September 02, 2021

The Indian Hotels Company Limited: Rating reaffirmed; outlook revised to Stable from Negative; rating withdrawn for Rs. 500.00 crore NCD

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	300.00	300.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative
Non-convertible Debenture Programme	500.00	0.00	[ICRA]AA reaffirmed; outlook revised to Stable from Negative and withdrawn
Total	**800.00**	**300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating factors in the likely improvement in the capitalisation metrics and cash flow position of The Indian Hotels Company Limited (IHCL/the company), following its recent announcement on fund raising. IHCL's Board of Directors, on August 23, 2021, approved a proposal for an equity infusion not exceeding Rs. 3,000.0 crore by way of a rights issue. The fund infusion is expected to be concluded in the next few months and would reduce IHCL's consolidated debt levels considerably over the next eight to twelve months. The rating remains supported by IHCL's parentage (Tata Sons Private Limited (Tata Sons), rated [ICRA]AAA (Stable)/[ICRA]A1+, holds 38.09% stake), its strong financial flexibility and lender/investor comfort by virtue of the Tata Group lineage. Further, there have been equity infusions by the parent in the past, and ICRA expects this to continue going forward as well, should there be a need. The rating also favourably factors in IHCL's dominant position in the Indian hotel industry and its strong brand equity, with RevPARs consistently higher than the industry average during the last several years. IHCL, at a consolidated level, operates 167 hotels (19,568 keys) across four continents, 12 countries and over 100 cities. Its diversified portfolio consisting of well-recognised brands across luxury (Taj), upscale/upper upscale (Vivanta/Seleqtions) and midscale/lean luxury (Ginger) segments reduces the revenue concentration risk. Further, expansion through management contracts in the recent years has limited capex and minimised project execution risks to an extent.

IHCL reported a 65% YoY decline in operating revenues in FY2021 to ~Rs. 1,575.2 crore and an OPM of -23.0% in FY2021 (PY: 21.7%). With the company resorting to debt to fund its losses, the total debt excluding lease liabilities increased to Rs. 3,632.3 crore as on March 31, 2021 from Rs. 2,602.1 as on March 31, 2020. Consequently, the debt metrics moderated in FY2021. Akin to other hotel players, ICRA expects the company's revenue and profits to reach pre-Covid levels only over the medium term, although FY2022 is expected to be significantly better than FY2021. The situation is still evolving and is contingent on the pace of vaccination, efficacy of vaccines, infection rates and the possibility of a third Covid-19 wave, or any other exogenous events. The proposed equity infusion and the consequent debt reduction, apart from better accruals stemming from business recovery, are likely to improve the coverage metrics going forward.

The [ICRA]AA (Stable) rating on the company's Rs. 500.00-crore non-convertible debenture programme has been withdrawn based on confirmation from IHCL that there is no amount outstanding against the rated instrument and is in accordance with ICRA's policy on withdrawal and suspension. This has been done at the request of the company.

Key rating drivers and their description

Credit strengths

Strong parentage with Tata Sons Private Limited holding 38.09% shares in the company; proposed equity infusion likely to reduce debt – The Tata Group holds 40.75% stake in IHCL through Tata Sons (39.08% stake) and other Group companies. 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, should there be a need. The company also enjoys considerable financial flexibility and significant lender/investor comfort by virtue of the Tata Group lineage. IHCL's board, on August 23, 2021, approved a proposal for an equity infusion not exceeding Rs. 3,000.0 crore, by way of a rights issue. The funds are to be utilised primarily for debt reduction, apart from growth plans and capital expenditure. The fund infusion, which is expected to be concluded in the next few months, will reduce IHCL's debt levels considerably over the next eight to twelve months.

One of the largest hotel chains in India; strong brand equity – IHCL, at the consolidated level, operates 167 hotels with a total inventory of 19,568 rooms under four brands – Taj, Vivanta, Seleqtions, and Ginger. Supported by its brand equity, the company has consistently commanded premium RevPARs compared to the industry over the last several years and this has continued in FY2021 and Q1 FY2022 as well.

Geographical diversification and presence across segments – IHCL's operations are spread across four continents, 12 countries and over 100 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 in luxury (Taj brand), upscale and upper upscale (Seleqtions/Vivanta) and midscale/lean luxury (Ginger brand). This helps the company 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 the recent years has 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 March 31, 2021, 23% of the consolidated inventory was held by IHCL directly, 44% of the consolidated inventory was held via its Group companies and the remaining 33% was held through management contract. The share of management contract inventory has increased from 25% three years ago, with the company focussing on growing through an asset-light model over the last few years. This has limited capex/investments and project implementation risk for the company and is expected to continue going forward as well.

