Oriental Hotels Limited

February 08, 2019

Summary of rated instruments

Instrument*	Previously Rated Amount(Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture	200.00	200.00	[ICRA]A+ (Stable); reaffirmed
Long-term fund based	30.00	30.00	
Short-term non-fund based – sub limit	(20.00)	(20.00)	[ICRA]A1; reaffirmed
Total	**230.00**	**230.00**	

*Instrument details in Annexure - I

Rationale

The reaffirmation of ratings draws comfort from OHL's strong parentage, by virtue of it being part of an associate of the Indian Hotels Company Limited (IHCL) and the strong operational and financial linkages between IHCL and the company. OHL continues to have strong financial flexibility and comfort with lenders on account of its parentage. Its hotels are operated under management contract with IHCL under Taj various brands. ICRA also takes into account the established market position of OHL's flagship properties in Chennai – Taj Coromandel and Taj Fisherman's Cove; and the well-entrenched position of the other properties in their respective cities.

ICRA positively factors in the substantial improvement in OHL's liquidity position as on Sep 30, 2018, due to funds inflow of Rs. 120.0 crore from sale of the Vizag property and refund of Rs. 47.5 crore deposit for the Trivandrum property, and consequent reduction in debt. OHL's gross debt reduced from Rs. 313.3 crore as on March 31, 2018 to Rs. 237.1 crore as on September 30, 2018, with prepayment of Rs. 72.0 crore of term loans in September 2018. In addition, the company had cash and liquid investments of Rs. 72.6 crore as on September 30, 2018.

The ratings are, however, constrained by the company's moderate coverage metrics. OHL's net debt/OPBDITA was 5.5 times for FY2018 and 5.3 times for H1 FY2018 (standalone) while the interest coverage was 1.8 times for FY2018 and 1.9 times for 9M FY2019 (standalone). OHL has moderate scale of operations with 964 rooms and its portfolio is heavily dependent on the Chennai market. The company derives close to 50% of its revenues from the Chennai market, and this exposes OHL to any region-specific risks such as the floods in FY2016. Also, akin to other players in the hotel industry, OHL is susceptible to exogenous shocks.

OHL's revenues witnessed marginal decline of 2.3% on YoY basis in 9M FY2019 to Rs. 252.8 crore due to the renovations undertaken in Taj Coromandel and Taj Fisherman's Cove, despite the healthy operating performance otherwise. Also, the absence of revenues from the Vizag property in Q3 FY2019, post its sale in September 2018 impacted revenues to an extent. The operating margin was marginally lower at 12.9% in 9M FY2019 (70 bps decline from 13.6% in 9M FY2018) while the net margins were at 35.6% (Previous Year:0.1%), reflecting the impact of extraordinary profit of Rs. 111.3 crore pertaining to the Vizag property sale and Trivandrum deposit refund. Going forward, while absence of income from the Vizag and Trivandrum properties could impact revenues in FY2020, the operating margins are likely to benefit from strong RevPARs in the flagship properties.

OHL has two land parcels with aggregate area of about 10 acres, one in Mysore and another in Sriperumbudur, which it intends to sell to pare debt. ICRA notes that the company's Rs. 200 crore NCDs are repayable in Nov 2019. However, OHL proposes to repay part of it and refinance the remaining; OHL's strong parentage and financial flexibility provide comfort to a large extent for the latter. The expected repayments (beyond the refinancing) are likely to be comfortably met from existing cash balances/proceeds from the proposed land sale and anticipated accruals. ICRA expects OHL's liquidity position to remain healthy and coverage metrics to improve over the medium term – aided by improvement in profits, absence of significant capex plans and reduction in debt.

Outlook: Stable

ICRA believes that OHL's hotels will continue to maintain their reputation and established position across operational markets. This, along with market uptick and consequent improvement in RevPAR should support revenues and profits in the medium to long term. The outlook may be revised to 'positive' if there is substantial improvement in debt levels or if OHL's operational performance is significantly better than estimates. The outlook may be revised to 'negative' if profit margins or cash accruals are lower than expected; or if there is any major capex that affects cash flows or causes surge in debt levels.

Key rating drivers

Credit strengths

Strong parentage – The Tata Group companies have 33.6% stake in OHL and the company is an associate of IHCL. Apart from the ownership, the company has strong operational and financial linkage with IHCL. Operationally, OHL's properties are managed by IHCL and the latter's representatives are part of OHL's board of directors. Financially, OHL has strong financial flexibility and lender/investor comfort arising from it being an associate of IHCL.

Strong brands; well-established position of properties, especially the flagship ones, in the respective cities – OHL's hotels are operated under management contract by IHCL under its various brands. Also, its flagship properties – Taj Coromandel and Taj Fisherman's Cove – which constitute close to 50% of OHL's revenues, are well-established properties in Chennai, the former being in the CBD and the latter being in the East Coast Road, on the way to Mahabalipuram. Both these properties have been operational for the last several years, and command an ARR premium compared to their competitor properties. Apart from these two properties, OHL has six other properties spread across various South Indian cities – which are also renowned in their respective cities.

