (times)	0.8	0.6
Total Debt/ OPBDITA (times)	3.6	2.6
Interest coverage (times)	15.6	3.7
NWC/ OI (%)	-12.8%	-14.9%

Source: company, ICRA; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortization; PAT: Profit after Tax; NWC: Net Working Capital; TNW: Tangible Net Worth; RoCE: Return on Capital Employed; OI: Operating Income

Status of non-cooperation with previous CRA: Crisil has suspended its CRISIL BBB/Stable rating on the bank facilities of OCL on August 17, 2015 on account of non-cooperation by OCL with Crisil's efforts to undertake a review of the ratings outstanding.

Any other information: Not applicable **Rating history for last three years:**

S.No	Name of Instrument	Current Rating FY2018			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				July 2017			
1	Proposed NCD	Long Term	100.00	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance / Sanction	Coupon rate	Maturity	Size of the issue (Rs. crore)	Current Rating and Outlook
Proposed NCD	-	-	-	100.00	[ICRA] A- (Stable)

Source: Orange County Resorts and Hotels Limited



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About ICRA Limited:

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