August 23, 2021

TajGVK Hotels & Resorts Limited: Ratings placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	160.46	145.28	[ICRA]BBB+&; rating placed on watch with developing implications
Short-term, Fund-based Limits	30.00	30.00	[ICRA]A2&; rating placed on watch with developing implications
Short-term, Non-fund Based Limits (Interchangeable)	(11.00)	(11.00)	[ICRA]A2&; rating placed on watch with developing implications
Total	**190.46**	**175.28**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings of [ICRA]BBB+/ [ICRA]A2 outstanding on the bank facilities of TajGVK Hotels & Resorts Limited (TajGVK) are placed on watch with developing implications, following the company's announcement on fund raising. The Board of Directors of TajGVK, on August 06, 2021, has approved a proposal to raise funds to the tune of Rs. 250.0 crore, through debt, QIP, preferential issue or monetization of assets, subject to necessary regulatory and shareholder approvals. However, clarity on the timeline of fund infusion and end usage is awaited. Also, while the fund infusion could improve the company's liquidity position, the extent of improvement and quantum of debt reduction remains to be seen. ICRA will continue to monitor the developments on this front and will take appropriate rating action as and when further details are available.

While the company witnessed sequential recovery in Q3 FY2021 and Q4 FY2021 after a weak H1 FY2021, the performance in Q1 FY2022 was again impacted by the second wave of the pandemic. Nevertheless, the operational performance was relatively better vis-à-vis Q1 FY2021 because of relatively lower restrictions, demand from staycations and weddings (albeit with a lower pax) and higher ARRs in Q1 FY2022. With the easing of restrictions, Hyderabad market has witnessed significant sequential improvement in demand on a month-on-month basis in July 2021. Going forward, TajGVK is expected to witness healthy traction from weddings, apart from demand from staycations, although the pick-up in business travel is expected to remain relatively slow. The situation is still evolving and remains contingent on the pace of vaccination, efficacy of vaccines, high infection rates and possibility of a third Covid-19 wave. Akin to other hotel players, ICRA expects TajGVK's performance to reach pre-covid levels only over the medium term, although FY2022 is expected to be significantly better than FY2021.

The ratings remain supported by TajGVK's operational flexibility by virtue of The Indian Hotels Company Limited (IHCL; rated [ICRA]AA (Negative)) being one of the joint venture (JV) partners and the hotel operator for the company's hotels, and the company's established presence in Hyderabad market. However, TajGVK has high dependence on the Hyderabad market and is vulnerable to region-specific exogenous shocks and risks.

Key rating drivers and their description

Credit strengths

Operational flexibility enjoyed by TajGVK with IHCL being the JV partner and the hotel operator - IHCL holds 25.52% stake in TajGVK and has two representatives on TajGVK's board. The company derives operational flexibility with IHCL being the hotel operator and also having access to the established premium brands of the latter.

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 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 Greenridge Hotels & Resorts Private Limited, a GVK Group company—Taj Santacruz—also has location-specific advantage (by virtue of its proximity to the international airport).

Credit challenges

Near term performance to remain weak owing to demand disruption caused by the pandemic, however, expected to be better than FY2021; recovery to pre-pandemic levels a few years away- TajGVK's performance was impacted by the pandemic in FY2021, and the revenues declined by ~70% on a YoY basis to Rs. 94.2 crore. Though H1 FY2021 was weak with revenues of only Rs. 13.2 crore, H2 FY2022 was relatively better aided by demand from staycations and social MICE (including weddings). The company was impacted again in Q1 FY2022 by Covid 2.0 and registered revenues of Rs. 24.2 crore in the period. That said, on a YoY basis, its operational performance was relatively better vis-à-vis Q1 FY2021 because of relatively lower restrictions, demand from staycations and weddings (albeit with a lower pax) and higher ARRs. Although the pick-up in business travel is likely to remain slow going forward, the company's financial performance in FY2022 would be significantly better on a YoY basis (albeit on a lower base), aided by demand from staycations, weddings, and better F&B revenues. Recovery to pre-covid levels, though, is expected only over the medium term, akin to other players in the hotel industry. The situation is still evolving and remains contingent on the pace of vaccination, efficacy of vaccines, high infection rates and possibility of a third Covid-19 wave. Despite sharp decline in topline, TajGVK capped its operating losses to Rs. 1.5 crore in FY2021, owing to the stringent cost saving initiatives and better operational performance in H2 FY2021. With sustenance of cost saving initiatives undertaken in FY2021, the company's breakeven levels have reduced, which is likely to support the accruals going forward.

