September 08, 2023

Oriental Hotels Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based	30.00	30.00	[ICRA]A+ (Stable); reaffirmed
Short-term – Non-fund based – Sublimit	(20.00)	(20.00)	[ICRA]A1; reaffirmed
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for the bank lines of Oriental Hotels Limited (OHL) factors in its healthy operating and financial performance in FY2023 and Q1 FY2024, and anticipated sustenance of the same given the healthy demand outlook for the hospitality industry in FY2024. The ratings consider OHL's strong parentage as an associate of The Indian Hotels Company Limited (IHCL; rated [ICRA]AA+ (Stable)/[ICRA]A1+). OHL has strong operational and financial linkages with IHCL and enjoys financial flexibility/lender comfort by virtue of its parentage. Further, IHCL is expected to extend timely and adequate financial support to OHL, if required. The ratings also positively factor in the well-established position of OHL's properties, especially the flagship ones, in their respective cities; although the revenues remain concentrated in the Chennai market.

OHL's operating income improved to Rs. 394.5 crore in FY2023, higher by 35.5% over pre-Covid levels and by 79.8% on YoY basis, supported by improved demand. The demand momentum sustained in Q1 FY2024 as well, and OHL reported an operating income of Rs. 92.6 crore, a 4.5% YoY increase over Q1 FY2023. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last two years have resulted in healthy improvement in operating margins and accruals. OHL reported operating profit margins of 28.5% in FY2023 and 24.2% in Q1 FY2024, significantly higher than pre-Covid margins of 13.2% (FY2020). The company's coverage metrics, however, remain moderate despite the healthy operating performance due to the relatively high debt levels for the scale of operations.

ICRA expects the healthy demand outlook to augur well for the company in FY2024, although the ongoing renovations for upgradation of properties could cap revenue growth in FY2024. OHL has capex plans of around Rs. 100-120 crore for the period FY2024-FY2026 for its renovations, property upgradations and maintenance. The capex is expected to be funded through a mix of internal accruals and debt, on need basis. Further, the company has principal repayment obligations of Rs. 26.4 crore in Q2-Q4 FY2024, Rs. 67.4 crore in FY2025 and Rs. 69.1 crore in FY2026 on its existing loans. Given the company's relatively high repayment obligations and significant capex plans over the medium term, ICRA expects the coverage metrics to remain moderate going forward as well.

Key rating drivers and their description

Credit strengths

Strong parentage – Tata Group companies hold 39.1% stake in OHL, and the company is an associate of IHCL (28.5% stake). ICRA draws comfort from OHL's strong operational and financial linkages with IHCL. Further, OHL's properties are managed by IHCL, and the latter's representatives are part of OHL's Board of Directors. OHL has strong financial flexibility and lender/investor comfort from being an associate of IHCL. Also, IHCL is expected to extend timely and adequate financial support to OHL, if required.

Strong brands; well-established position of properties, especially flagship ones, in 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 constituted around 60% of OHL's consolidated revenues in FY2023 and Q1 FY2024, are well-established properties in Chennai, the former being in the Chennai Central Business district and the latter being in the East Coast Road, near Mahabalipuram. Both these properties have been operational for the last several years and command a premium in average room rates (ARRs) compared to their competitor properties. Apart from these two properties, OHL has five other well-established properties spread across South India.

Healthy improvement in revenues and margins in FY2023 and Q1 FY2024; healthy demand outlook for FY2024 – OHL's operating income improved to Rs. 394.5 crore in FY2023, higher by 35.5% compared to pre-Covid levels and by 79.8% on YoY basis, supported by improved demand from leisure, business travel, MICE[1], and transient passengers. The company reported an occupancy of 69% in FY2023 (ten percentage points improvement over pre-Covid levels) and an ARR of ~Rs. 9,900 (a growth of over 30% compared to pre-Covid levels). The demand momentum sustained in Q1 FY2024 as well, and OHL reported an operating income of Rs. 92.6 crore, a 4.5% YoY increase over Q1 FY2023. Further, benefits from improved operating leverage and sustenance of cost optimisation measures undertaken in the last two years have resulted in healthy improvement in operating margins and accruals. OHL has reported operating profit margins of 28.5% in FY2023 and 24.2% in Q1 FY2024, significantly higher than pre-Covid margins of 13.2% (FY2020). ICRA expects the healthy demand outlook to augur well for the company in FY2024, although the ongoing renovations for upgradation of properties could cap revenue growth in FY2024.

Credit challenges

Moderate scale; relatively high concentration in the Chennai market – OHL has relatively moderate scale of operations with an aggregate inventory of 827 rooms as on June 30, 2023, and operates across six cities in South India. Also, around 60% of the company's revenues are derived from the Chennai market, exposing it to any localised downturn/unforeseen events or region-specific risks.

Moderate coverage metrics – The company has relatively high debt levels for its scale of operations with a total debt excl. lease liabilities of Rs. 180.1 crore as on June 30, 2023, due to debt funded capex and net losses in the past. While coverage metrices for the company have improved in FY2023 and Q1 FY2024 with improvement in accruals, they remain moderate, given the relatively high debt levels for the scale of operations. ICRA expects the coverage metrics to remain moderate going forward as well, given the company's relatively high repayment obligations over the medium term, and significant capex plans.

Vulnerability of revenues to inherent industry cyclicality, economic cycles, and exogenous events – Akin to other players in the industry, OHL's revenues are exposed to industry cyclicality and seasonality, macro-economic downturns, and exogenous factors (geo-political tensions, terrorist attacks, disease outbreaks, etc). This was witnessed in FY2021 and FY2022, when OHL's performance was significantly impacted by the pandemic.

Liquidity position: Adequate

OHL's liquidity is expected to remain adequate, supported by its anticipated cash flow from operations. Further, the company had free cash and bank balances of Rs. 44.4 crore and undrawn working capital limit of Rs. 25.9 crore as of June 30, 2023. Against these sources of cash, the company has principal repayment obligations of Rs. 26.4 crore in Q2-Q4 FY2024, Rs. 67.4 crore in FY2025 and Rs. 69.1 crore in FY2026 on its existing loans. Further, OHL has capex plans of around Rs. 100-120 crore for the period FY2024-FY2026 for its renovations, property upgradations and maintenance. The capex is expected to be funded through a mix of internal accruals and debt, on need basis. ICRA also expects IHCL to extend timely and adequate financial support to OHL, if required.

[1] *MICE: Meeting, Incentives, Conferences and Exhibitions*

Environmental and Social Risks

Environmental considerations – Akin to other hotel companies, OHL is exposed to natural disasters (such as hurricanes and floods) and extreme weather conditions, which could interrupt operations or damage properties. However, the availability of insurance acts as a safeguard in these circumstances. The risk for OHL is accentuated by its geographic concentration. The company has been actively taking measures to improve its environmental impact by reducing energy, water, and plastic consumption, and increasing green initiatives among others.

Social considerations – Akin to other hoteliers, the company would need to adapt to evolving social fabric (including changing consumer preferences and social trends) from time to time and relies heavily on human capital. OHL is also vulnerable to data security and data privacy issues. Hence, there is moderate exposure to social risk.

Rating sensitivities

Positive factors – Sustained improvement in the company's scale, earnings and debt indicators resulting in improvement of credit metrics, or improvement in the credit profile of the parent entity (IHCL) or strengthening of OHL's operational/ financial linkages with the parent could result in an upgrade.

Negative factors – Negative pressure on OHL's ratings could arise if the company witnesses pressure on earnings, or there is weakening of debt metrics or liquidity position. Further, any deterioration in the credit profile of the parent entity (IHCL) or weakening of OHL's operational/financial linkages with the parent, could also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Hotels Rating Approach- Implicit parent or group support
Parent/Group support	Parent company: The Indian Hotels Company Limited (rated [ICRA]AA+ (Stable)/[ICRA]A1+); ICRA expects IHCL to extend timely and adequate financial support to OHL, should there be a need.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company. Details of consolidation provided in Annexure-II.

About the company

Oriental Hotels Limited is an associate of The Indian Hotels Company Limited, and owns seven hotels in South India, with an aggregate inventory of 827 rooms as on date. The hotels operate under the 'Taj', 'Seleqtions', 'Vivanta' and 'Gateway' brands. While the hotels are spread across six South Indian cities, the company's two flagship properties—Taj Coromandel and Taj Fisherman's Cove, both located in Chennai—generate around 60% of its revenues.

