September 24, 2024

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 limits	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 facilities of Oriental Hotels Limited (OHL) factors in its healthy credit profile in FY2024 and Q1 FY2025, and anticipated sustenance of the same given the healthy demand outlook for the hospitality industry and higher accruals from renovated/upgraded properties. The ratings consider OHL's strong parentage with The Indian Hotels Company Limited (IHCL; rated [ICRA]AA+ (Stable)/[ICRA]A1+) holding 28.5% stake in the company. 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.

The ratings remain constrained by OHL's moderate scale of operations and its moderate coverage metrics. OHL's operating income was flattish on YoY basis at Rs. 393.2 crore during FY2024, impacted by the renovations in Taj Malabar (Cochin), despite healthy performance across all other properties. The revenues in Q1 FY2025 declined by 11.4% on YoY basis to Rs. 82.0 crore., also impacted by both renovations in Taj Malabar and a banquet hall in Taj Coromandel (Chennai) and impact of the General Elections and the heatwave. The lower topline and weaker absorption of fixed costs resulted in a dip in margin in FY2024 and Q1 FY2025, on YoY basis. OHL reported 25.0% OPM in FY2024 (PY: 28.5%) and 14.3% in Q1 FY2025 (PY: 24.2%). The favourable demand outlook for the hospitality industry, stemming from both the anticipated stable demand across segments and the demand-supply gap in terms of capacities across major cities would augur well for the company. OHL's revenues going forward is expected to be supported by higher ARRs from renovated/upgraded properties including Taj Malabar. The company's operating margins and accruals are also expected to improve from H2 FY2025, aided by the operating leverage benefits and better absorption of costs with topline growth and no significant renovations in the near to medium term. However, akin to other players in the industry, OHL's revenues would be exposed to industry cyclicality and seasonality, macro-economic downturns, and other exogenous factors. OHL's coverage metrics remain moderate with total debt/OPBDITA of 2.1 times as on March 31, 2024 (PY: 1.9 times), and interest coverage was 5.7 times for FY2024 (PY: 5.6 times). ICRA expects the coverage metrics to remain moderate over the next 1-2 years, given its relatively high repayment obligations in FY2025 and FY2026. Nevertheless, it is expected to improve going forward in the absence of significant debt-funded capex and with improvement in business accruals.

The stable outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile, supported by its strong parentage and established position of its properties, amidst favourable outlook for the industry.

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; established position of properties, especially flagship ones, in respective cities – OHL's hotels are operated under management contract by IHCL under its various brands such as Taj, Vivanta, Gateway and SeleQtions. Also, its flagship properties – Taj Coromandel and Taj Fisherman's Cove – which constituted over 60% of OHL's consolidated revenues in FY2024 and Q1 FY2025, 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 are reputed in the respective micro markets. Apart from these two properties, OHL has five other well-established properties spread across South India.

Favourable demand outlook – The favourable demand outlook for the hospitality industry, stemming from both the anticipated stable demand across segments and the demand-supply gap in terms of capacities across major cities would augur well for the company. OHL's revenues going forward would also be supported by higher ARRs from renovated/upgraded properties including Taj Malabar. The company's operating margins and accruals are also expected to improve from H2 FY2025, aided by the operating leverage benefits and better absorption of costs with topline growth and no significant renovations in the near to medium term.

Credit challenges

Moderate scale; relatively high concentration in the Chennai market – OHL has relatively moderate scale of operations with an aggregate inventory of 825 rooms as on June 30, 2024, and operates across six cities in South India. Also, over 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[1] of Rs. 201.7 crore as on March 31, 2024, and Rs. 203.8 crore as on June 30, 2024, due to debt funded capex and net losses in the past. The company's total debt/OPBDITA stood at 2.1 times as on March 31, 2024 (PY: 1.9 times), while its interest coverage was 5.7 times for FY2024 (PY: 5.6 times). ICRA expects the coverage metrics to remain moderate over the next 1-2 years, given its relatively high repayment obligations in FY2025 and FY2026. Nevertheless, it is expected to improve going forward in the absence of significant debt-funded capex and with improvement in business accruals.

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 undrawn working capital of Rs. 24.6 crore and free cash and bank balances of Rs. 4.2 crore as on June 30, 2024. This apart,

[1] Total debt includes lease liabilities; excluding lease liabilities, the total debt stood at Rs. 168.6 crore as on March 31, 2024, and Rs. 170.6 crore as on June 30, 2024

the company also had undrawn term loan of Rs. 14.0 crore as on June 30, 2024. Against these sources of cash, the company has principal repayment obligations of Rs. 44.0 crore in H2 FY2025, Rs. 72.1 crore in FY2026 and Rs. 15.2 crore in FY2027 on its existing loans. Further, OHL has a capex plans of around Rs. 25.0 crore in H2 FY2025 and Rs. 10-15.0 crore per annum in FY2026 and FY2027, towards the property renovations, upgradations and regular maintenance. The capex going forward is expected to be funded through internal accruals. ICRA also expects IHCL to extend timely and adequate financial support to OHL, if required.

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 – 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]
Parent/Group support	Parent company: The Indian Hotels Company Limited (IHCL, 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	Consolidated

About the company

Oriental Hotels Limited is an associate of The Indian Hotels Company Limited, and operates seven hotels in South India, with an aggregate inventory of 825 rooms as on date. The hotels are operated under the IHCL brands – '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 over 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, 2024. The standalone operation constitutes over 99% 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, 2024).

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	394.5	393.2
PAT	55.5	50.1
OPBDIT/OI (%)	28.5%	25.0%
PAT/OI (%)	14.1%	12.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	1.9	2.1
Interest coverage (times)	5.6	5.7

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sept 24, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based limits	Long Term	30.00	[ICRA]A+ (Stable)	08-Sep-23	[ICRA]A+ (Stable)	11-Nov-22	[ICRA]A+ (Stable)	02-Sep-21	[ICRA]A+ (Stable)
Non-fund based – Sublimit	Short Term	(20.00)	[ICRA]A1	08-Sep-23	[ICRA]A1	11-Nov-22	[ICRA]A1	02-Sep-21	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based limits	Simple
Short-term – Non-fund based – Sublimit	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

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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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