

November 30, 2020

TajGVK Hotels & Resorts Limited: Ratings downgraded to [ICRA]BBB+ (Negative)/[ICRA]A2; outlook on the long-term rating remains Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	165.63	160.46	[ICRA]BBB+ (Negative); revised from [ICRA]A- (Negative)
Short-term, Fund-based Limits	30.00	30.00	[ICRA]A2; revised from [ICRA]A2+
Short-term, Non-fund Based Limits (Interchangeable) ^	(11.00)	(11.00)	[ICRA]A2; revised from [ICRA]A2+
Total	195.63	190.46	

*Instrument details are provided in Annexure-1

Rationale

The revision in ratings follows TajGVK Hotels & Resorts Limited's (TajGVK) weak H1 FY2021 financial performance owing to muted demand amid the Covid-19 pandemic and limited visibility on revenues over the next few quarters. The company reported a YoY decline of ~91% in H1 FY2021, with revenues dipping to a meagre Rs. 13.7 crore in H1 FY2021 as against Rs. 145.5 crore in H1 FY2020. With the sharp drop in revenues, the company suffered from negative operating leverage and reported operating losses of Rs. 17.4 crore for H1 FY2021, despite the stringent cost-control measures undertaken. Recovery to the pre-Covid levels is several quarters away. Also, with a portfolio comprising almost entirely business hotels, TajGVK is unlikely to benefit from the surge in leisure travel.

TajGVK has relatively high debt levels (Rs. 172.7 crore as on September 30, 2020), given its debt-funded capex in the past. Its coverage metrics also remain stretched, impacted by both high debt and operating losses in H1 FY2021. Given the anticipated weak accruals for the next few quarters, the company has applied for the one-time debt restructuring permitted by RBI, with its lenders for reducing its repayment obligations. The company had cash and unencumbered fixed deposits of Rs. 7.3 crore and undrawn working capital lines of Rs. 21.7 crore as on September 30, 2020 and these would be sufficient to meet its interest payment obligations of about Rs. 1.5 crore per month over the next few months, if the restructuring plan is approved with adequate moratorium for principal payments. Inability to restructure the term loans with significant reduction in debt servicing obligations in the near to medium term would be a rating sensitivity. As per the original repayment schedule, the company had about Rs. 50.0-crore principal and interest payment obligations for the next 12 months. ICRA will continue to monitor the developments on the approval of restructuring and implementation of the resolution plan and its impact on TajGVK's credit profile. That said, despite the likely restructuring, the company would require incremental fund infusion in the near to medium term to meet its operational commitments, given the anticipated weak demand.

The ratings remain supported by the operational flexibility of the company by virtue of The Indian Hotels Company Limited (IHCL; rated [ICRA]AA (Negative); one of the joint venture partners) being the hotel operator for TajGVK's hotels and the strong brands from the 'Taj Hotels, Palaces, Safaris, Resorts' portfolio. The ratings also positively factor in the company's dominant position in the Hyderabad market with over ~11% share of the available premium inventory in the

city. However, TajGVK has high dependence on the Hyderabad market, with ~52% of its total inventory (including Taj Santacruz) and a major portion of its revenues stemming from the Hyderabad market.

ICRA notes that the existing hotel operating agreements between TajGVK and IHCL for three of the former's properties, namely Taj Krishna, Taj Deccan and Taj Banjara, are due for renewal with effect from January 1, 2021. The company has provided the operator fees for the above three hotels for July and August 2020 and is expected to provide the fee for September 2020, upon execution of the supplementary agreements. ICRA will continue to monitor the developments on this front.

The Central Bureau of Investigation (CBI) has registered a case against Dr. G.V.K. Reddy (promoter of the GVK Group of Companies), his son Mr. G.V. Sanjay Reddy, M/s Mumbai International Airport Ltd (MIAL), and another entity of the GVK Group, namely M/s GVK Airport Holdings Ltd. (GVK Holdings), apart from nine other private companies and unidentified officials of M/s Airports Authority of India (AAI) for alleged financial irregularities worth ~Rs. 705.0 crore in the development of Mumbai airport. While ICRA understands that TajGVK is not named as a party in the FIR, Dr. G.V.K Reddy is the Non-Executive Chairman of the company. ICRA will continue to monitor the developments in this regard for TajGVK, especially for any governance challenges and any consequent loss of financial flexibility. Any adverse development on this regard may warrant an appropriate rating action.