Stretched coverage metrics due to relatively high debt levels and weak accruals - TajGVK had relatively high debt levels even pre-Covid, owing to significant debt-funded capex in the past. Further, the debt levels increased in FY2021 owing to push-back of debt repayments with covid-related moratorium on debt servicing during March-August 2020 and debt of Rs. 33.3 crore availed under ECLGS 2.0 scheme in March 2021. As on March 31, 2021, TajGVK's gross debt excluding lease liabilities stood at Rs. 180.9 crore. While the accruals are expected to improve going forward, the improvement in coverage metrics would also be contingent on the mode and quantum of fund infusion and its impact on debt/repayments going forward.

Exposed to geographical concentration risk with inventory concentrated in the Hyderabad market - With an inventory of 1,362 rooms (1,083 rooms at a standalone level and 279 rooms of the property under the JV, Greenwoods Palaces & Resorts Private Limited), TajGVK is a moderate-scaled player in the Indian hotel industry. Of TajGVK's seven hotel properties at a consolidated level, four are in Hyderabad, comprising 52% of its total inventory. Owing to the high geographical concentration in Hyderabad, the company would be exposed to region-specific exogenous shocks and risks.

Liquidity position: Adequate

TajGVK has undrawn working capital lines of Rs. 28.0 crore as on August 02, 2021 and is eligible for ECLGS 3.0 term loan of Rs. 33.3 crore. TajGVK has negligible cash balances as on date. As against these sources, it has term loan repayment obligations of Rs. 27.3 crore for September 2021-March 2022 and interest commitments on existing loans of about Rs. 1.2-1.4 crore per month during the same period. TajGVK has negligible capex plans in FY2022. While the company's board approval to raise funds to the tune of Rs. 250.0 crore could improve the company's liquidity position, the extent of improvement remains to be seen.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates material reduction in net debt levels on sustained basis, either through fund infusion in the form of equity or through asset monetization, or through improvement in accruals, aided by healthy recovery in operational metrics.

Negative factors – Negative pressure on TajGVK's rating could arise due to deeper and longer economic disruption caused by the pandemic leading to sustained pressure on its earnings and profitability or significant increase in net debt levels. Further, any material increase in net debt, arising from debt-funded capex, if any, could also be a downgrade trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the company's consolidated financial profile

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 seven premium hotel properties with a cumulative inventory of 1,362 rooms at a consolidated level. 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). The company's properties also include 279-room Taj Santacruz, Mumbai, which is 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	FY2020	FY2021
Operating Income (Rs. crore)	312.6	94.2
PAT[1] (Rs. crore)	23.9	-26.4
OPBDIT/OI (%)	24.2%	-1.5%
PAT/OI (%)	7.6%	-28.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9
Total Debt/OPBDIT (times)	2.8	154.6[2]
Interest Coverage (times)	3.3	-0.1

Source: Company, ICRA Research; Note: Amount in Rs. crore

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

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. 4.2 crore in FY2020 and share of losses from Taj Santacruz was Rs. 13.5 crore in FY2021

2 Adjusted for lease liabilities of Rs. 43.7 crore, the gross total debt stood at Rs. 180.9 crore as on March 31, 2021 and Total Debt/OPBITDA stood at -124.5 times as on March 31, 2021. Adjusted for lease liabilities of Rs. 43.6 crore, the gross total debt stood at Rs. 165.5 crore as on March 31, 2020 and Total Debt/OPBITDA stood at 2.2 times as on March 31, 2020.

Status of non-cooperation with previous CRA: Not applicable

Any other information: No

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 of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021								Date & Rating in FY2020	Date & Rating in FY2019
					August 23, 2021	January 07, 2021	November 30, 2020	September 28, 2020	July 10, 2020	June 19, 2020	April 22, 2020	April 15, 2020		August 30, 2019	May 31, 2018
1	Term Loans	Long-term	145.28	145.28	[ICRA]BBB+&	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Negative)	[ICRA]A- (Negative)	[ICRA]A (Negative)	[ICRA]A (Negative)	[ICRA]A+ (Negative)	[ICRA]A+ (Negative)		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based Limits	Short-term	30.00	3.00	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+	[ICRA]A1+
3	Non-fund Based Limits ^	Short-term	(11.00)	0.00	[ICRA]A2&	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+		[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-Term loans	Simple
Short -term fund-based limits	Simple
Short-term Non-fund based limits (Interchangeable)	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: 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	8.45%	February 2025	79.03	[ICRA]BBB+&
NA	Term Loan 2	July 2014	9.10%	June 2024	66.25	[ICRA]BBB+&
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 Hotels Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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

Source: TajGVK Hotels & Resorts Hotels Limited

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