Fitch upgrades OYO's rating to 'positive' from 'stable'

OYO

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Ratings agency Fitch has upgraded its outlook on global travel tech company OYO's (Oravel Stays Limited) long-term foreign and local currency issuer default ratings (IDRs) to positive from stable, while affirming the ratings at 'B-'.

Fitch has also affirmed the rating on the USD 660 million senior secured term loan facility due 2026, issued by OYO's fully owned subsidiary, Oravel Stays Singapore Pte Limited, at 'B-'. The Recovery Rating is 'RR4'. The Fitch report further states that the term loan facility is unconditionally and irrevocably guaranteed by OYO and certain subsidiaries within the group and the guarantee covers 121% of the outstanding principal or up to USD 800 million, and Fitch considers this guarantee full and worthy.

Fitch explains the rating change, *"We expect OYO to deliver positive EBITDA and CFO in FY24, ahead of Fitch's earlier forecast, led by a greater reduction in operating costs than we expected. We expect significant growth in its EBITDA in FY24, led by an ongoing demand recovery in the travel and tourism industry, the company's stable gross margins, and reduction in operating costs. This follows positive EBITDA in every quarter of FY23, which is the first year of profits since OYO's incorporation in 2012. The rating also reflects OYO's adequate liquidity."*

The rating by Fitch reflects OYO's asset-light business model that benefits from minimal capex needs, largely exclusive distribution rights, pricing control over storefront inventory, fixed revenue share and strong long-term growth potential. Fitch expects the cost-reduction measures that OYO undertook in recent years to support its improving profitability in FY24. The report states that such reductions will not affect growth, as OYO has increased its business development staff to prioritise storefront additions.

Fitch also expects travel and tourism industry conditions to continue to improve in OYO's key markets in FY24, following a strong recovery in FY23 from pent-up demand for leisure travel after the easing of Covid-19 restrictions.

The Indian hotel industry saw improving occupancy rates with a 73% increase in the number of air-traffic passengers in FY23. Foreign tourist arrivals also increased to 6.2 million in 2022 from 1.5 million in 2021, albeit still well below pre-pandemic levels.

"OYO increased the number of storefronts and GBV per storefront in its European homes business in FY23 as leisure travel recovered, despite the cost-of-living crisis and reduced disposable

incomes in the region. We expect this recovery to continue over the upcoming summer holiday and be further supported by a recovery in business travel, which initially picked up at a slower pace." said Fitch.

The rating agency estimates that OYO's unrestricted cash at FYE23 is sufficient to fund it's the Fitch-estimated free cash flow deficit of around USD 7 million and annual debt repayment of around USD 6 million in FY24.

Recently, global ratings agency Moody's (Moody's Investors Service) announced that it expects OYO to remain EBITDA positive for FY24 and its overall outlook to remain stable. Moody's in its report said that OYO will generate around $50 million-$55 million EBITDA, after shared based payment expenses in fiscal 2024, supported by a strong demand recovery in the hospitality business, increase in the number of storefronts on OYO's platform, and cost optimisations.

In March, OYO refiled its Draft Red Herring Prospectus (DRHP) with the stock market regulator SEBI under the recently introduced Confidential pre-filing route. A source close to the company said that the company will be *"fine-tuning the issue size, basis the market conditions, to between $400 to 600 million, all of which will now be a primary issuance, to repay most of its debt."* The Confidential pre-filing route option was allowed by SEBI in November 2022 as part of bringing in progressive and globally popular practices.

The company recently announced that it plans to double the number of premium hotels such as Townhouse, Collection O and Capital O in India in 2023 by adding approximately 1800 high street, upmarket hotels. The company's UK business plans to add more than 50 properties to its UK portfolio in 2023 with a focus on cities such as London and Birmingham. OYO already has more than 150 hotels across the UK. The company is also planning to add over 100 hotels in the US in 2023.

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Tags

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