Credit challenges

FY2022 revenues to be weaker than pre-Covid levels; recovery to pre-Covid levels a few years away – IHCL's consolidated revenues declined by 65% YoY to Rs. 1,575.2 crore in FY2021 (PY: Rs. 4,463.1 crore) due to the sharp decline in domestic travel and FTAs because of the pandemic. While Q1 was impacted by shut down of operations following the lockdown, there was a healthy sequential revenue improvement during Q2 – Q4 FY2021 aided by gradual relaxation of curfews, pickup in leisure travel and part-resumption of business travel by field force/junior employees (thereby benefitting Ginger). While the OPM was impacted by the negative operating leverage and the company reported operating losses in FY2021, implementation of cost-saving initiatives such as rationalisation of manpower, negotiation of fixed contracts and lease rentals, and shifting to lower cost renewable power, to name a few, capped the decline. Akin to other hotel players, ICRA expects IHCL's revenue and profits to reach pre-Covid levels only over the medium term, although FY2022 is expected to be significantly better than FY2021. The recovery is, however, contingent on the pace of vaccination and efficacy of vaccines, infection rates and the possibility/intensity of a third Covid-19 wave or any other exogenous events.

Relatively weak performance of overseas subsidiaries and delay in Sea Rock asset development has constrained profitability – IHCL's consolidated margins and profitability have been historically weaker than the standalone margins and RoCE because of subdued performance of some of its key overseas properties and the sizeable periodic investments in ELEL Hotels and Investment Limited (ELEL), which holds the Sea Rock property. IHCL's consolidated core return on capital employed (core RoCE[1]) pre-pandemic was at 8.2% in FY2020 (PY: 8.6%) vis-à-vis the standalone core RoCE of 19.9% in FY2020 (PY: 24.9%). Significant improvement in operating performance of subsidiaries and adequate sweating of the Sea Rock asset would be critical for its consolidated profitability improvement going forward.

Moderate debt metrics; however, improvement expected going forward – The company resorted to availing incremental debt in FY2021 to fund its losses. Cash losses, along with an increase in debt, led to deterioration in its debt coverage indicators. The interest coverage deteriorated to -0.9 times in FY2021 from 2.8 times in FY2020, while the net debt/OPBDITA deteriorated to -8.5 times in FY2021 from 2.0 times in FY2020. With the proposed equity infusion expected to be utilised primarily for debt reduction, the total debt excluding lease liabilities (Rs. 3,632.4 crore as on March 31, 2021) is expected to reduce considerably over the next eight to twelve months. Further, with better accruals stemming from the anticipated business recovery, the coverage metrics are likely to improve going forward.

Any unfavorable verdict on the ongoing lease rentals dispute with Mumbai Port trust (MPT) could result in relatively significant cash outflow – The company has an ongoing lease rental dispute with MPT, pertaining to Taj Mahal Palace & Tower, Mumbai. While MPT has claimed an additional rent of Rs. 527.24 crore with effect from FY2007, IHCL has contested the same. The outcome of the litigation has been pending for the last several years and an adverse verdict for IHCL could result in relatively significant cash outflow.

Liquidity position: Adequate

IHCL's liquidity profile remains **adequate**, aided by available cash and liquid investment of ~Rs. 430.0 crore as on June 30, 2021 and undrawn term loan and working capital facilities of ~Rs. 1,500.0 crore at a consolidated level. Further, the proposed equity infusion of an amount not exceeding Rs. 3,000.0 crore is expected to support the liquidity position. As against these sources of cash, the company has capex plans of around Rs.250.0 crore per annum during the next three years and debt repayment obligations of approximately Rs. 1,000.0 crore in FY2022, Rs. 700.0 crore in FY2023 and Rs. 900.0 crore in FY2024 on the existing loans, as per the current repayment schedule. Further, IHCL enjoys strong financial flexibility and lender/investor comfort by virtue of the Tata Group lineage, and this is expected to continue going forward as well. Overall, ICRA expects IHCL to be able to meet its medium-term commitments and yet be left with adequate cash/liquid investments.

Rating sensitivities

Positive factors – Recovery in demand and consequent improvement in operating performance, along with improvement in debt metrics, could accelerate the transition to a higher rating.

Negative factors – Negative pressure on IHCL's rating could arise due to deeper and longer economic disruption caused by the pandemic leading to sustained pressure on its earning and profitability, higher-than-expected debt addition at the consolidated level or 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.

[1] *Core ROCE= PBIT/Core Capital Employed*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry Impact of parent or group support on an issuer's credit rating Policy on withdrawal of credit ratings
Parent/Group Support	Parent Company: Tata Sons Private Limited (Tata Sons) We expect IHCL's parent, Tata Sons (rated [ICRA]AAA (Stable)/[ICRA]A1+), to extend financial support to IHCL, should there be a need. Tata Sons has extended timely need-based financial support to IHCL in the past.
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of IHCL.

