

September 28, 2020

Bombay Stock Exchange Limited
1st Floor, New Trading Ring,
Rotunda Building,
P J Towers, Dalal Street, Fort
MUMBAI - 400 001.

The National Stock Exchange of India Ltd
Exchange Plaza,
5th Floor, Plot No.C/1, G Block,
Bandra Kurla Complex, Bandra (E)
MUMBAI - 400 051

Dear Sirs,

Sub: Intimation of downgrade in credit rating under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("SEBI Listing Regulations") by TAJGVK Hotels & Resorts Limited ("Company").

Ref: BSE: 532390; NSE:TAJGVK.

Pursuant to Regulation 30 of SEBI Listing Regulations, enclosed herewith is a letter bearing reference nil dated 25.09.2020 received by the Company from ICRA ("Rating Agency") informing the Company of a downgrade in the credit rating of the Company's Long Term Loans (aggregating to Rs.165.63 Crore), **to ICRA A- (Negative outlook) from ICRA A (Negative outlook)** and Company's Short term Credit facilities (aggregating to Rs.30 Crore) **to ICRA A2+ from ICRA A1** along with the rational for such downgrade. The revision in the rating is on account of expected sharp revenue and margin decline expected for FY2021 on account of steep demand drop owing to the Pandemic. Kindly put this on the notice board for the information of the investors and general public.

For TAJGVK Hotels & Resorts Limited


J SRINIVASA MURTHY
CFO & COMPANY SECRETARY



Encl: As above

September 25, 2020

TajGVK Hotels & Resorts Limited: Ratings downgraded from [ICRA]A (Negative)/[ICRA]A1 to [ICRA]A- (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	165.63	[ICRA]A- (Negative); revised from [ICRA]A (Negative)
Short-term, Fund-based Limits	30.00	30.00	[ICRA]A2+; revised from [ICRA]A1
Short-term, Non-fund Based Limits (Interchangeable) ^	(11.00)	(11.00)	[ICRA]A2+; revised from [ICRA]A1
Total	195.63	195.63	

*Instrument details are provided in Annexure-1;

Rationale

The revision in ratings follows expectations of protracted recovery in the Indian travel and hospitality industry and resultant weakening in TajGVK Hotels & Resorts Limited's (TajGVK) operating and financial metrics in FY2021. The company reported meagre revenues of Rs. 3.3 crore and operating losses in Q1 FY2021, owing to the pan-India lockdown, which resulted in only one of its six properties (apart from Taj Santacruz, which is under a JV with a GVK group company) being operational during the period. During the last rating exercise in June 2020, ICRA had expected economic recovery and improvement in business activities with easing of the lockdown. However, with continued increase in the reported Covid-19 cases, consequent multiple localized shutdowns implemented by various state governments and practically nil discretionary travel, the recovery is expected to be much prolonged. This is expected to weaken the company's financial profile. The company's earnings will be weak during Q2 FY2021 and this trend is expected to continue over the next several quarters with continued muted demand. With sharp fall in operating profits, the debt coverage indicators are likely to deteriorate in FY2021.

The moratorium on debt servicing extended by the RBI for the period of March-August 2020 aided the company in tiding over the financial stress during the period. With the moratorium coming to an end and accruals continuing to be weak, the company has applied for the loan restructuring for a period of two years with its lenders. If approved by the lenders, this would provide liquidity cushion to the company for debt servicing. While ICRA notes that the company has adequate funds in the form of undrawn working capital lines and fixed deposits for meeting its operational commitments in the near term, the company would need incremental debt/equity as the recovery gets prolonged. ICRA would continue to monitor the developments pertaining to the lender's approval of debt-restructuring plan and contours of restructuring plan (if approved) and its impact on the financial profile of the company.

The Central Bureau of Investigation (CBI) has registered a case against M/s GVK Airport Holdings Ltd. (GVK Holdings), M/s Mumbai International Airport Ltd (MIAL), Dr. G.V.K. Reddy, (promoter of GVK Group of Companies and Chairman of MIAL), his son Mr. G.V. Sanjay Reddy (Managing Director of MIAL), 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. The GVK Group holds a 49.47% stake in TajGVK 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). 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.

The ratings remain supported by the operational flexibility enjoyed by 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. The ratings also factor in the strong brands from the 'Taj Hotels, Palaces, Safaris, Resorts' portfolio, and TAJGVK's dominant position in the Hyderabad market with over ~11% share of 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 from the Hyderabad market.

Key rating drivers and their description

Credit strengths

Hotels under management contract with a strong, established brand: Taj GVK derives considerable operational flexibility with IHCL being the hotel operator and also having access to IHCL's established premium brands.