Apart from its standalone operations, the company also has a wholly owned subsidiary, OHL International (HK) Limited, a JV between IHCL - TAL Hotels and Resorts Limited (21.7% stake), and two associates, Taj Madurai Limited (26.0%) and Lanka Island Resorts Limited (associate of OHL International (HK) Limited, with 23.1% stake) as on March 31, 2023. The standalone operation constitutes over 98% of OHL's consolidated revenues. IHCL and other Tata Group companies own 39.1% stake in OHL, while the Late Mr. D. S. Reddy's (a Chennai-based industrialist) family owns 28.5% stake (as on June 30, 2023).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	219.4	394.5
PAT	-20.3	54.3
OPBDIT/OI	10.7%	28.5%
PAT/OI	-5.9%	14.1%
Total outside liabilities/Tangible net worth (times)	0.7	0.5
Total debt/OPBDIT (times)	11.9	1.9
Interest coverage (times)	1.1	5.6

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Sep 08, 2023	Nov 11, 2022	Sep 02, 2021	Sep 01, 2020	Apr 16, 2020
1	Fund Based	Long term	30.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)
2	Non-fund based Sublimit	Short term	(20.00)	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based	Simple
Short Term - Non-fund based –Sub limit	Very Simple

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	30.00	[ICRA]A+ (Stable)
NA	**LC/BG- Sublimit**	NA	NA	NA	(20.00)	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	OHL 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%	Equity method
Lanka Island Resorts Limited (associate of OHL International (HK) Limited)	23.1%	Equity method

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

K Srikumar
+91 44 4596 4318
ksrikumar@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Kishore Kumar A
+91 44 4596 4312
kishore.a@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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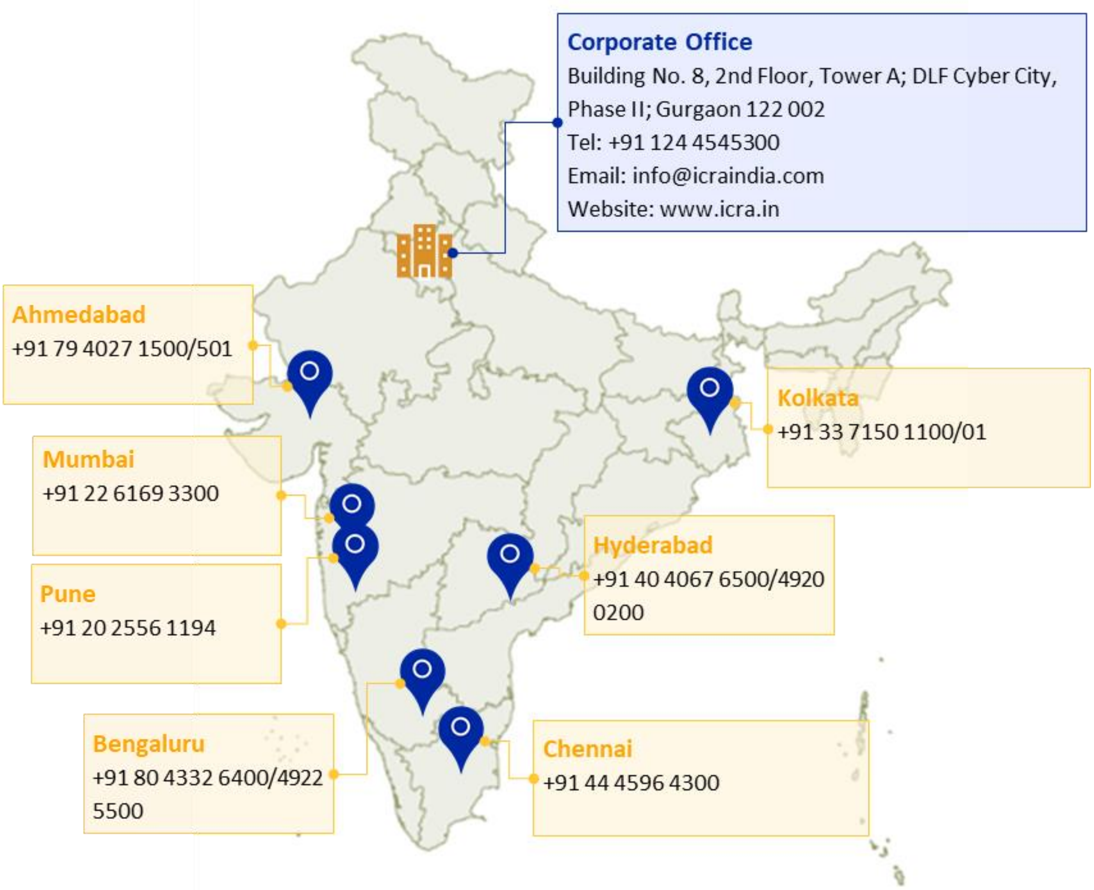

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