About the company

Incorporated in 1902, by Jamshed N. Tata, The Indian Hotels Company Limited (IHCL/the company) is one of India's leading hotel companies. Tata Sons holds 38.09% stake in IHCL. The company, at a consolidated level, operates 167 operating hotels consisting of 19,568 rooms across four continents, 12 countries and 100+ cities. Further, a portfolio of over 50 hotels is in the development stage (24 Ginger Hotels, 11 Vivanta, 3 Seleqtions and 12 Taj Hotels). IHCL's hotel portfolio is diversified across luxury (Taj; 54% of inventory), upscale/upper upscale (Vivanta and Seleqtions; 23% of inventory) and lean luxury/midscale (Ginger; 23% of inventory) segments.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	4,463.1	1,575.2
PAT (Rs. crore)	350.8	-694.2
OPBDIT/OI (%)	21.7%	-23.0%
PAT/OI (%)	7.9%	-44.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.7
Total Debt/OPBDIT (times)	4.6	-15.3
Interest Coverage (times)	2.8	-0.9

Source: Company, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on July 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					2-Sep-21	10-Sep-20	14-Apr20	25-Nov-19	5-Oct-18
1	NCD	Long-term	300.00	300.00	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long-term	500.00	0.00	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	NCD	Long-term	-	-	-	-	-	[ICRA]AA (Stable); Withdrawn	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debenture Programme	Very Simple (Fixed Rate Instrument Without Call Option)

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE053A07174	NCD	Nov-2011	10.10%	Nov-2021	300.00	[ICRA]AA (Stable)
INE053A07166	NCD	Jul-2011	9.95%	Jul-2021	250.00	[ICRA]AA (Stable); Withdrawn
INE053A08057	NCD	Dec-2009	9.86%	Dec-2019	250.00	[ICRA]AA (Stable); Withdrawn

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	IHCL Ownership	Consolidation Approach
Subsidiaries		
KTC Hotels Ltd.	100.00%	Full Consolidation
United Hotels Ltd.	55.00%	Full Consolidation
Roots Corporation Ltd.	63.74%	Full Consolidation
Taj Enterprises Ltd.	93.40%	Full Consolidation
Taj Trade and Transport Co Ltd.	73.03%	Full Consolidation
Benares Hotels Ltd.	51.68%	Full Consolidation
Inditravel Ltd.	78.88%	Full Consolidation
Piem Hotels Ltd.	51.57%	Full Consolidation
Sheena Investments Private Limited	100.00%	Full Consolidation
ELEL Hotels & Investments Limited	85.72%	Full Consolidation
Northern India Hotels Ltd.	48.56%	Full Consolidation
Skydeck Properties and Developers Private Limited	100.00%	Full Consolidation
Luthria&Lalchandani Hotel & Properties Pvt. Ltd	87.15%	Full Consolidation
IHOCO BV	100.00%	Full Consolidation
St. James Court Hotel Ltd.	72.25%	Full Consolidation
Taj International Hotels Ltd.	100.00%	Full Consolidation
Taj International Hotels (H.K.) Ltd.	100.00%	Full Consolidation
PIEM International (H.K.) Ltd.	51.57%	Full Consolidation
United Overseas Holdings Inc	100.00%	Full Consolidation
IHMS Hotels (SA) (Pty) Ltd.	100.00%	Full Consolidation
Ideal Ice & Cold Storage Company Limited	100.00%	Full Consolidation
Good Hope Palace Hotels Proprietary Limited	100.00%	Full Consolidation
Joint Ventures		
Taj SATS Air Catering Ltd.	51.00%	Equity Method
Taj Karnataka Hotels and Resorts Ltd.	44.27%	Equity Method
Taj Kerala Hotels and Resorts Ltd.	28.78%	Equity Method
Taj GVK Hotels and Resorts Ltd.	25.52%	Equity Method
Taj Safaris Ltd	41.81%	Equity Method
Kaveri Retreats and Resorts Ltd.	50.00%	Equity Method
TAL Hotels and Resorts Ltd.	27.49%	Equity Method
Zarrenstar Hospitality Private Limited	50.00%	Equity Method
Associates		
Oriental Hotels Limited	35.67%	Equity Method
Taj Madurai Limited	26.00%	Equity Method
Taida Trading & Industries Ltd.	34.78%	Equity Method
Lanka Island Resort Ltd.	24.66%	Equity Method
TAL Lanka Hotels PLC	24.62%	Equity Method

Company Name	IHCL Ownership	Consolidation Approach
Bjets PTE Ltd	45.69%	Equity Method

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.

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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