Healthy market position in Hyderabad; other properties also well-known in their 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 GVK group company - 'Taj Santacruz', also has location advantage (in proximity to the domestic airport).

Credit challenges

Prolonged impact of the pandemic on the Indian hospitality industry is expected to result in sharp deterioration in operating and financial metrics for the company over the next several quarters: The pandemic and consequent extended pan-India lockdown had brought the hospitality industry to a grinding halt in the last six months. This has resulted in a sharp fall in occupancy levels for the industry and company, with demand falling to an all-time low in Q1 FY2021. As a result, the company had reported meagre revenues of Rs. 3.3 crore and operating losses of 14.0 crore in Q1 FY2021 (as against revenues of Rs. 72.2 crore and operating profits of Rs. 18.4 crore in Q1 FY2020).

The unabated rise in Covid-19 cases in the unlock phase and localised re-imposition of lockdowns in several states has interrupted the economic recovery and discretionary travel. ICRA expects the demand recovery in the hospitality industry to be prolonged. The company's earnings will be weak during Q2 FY2021 and this trend is expected to continue over the next several quarters with continued muted demand.

Moderate coverage metrics; proposed debt restructuring to support liquidity over the near term: With decline in debt levels (total debt of Rs. 166.3 crore as on March 31, 2020) and healthy operating profits in FY2020, the coverage indicators witnessed improvement on a y-o-y basis. However, it continued to remain moderate with the company's Total debt/OPBDITA of 2.2 times as on March 31, 2020. With sharp fall in operating profits expected in the near term, the debt coverage indicators are likely to deteriorate in FY2021. Owing to sharp decline in accruals in YTD FY2021, the company had initially availed moratorium relief on its term loans for the period of March to August 2020. With the demand recovery getting prolonged resulting in continued weakening in financial and operating metrics for the company, TajGVK has now opted for restructuring of the long-term loans with its lenders before the due date (September 30, 2020), which, if approved by the latter, would lend support to the company's liquidity in the near term. Nevertheless, the company would need incremental debt/equity as the recovery gets prolonged.

Inventory concentrated in the 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 TajGVK's inventory and majority of its revenues are derived from the Hyderabad market, although the launch of the Mumbai property through its JV in Q4 FY2016 has reduced the inventory concentration from 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 owing to muted demand metrics in this fiscal. The company had opted for moratorium on debt servicing extended by the RBI for the period of March-August 2020 and has currently applied for loan restructuring with its lenders to ease its repayment burden and liquidity position. As against principal repayments of Rs. 24.4 crore for FY2021 and Rs. 41.3 crore for FY2022, apart from interest payments of over Rs. 25.0 crore in the same period, the company is likely to have no financial obligations in FY2021 and FY2022, if the loan restructuring is approved by its lenders. However, the conclusion of restructuring remains a key monitorable. The company has adequate buffer in working capital limits and fixed deposits to cover its operational requirements in the near term. However, notwithstanding the anticipated liquidity buffer to be created on the back of the approval of the proposed loan-restructuring, the company, would need incremental debt/equity as the recovery gets prolonged.

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 and weakening in linkages with IHCL.

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 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; balance is held by the public. TajGVK currently has six premium hotel properties (5-star/5-star Deluxe) with a cumulative inventory of 1,083 rooms. Of these hotels, four – namely 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 also has a property named Taj Santacruz, Mumbai set up under an SPV named Green Woods Palaces & Resorts Private Limited in which TajGVK holds 48.99% stake.

Key financial indicators (Audited and Consolidated)

	FY2019	FY2020
Operating Income (Rs. crore)	316.9	312.6
PAT (Rs. crore) ¹	24.3	23.9
OPBDIT/OI (%)	22.0%	23.7%
PAT/OI (%)	7.7%	7.6%
Total Outside Liabilities/TNW (times)	0.8	0.8
Total Debt/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, RoCE: Return on capital employed, TNW: Tangible net worth

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

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

Rating history for the past three years

		Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years							
Instrument	Type	Amount Rated	Amount Outstanding as on March 31, 2020 (Rs. crore)	Date & Rating	Date & Rating	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
		(Rs. crore)		25-Sep-20	10-Jul-20	19-Jun-20	22-Apr-20	15-Apr-20	30-Aug-19	31-May-18	23-Feb-17	
1	Term Loans	Long-term	165.63	165.63	[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	Short-term	30.00	0.00	[ICRA]A2+	[ICRA]A1	[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]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	84.38	[ICRA]A- (Negative)
NA	Term Loan 2	July 2014	9.20%	December 2023	81.25	[ICRA]A- (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

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Vinutaa S

+91 44 4596 4305

vinutaas@icraindia.com

William Charles

+91 44 4297 4305

william.charles@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

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 020 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents