Orange County Resorts & Hotels Limited

January 08, 2019

Summary of rated instruments

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	60.00	[ICRA]BBB+ (Stable); assigned
Total	**60.00**	

*Instrument details in Annexure - I

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) to the Rs.60 crore term loans of Orange County Resorts and Hotels Limited (OCL / the company)[1]. The outlook on the long-term rating is Stable.

Rationale

The assigned rating considers the extensive experience of OCL's promoters in the hospitality business, the strong brand identity as one of the top luxury brands in the country and favourable locations of the company's resorts supporting steadily high occupancies. While the company's ARRs continue to remain strong supported by the healthy brand positioning, occupancy during FY2018 was affected on account of demonetization and implementation of GST (wherein out-of-the-state travel agents were not able to claim input tax credit for bookings). With stepped up focus on drawing guests through direct bookings, the company was able to counter the impact of loss in travel-guide bookings during FY2018. Overall revenues were flat during FY2018 despite significant decline from travel agent bookings during FY2018. Flat revenues, coupled with inflationary pressures, rebranding (to *'Evolve Back'* from *'Orange County'*) costs and renovation expenses of its Kabini property led to fall in margins; OPM for FY2018 contracted 930 bps to 14.1%. Operating margins revived to a certain extent in H1 FY2019 (20.4%) despite floods and landslides in Coorg during Aug 2018. ICRA believes that improving metrics of the company's Hampi property (occupancy of 32% and ARRs of Rs. 22,426 during 8m FY2019) and steady performance of both the Coorg and Kabini properties in conjunction with the upcoming property near Central Kalahari Game Reserve in Botswana, Africa wherein hotels traditionally command relatively higher ARRs, are expected to support realizations and margins going forward.

The rating is, however, constrained by moderate scale of operations, high geographical concentration with revenues entirely being derived from Karnataka, high manpower manning (~4 employees per room) and hence high fixed costs and competition from other luxury players in the respective locations. 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 over the next two-three years to the tune of Rs.80-85 crore crore towards acquiring a property in Botswana and setting up a new property in Mandu are expected to affect the company's cash flows and capitalisation and coverage indicators going forward. These two projects have been in the pipeline for over 18 months; delays in commencement has resulted in cost increases. Going forward, timely commencement of operations along with performance of the upcoming properties at Mandu, Madhya Pradesh and

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

Botswana, Africa and timeline for further ramp up of OCL's Hampi property are expected to define the revenue and margin trajectory of the company.

Outlook: Stable

ICRA believes that OCL's healthy brand positioning as one of the top luxury brands in India will continue to support the company's revenues and margins going forward. Further, upcoming properties in both Botswana and Mandu, Madhya Pradesh are expected to support the company's scale over the longer term. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthen the financial risk profile and debt metrics of the company. The outlook may be revised to 'Negative' if cash accruals are lower than expected, or if higher-than-expected debt-funded capital expenditure affects the company's margins, debt metrics and liquidity position.

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 (Karnataka) and Hampi (Karnataka) and is currently setting up two new properties – one each in Botswana, Africa and Mandu, Madhya Pradesh under its promoters' guidance. ICRA also notes that the company has derived support from promoters in the form of interest-free loans in the past and the same is expected to continue during the upcoming capex for both Botswana, Africa and Mandu, Madhya Pradesh.

- **Strong brand positioning** continues to support high Average Room Rates (ARRs) in the range of 22,000-27,000; commencement of operations at its Botswana property is expected to strengthen OCL's brand at the international level**.** OCL also continues to witness healthy occupancy levels at its properties on the back of favourable locations of its properties.

- **Healthy business mix** – OCL derives revenues ~55% of its revenues from direct bookings while majority of the balance is derived from tie-ups with travel agents (both online and offline); relatively lower dependence on foreign tourist arrivals (FTAs) will support stable operations at existing properties of the company going forward

- **Strong financial profile** – While the company's margins declined by 930 bps to 14.1% during FY2018, the margins have historically been strong, supported by healthy ARRs and stable occupancy levels. Margins improved during H1 FY2019 and capitalization and coverage indicators continue to remain comfortable with gearing of 0.5x and TD/OPBDITA of 2.6x as on September 30, 2018 and interest coverage of 4.5 times during H1 FY2018.

Credit Weaknesses

- **Weak performance during FY2018** – OCL's occupancy during FY2018 was affected by weakness in demand following demonetization and implementation of the GST regime wherein out-of-the-state travel agents were not able to claim input tax credit resulting in group bookings being diverted to overseas destinations. Further, rebranding expenses to the tune of Rs.1.5 crore and renovation expenses of the Kabini property to the extent of Rs.1.5 crore (passed through the P&L) led to operating margins of the company declining to 14.1% in FY2018 from 23.4% during FY2017. However, with most of the big offline agents now having set up offices in Karnataka and completion of the rebranding exercise and renovation of the Kabini property, margins have revived to 20.4% during H1 FY2019 despite weakness in the Coorg property, following floods and landslide in the area during August 2018.

- **Moderate scale of operations** – The company has moderate scale of operations with revenues of Rs.73.7 crore during FY2018 thereby restricting operational and financial flexibility to a certain extent. Further, relatively higher number of employees per room compared to other luxury brands in the country also continues to affect the company's margins given the moderate scale.
- **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, margins, capitalisation and coverage indicators to be affected over the next two-three years given 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.80-85 crore; 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.

Liquidity Position:

The company's current liquidity position remains healthy given moderately low utilization (39%) its sanctioned working capital limits over the 12-month period ending September 30, 2018. Going forward, the company has sizable capex and investment towards the company's Mandu, Madhya Pradesh and Botswana properties. The same is expected to be supported by term loans and interest-free loans from the promoters in addition to internal accruals of the company.

In terms of repayment, while the company has repayments of Rs.6.5 crore in FY2019 and 7.1 crore during FY2020, the same is expected to be repaid through accruals of the company. While the incremental term loans to be availed by the company entail repayments, the same will commence only after a moratorium of 24 months from drawdown. The same is likely to support the company's liquidity while incremental promoter loans would be required to support the new hotels in the initial period of operations. For the Mandu property, the repayments will commence only after 12 months of the property becoming operational, which is likely to be in FY2023-FY2024.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Hotel Industry
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the company

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 also set up a 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 palace 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 Q4 FY2019/Q1 FY2020 and FY2022/FY2023 respectively. Entire shareholding in the company is held by the company's promoters – seven brothers of the Ramapuram family.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	73.9	73.7
PAT (Rs. crore)	12.3	2.7
OPBDIT/ OI (%)	11.2%	10.1%
RoCE (%)	15.5%	5.5%
Total Debt/ TNW (times)	0.6	0.7
Total Debt/ OPBDIT (times)	2.6	4.8
Interest coverage (times)	3.7	2.3

Source: the company, ICRA research; OPBDITA: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit After Tax; RoCE: Return on Capital Employed; TNW: Tangible Net Worth

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
				Amount Outstanding as on March 31, 2018	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs.crore)	(Rs Crore)	Jan 2019	Oct 2018	Jul 2017	-	-
1	Term Loans	Long Term	60.00	37.7	[ICRA]BBB+ (Stable)	-		-	-
2	NCD	Long Term	100.00	-	-	[ICRA]A- (Stable); withdrawn	[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

Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loans	FY2017	NA	FY2023	60.00	[ICRA]BBB+ (Stable)

Source: the company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: company

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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.

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