Key rating drivers and their description

Credit strengths

Hotels under management contract with strong, established brand – Taj GVK derives considerable operational flexibility with IHCL being the hotel operator and also having access to the established premium brands of the latter. ICRA notes that hotel operating agreements between TajGVK and IHCL for three of the former's properties, namely Taj Krishna, Taj Deccan and Taj Banjara, are due for renewal with effect from January 1, 2021 and the company has provided the operator fees for the above three hotels for July and August 2020, with payment for September 2020 to be provided upon the execution of the supplementary agreements. ICRA would continue to monitor for any developments on this front.

Healthy market position in Hyderabad; other properties also well established in respective markets – The company has a strong presence in the Hyderabad market and its properties are well established, with existence for several years. TajGVK's flagship 5-star deluxe property—Taj Krishna—is a well-established property in the Hyderabad central business district (CBD), commanding a significant RevPAR premium compared to other properties in the vicinity. Apart from the four properties in Hyderabad, TajGVK has two other properties, one each in Chennai and Chandigarh, which are also well established in their respective cities. The company's luxury property in Mumbai under a JV with a GVK Group company—Taj Santacruz—also has location-specific advantage (in proximity to the domestic airport).

Credit challenges

Sharp decline in revenues and accruals in H1 FY2021 due to the pandemic; limited revenue visibility over next few quarters – Given the discretionary nature of spending, the travel and tourism industry is susceptible to exogenous shocks such as wars, terror attacks, diseases and economic meltdowns. Following the spread of Covid-19, there has been a significant pressure on industry RevPARs. This has had a major impact on the company's operational performance in YTD FY2021. Although the operations have gradually resumed from June 2020 following the unlock phase, the demand has remained weak and TajGVK reported revenues of only Rs. 13.7 crore in H1 FY2021 and operating losses of Rs. 17.4 crore

(a sharp drop of ~91% in revenues against revenues of Rs. 145.5 crore and operating profits of Rs. 32.8 crore in H1 FY2020). Recovery to pre-Covid levels is several quarters away. Also, with a portfolio comprising almost entirely business hotels, TajGVK is unlikely to benefit from the surge in leisure travel.

Stretched coverage metrics; TajGVK has applied for restructuring due to relatively high debt levels and weak accruals –

With operating losses in H1 FY2021 and high debt levels as on September 30, 2020 (Rs. 172.7 crore adjusted for lease liabilities), the company has witnessed a sharp deterioration in coverage metrics. Owing to the weak accruals, the company has applied for the one-time debt restructuring permitted by RBI with its lenders. The company has cash and unencumbered fixed deposits of Rs. 7.3 crore and undrawn working capital lines of Rs. 21.7 crore as on September 30, 2020, which would enable it to meet its financial commitments over the next few months. Inability to restructure the term loans with significant reduction in debt servicing obligations in the near to medium term, would be a rating sensitivity. Nevertheless, TajGVK would need incremental fund infusion in the near to medium term, given the anticipated weak demand.

Inventory concentrated in Hyderabad market – With an inventory of 1,362 rooms (1,083 rooms at a standalone level), TajGVK is a moderate-scaled player in the Indian hotel industry. Also, ~52% of its inventory and most of its revenues are derived from the Hyderabad market. Nonetheless, launch of the Mumbai property through its JV in Q4 FY2016 has reduced the inventory concentration from the previous levels of ~66% in FY2017. Owing to high geographic concentration in Hyderabad, the company would be exposed to region-specific exogenous shocks and risks.

Liquidity position: Adequate

TajGVK's accruals are expected to remain weak in FY2021 owing to muted demand metrics. The company had opted for moratorium on debt servicing extended by RBI for the period March–August 2020 and has currently applied for debt restructuring with its lenders to ease its repayment burden and liquidity position. The company has interest commitments of about Rs. 1.5 per month, over the next few months, which would be met from its buffer of cash and unencumbered fixed deposits of Rs. 7.3 crore and undrawn working capital lines of Rs. 21.7 crore as on September 30, 2020. However, the company's ability to successfully restructure remains a key monitorable and its inability to restructure the loans in a timely manner would result in the tightening of its liquidity position. Notwithstanding the anticipated liquidity buffer to be created on the back of likely restructuring, the company would still need fund infusion in the near to medium term to meet its operational commitments, given the anticipated weak demand.