Significant improvement in net debt as on September 30, 2018 – The company's net debt levels have improved substantially, from Rs. 307.7 crore as on March 31, 2018 to Rs. 164.5 crore as on September 30, 2018, with prepayment of Rs. 72.0 crore of term loans in September 2018 from the Vizag property sale proceed of Rs. 120.0 crore and refund of Rs. 47.5 crore deposit for the Trivandrum property.

Credit challenges

Moderate scale; heavy concentration in the Chennai market – OHL has relatively moderate scale of operations, with an aggregate inventory of 964 rooms as on date and operates across eight cities in South India. While the company had 1,059 rooms earlier, the sale of the Vizag property (with 95 keys) reduced OHL's room inventory to current levels. It is likely to reduce further to 828 rooms from April 01, 2019 with the termination of licensing agreement at Vivanta Trivandrum. Also, close to 50% of the company's revenues are derived from the Chennai market, exposing it to cityspecific event risks. The company's revenues in FY2016 were impacted to an extent because of the Chennai flood in Dec 2015.

Moderate coverage metrics – The company has borrowing of over Rs. 150 crore due to debt-funded capex and net losses in the past. This, and reasonable operating profits over the last one to two years have resulted in moderate coverage metrics in FY2018 and YTD FY2019. OHL's net debt/OPBDITA was 5.5 times for FY2018 and 5.3 times for H1 FY2018 (standalone) while the interest coverage was 1.8 times for FY2018 and 1.9 times for 9M FY2019 (standalone).

Vulnerable to exogenous shocks – Akin to its other players in the industry, OHL's revenue also remains susceptible to exogenous shocks such as natural calamities and economic or political instability.

Liquidity Position:

OHL's liquidity position has remained healthy with positive retained cash flows and adequate unutilized working capital debt in the last one year. OHL had Rs. 72.6 crore cash and liquid investments as on September 30, 2018. Further, the company has two land parcels with aggregate area of about 10 acres, one in Mysore and another in Sriperumbudur and intends to sell these to pare debt. While the Rs. 200.0 crore NCD repayments are due in Nov 2019, the company proposes to repay part of it from its existing cash balances/accruals/land sale upon materialization and refinance the remaining. The expected repayments (excluding the refinancing) are likely to be comfortably met from existing cash balances/proceeds and anticipated accruals. Also, the company does not envisage any major capex over the next two years. ICRA expects OHL's liquidity position to remain healthy over the medium term.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for hotels
Parent/Group Support	The company is an associate of The Indian Hotels Company Limited (rated [ICRA]AA (Stable)). OHL has strong operational and financial linkage with IHCL.
Consolidation / Standalone	Consolidation

About the company:

Oriental Hotels Limited (OHL/the company) is an associate of The Indian Hotels Company Limited (IHCL) and owns eight hotels with an aggregate inventory of 964 rooms in South India as on date. The hotels operate under the 'Taj', 'Vivanta' and 'Gateway' brands. While the hotels are spread across eight south Indian cities, the company's two flagship properties – Taj Coromandel and Taj Fisherman's Cove – both located in Chennai, contribute close to 50% of revenues. Apart from the standalone operations, the company also has a wholly owned subsidiary – OHL International (HK) Limited; a JV - TAL Hotels and Resorts Limited (21.7% stake); and two associates – Taj Madurai Limited (26% stake) and Lanka Island Resorts Limited (associate of OHL International (HK) Limited, 23.1% stake). The standalone operations constitutes over 95% of OHL's consolidated revenues and profits. IHCL and other Tata group companies own 35.6% stake in the company while Late. Mr. D. S. Reddy's (a Chennai-based industrialist) family members own 29.9% stake as on date.

Key financial indicators (audited)

Consolidated	FY2017	FY2018
Operating Income (Rs. crore)	334.7	358.0
PAT (Rs. crore)	5.0	6.1
OPBDIT/ OI (%)	14.6%	15.7%
RoCE (%)	5.1%	5.4%
Total Debt/ TNW (times)	0.8	0.7
Total Debt/ OPBDIT (times)	6.6	5.6
Interest coverage (times)	1.5	1.8

Source: 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: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Feb 2019	Date & Rating in FY2018 Jan 2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Dec 2015
1	NCD	Long Term	200.0	200.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Long-term fund based	Long Term	30.00					
3	Term loans	Long term	-	-	-	[ICRA]A+ (Stable) withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Short-term non-fund based-sublimit	Short Term	(20.00)		[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

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
NCD	Nov-2014	10.25%	Nov-2019	200.00	**[ICRA]A+ (Stable)**
CC				30.00	
LC/BG – sublimit				(20.00)	**[ICRA]A1**

Source: Oriental Hotels Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
OHL International (HK) Limited	100.0%	Full consolidation
TAL Hotels and Resorts Limited	21.7%	Equity method
Taj Madurai Limited	26.0%	
Lanka Island Resorts Limited (associate of OHL International (HK) Limited)	23.1%	

Source: Oriental Hotels Limited

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