The Indian Hotels Company Limited

Instrument	Rated Amount (Rs. Crore)	Rating Action
Non-Convertible Debentures [1]	1,600	[ICRA]AA (Stable) reaffirmed
Non-Convertible Debentures	400	[ICRA]AA (Stable) withdrawn
Commercial Paper	450	[ICRA]A1+ withdrawn

[1] Comprises of eight NCDs with outstanding amounts of Rs. 300 crore, Rs. 300 crore, Rs. 250 crore, Rs. 250 crore, Rs. 200 crore, Rs. 150 crore and Rs. 136 crore

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) to the Rs. 1,600 crore* Non-Convertible Debenture programme of The Indian Hotels Company Limited ('IHCL' or 'the company')†. The outlook on the long-term rating is 'Stable'. ICRA has withdrawn the [ICRA]AA (pronounced ICRA double A) rating assigned to the Rs. 400 crore Non-Convertible Debenture programme of IHCL, as the company has fully redeemed the instrument on maturity and there is no amount outstanding against the said instrument. ICRA has, at the request of the company, also withdrawn the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 450 crore Commercial Paper programme of the company as there is no amount outstanding against the said instrument.

The reaffirmation of long-term rating factors in IHCL's dominant position in the Indian hotel industry, the established 'Taj' brand name, the continued support from the Tata group in the form of regular equity infusion to meet various investment and debt repayment obligations of IHCL, and the financial leverage the company enjoys with its lenders. IHCL enjoys a well diversified hotel portfolio, encompassing different geographical locations (India and overseas), business segments and price points.

The company's debt levels witnessed some increase in 2013-14 – from Rs. 3,820 crore as of March 31, 2013 to Rs. 4,254 crore as of March 31, 2014 – primarily on account of translation of foreign currency debt at a depreciated rupee. This coupled with erosion of net worth on account of provision for diminution in value of investments over the past two years has resulted in gearing increasing to 1.28x as of March 31, 2014, on a consolidated basis. IHCL's debt coverage indicators remain stretched as on March 31, 2014, with Total Debt/OPBDITA at 7.3x (PY: 6.7x) and Net Cash accruals/Total Debt at -6% (PY: -5%). However, the funds raised (Rs. 1,000 crore) through rights issue of Compulsorily Convertible Debentures (CCDs) in August 2014 has helped the company improve its consolidated capital structure. Further, the company has been successful in refinancing its debt (which was repayable during 2014-15) in the books of the US subsidiary, providing some cushion to the consolidated cash flows. Sale of certain non-core assets also shall help the company in reduction of debt and meeting future funding requirements. Ability to improve accruals, and limit non-discretionary spend would be critical to the company's credit profile and would be a key credit sensitivity.

ICRA also notes that the management has continued on its stated policy of future growth largely via the asset-light strategy of management contracts, thereby limiting capital expenditure. However, as the IHCL management has not yet finalised its plans for the Sea Rock project and its funding mix, the same has not been factored in by ICRA.

The weak operating environment, largely contributed by oversupply, has impacted the operating cash flows, resulting in increased borrowings, despite regular equity infusion. The cash flow short falls in some of its subsidiaries and joint venture entities have been supported by the parent company. Further, the diminution in value of certain long-term investments, though non-cash in nature, have impacted the reported net profits, return indicators and net worth of the company.

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* 100 lakh=1 Crore= 10 million

† For complete rating definition please refer to ICRA Website www. icra.in or any of the ICRA Rating Publications

IHCL's consolidated performance has historically been dragged down by weak performance in some of its key overseas properties. In Q4, 2013-14, IHCL took a strategic call to provide diminution in value of its investments in IHMS Inc (the holding company for properties in the United States of America) to the tune of Rs. 336 crore (on a standalone basis) to recognize losses accumulated over the years. Though these properties have been posting improvement in performance over the past few quarters, ICRA expects IHCL to continue to support these entities over the medium term. The performance metrics of these entities would remain a key rating sensitivity, going forward.

The Indian hospitality industry has experienced a prolonged downturn over the past six years; on account of excess supply and significant pipeline inventory in several key markets in India. The performance of the industry has continued to suffer, in spite of relatively stronger demand levels in recent periods. While supply pressures and down-trading by some corporate clients have impacted Revenue per Available Room (RevPAR), inflation across cost heads (consumables, Food and Beverage, Power and lease rentals) has further added to margin pressures. Going forward, with expected moderation in incremental room supply, improvement in room rates would be key to sustaining IHCL's credit profile. ICRA would continue to monitor the performance of the Indian hospitality market and IHCL's properties closely.

About the Company

Incorporated, in 1902, by Jamshed N. Tata of the Tata group, IHCL is India's largest hospitality company. IHCL and its subsidiaries are collectively known as the 'Taj Hotels, Resorts and Palaces'. Taj Hotels Resorts and Palaces comprises of ~125 hotels at over 60 locations across India and 16 locations globally (in Maldives, Mauritius, Malaysia, United Kingdom, United States of America, Bhutan, Sri Lanka, Africa and Middle East). IHCL's total room inventory which stood at 14,331 rooms and 118 hotels (March 2013) increased to 15,489 rooms and 125 hotels as of March 2014. During 2013-14, while IHCL has announced sale of its Blue, Sydney (100 keys) property and exit from management contract of Taj Palace, Marrakech (161 keys), it has launched two hotels in the domestic market under management contract; effectively taking the room inventory to 15,415 across 125 hotels, as of June 2014. The company proposes to add another 10 properties with 1,310 rooms during the balance nine months of 2014-15. Of the planned additions over the next three years, only three properties – in Dwarka, Guwahati and Andaman – will come up directly under IHCL while the remaining are through associates, subsidiaries and management contracts.

The Taj Hotels Resorts and Palaces is grouped into four distinct business segments - Luxury (Taj Mahal/Exotica)[†], Upper Upscale (Vivanta), Upscale (Gateway), and economy/budget (Ginger) - to provide consistency across the different hotels and standardise products and services. Largely of these, the luxury properties in metro and key leisure destinations are in the books of IHCL while the rest are held through subsidiaries and associates. The Group also operates a number of properties on pure management contracts, a business model which is expected to increase significantly over the medium term.

Recent Results

IHCL, during H1, 2014-15, reported 3.3% y-o-y growth in standalone revenues to Rs. 813.5 crore with a net loss of Rs. 14.7 crore (PY: net loss of Rs. 290.5 crore). On a consolidated basis, for H1, 2014-15, IHCL reported 3.9% y-o-y growth in revenue to Rs. 1,874.5 crore with a net loss (concern share) of Rs. 132.5 crore (PY: net loss Rs. 452.6 crore).

For the full year 2013-14, IHCL (standalone) posted operating income of Rs. 1,947.2 crore and a net loss of Rs. 590.5 crore. For full year 2013-14, IHCL (consolidated) posted net sales of Rs. 4,087.4 crore and a net loss (concern share) of Rs. 553.9 crore.

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[†] Some Taj Luxury hotels are The Taj Mahal Palace & Tower (Mumbai), Taj Lands End (Mumbai), The Taj Mahal Hotel (New Delhi) , The Taj West End (Bangalore), Taj Coromandel (Chennai), Taj Krishna (Hyderabad), The Pierre (New York)

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