Rating sensitivities

Positive triggers – An upgrade in the near term is unlikely, given the Negative outlook on the industry, driven by expectations of a severe impact of the pandemic on the travel and tourism business. Nonetheless, recovery post the pandemic, demonstrated by sustained improvement in its operational metrics, profitability indicators and improvement in coverage metrics, could be a trigger for a change in outlook.

Negative triggers – Negative pressure on TajGVK's rating could arise due to the prolonged impact of the pandemic, leading to further weakening in operating and financial metrics, deterioration in debt servicing indicators and liquidity position of the company or weakening of linkages with IHCL. Further, its inability to restructure the term loans with significant reduction in debt servicing obligations in the near to medium term, would be a rating sensitivity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hotel Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The ratings draw comfort from the operational linkages with Indian Hotels Company Limited [IHCL; rated [ICRA]AA (Negative)], which holds a 25.52% stake in company
Consolidation/Standalone	Consolidation

About the company

Incorporated in 2000, TajGVK is a joint venture between the Hyderabad-based GVK Group and IHCL [rated [ICRA]AA (Negative)]. IHCL holds around 25.52% stake in TajGVK, while the GVK Group holds about 49.47% stake through Mrs. Shalini Bhupal (daughter of Mr. G.V.K. Reddy, holding a 37.40% stake) and Mrs. G. Indira Krishna Reddy (wife of Mr. G.V.K. Reddy, holding a 12.07% stake); the balance is held by the public. The company currently has six premium hotel properties (5-star/5-star deluxe) with a cumulative inventory of 1,083 rooms. Of these hotels, four—Taj Krishna, Taj Deccan, Taj Banjara and Vivanta, Begumpet—are located in Hyderabad with a total inventory of 714 rooms. The company also owns a 149-room hotel in Chandigarh (Taj Chandigarh) and a 220-room hotel in Chennai (Taj Club House). While these hotels are part of the standalone entity, the company has a property named Taj Santacruz, Mumbai (set up under an SPV named Green Woods Palaces & Resorts Private Limited), in which TajGVK holds a 48.99% stake.

Key financial indicators (Audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	316.9	312.6
PAT (Rs. crore) ¹	24.3	23.9
OPBDIT/OI (%)	22.0%	24.2%
PAT/OI (%)	7.7%	7.6%
Total Outside Liabilities/TNW (times)	0.8	0.8
Total Debt ² /OPBDIT (times)	2.8	2.2
Interest Coverage (times)	3.2	3.3

Source: Company data;

PAT: Profit after tax, OPBDIT: Operating profit before depreciation, interest and taxes, TNW: Tangible net worth

¹ The company also has a luxury property in Mumbai under a JV with GVK group - 'Taj Santacruz': company's share of profits from Taj Santacruz was Rs. 2.9 crore in FY2019 and Rs. 4.2 crore in FY2020

² Total debt adjusted for lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for the past three years

Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years									
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2020 (Rs. crore)	Date & Rating 30-Nov-20	Date & Rating in FY2021					Date & Rating in FY2020 30-Aug-19	Date & Rating in FY2019 31-May-18	Date & Rating in FY2018 23-Feb-17	
					28-Sep-20	10-Jul-20	19-Jun-20	22-Apr-20	15-Apr-20				
1	Term Loans	160.46	160.46	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Fund-based Limits	30.00	8.34	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3	Non-fund Based Limits ^	(11.00)	0.00	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	August 2014	9.50%	December 2024	83.71	[ICRA]BBB+ (Negative)
NA	Term Loan 2	July 2014	9.20%	December 2023	76.75	[ICRA]BBB+ (Negative)
NA	Overdraft	NA	NA	NA	30.00	[ICRA]A2
NA	Letter of Credit / Bank Guarantee ^	NA	NA	NA	(11.00)	[ICRA]A2

Source: TajGVK Hotels & Resorts Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Greenwood Palaces & Resorts Private Limited	48.99%	Equity Method

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