

EIH Limited (Revised)

April 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper (Carved out) *	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-Term Instruments	50.00 (Rs. Fifty Crore Only)		

*carved out of the sanctioned working capital limits of the company

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the short-term instruments of EIH Ltd (EIH) continues to derive strength from its experienced promoters, the strong *Oberoï* brand name and its established market presence in the Indian hospitality sector, EIH's diversified hotel portfolio, its comfortable capital structure with a large net worth base combined with low overall gearing, which provides sufficient financial flexibility and strong liquidity. The rating also takes into cognizance sharp decline in operational and financial performance during 9MFY21 owing to spread of COVID 19 and raising of Rs.349.66 crore through a Rights Issue leading to debt reduction. The rating, however, remains constrained by project risk pertaining to project under development coupled with the stiff competition in and the seasonal nature of the hotel industry.

Rating Sensitivities*Negative Factors*

- Overall gearing of more than 0.30x.
- Sustained decline in operational parameters – Average Room Rate and Average Occupancy Rate– of the company.

Detailed description of the key rating drivers**Key Rating Strengths**

Experienced promoters: The Oberoi group was founded by Late Rai Bahadur M.S. Oberoi in 1930s. Mr. Prithvi Raj Singh Oberoi, son of Late Rai Bahadur M.S. Oberoi and currently the Executive Chairman of EIH, has more than six decades of experience in the hospitality industry and was awarded 'Padma Vibhushan', India's second highest civilian honour in 2008. Under his leadership, the group has expanded its operations to six countries. Mr. Vikramjit Singh Oberoi, son of Mr. Prithvi Oberoi and CEO of EIH, has over 25 years of experience in the hospitality industry.

Established presence of Oberoi brand in hospitality sector with long track of operations: The Oberoi group, one of the pioneers in the Indian hospitality sector, has been in the luxury hospitality business for more than six decades in India. With time, it has expanded into international destinations like Indonesia, Mauritius, Egypt, Marrakech and the UAE. The group has been increasing its presence through an asset-light model by signing operation and management contracts.

Geographically and segmentally diversified hotel portfolio: EIH's portfolio is characterised by significant geographical diversification with hotels situated across commercial and industrial cities, as well as leisure destinations. Furthermore, the major hotel brands viz. premium luxury *Oberoï* and five-star *Trident* serve different customer segments. Such diversification insulates the company from revenue risks emanating from region-specific and client segment (tourists, business travellers) - specific cyclicity.

Strategically located properties: EIH's business hotels are located at strategic locations in or near Central Business Districts (CBDs) across various cities such as Mumbai (Nariman Point, Bandra Kurla Complex), National Capital Region (Zakir Hussain Marg / Gurgaon), and Bengaluru (MG Road), with many located within 10 km from the airports. The favourable locations of these hotel properties lend visibility which combined with their superior connectivity, results in higher occupancy. Furthermore, the leisure properties are situated in the foremost tourist destinations such as Udaipur, Jaipur, Shimla and Agra which attract, besides domestic tourists, a large number of overseas travellers, thereby yielding foreign exchange income.

Strong financial profile marked by healthy profitability and comfortable capital structure: EIHL's financial profile is strong marked by substantial revenues, healthy profit margins and coverage indicators along with comfortable capital structure. In FY20, total operating income of the company moderated to Rs. 1,415.05 crore (PY: Rs.1,609.15 crore) with PBILDT of 20.64% (PY: 24.11%) due to the impact of COVID-19 which had impacted the normal business of the company from February 2020, as it had impacted the entire hospitality industry. EIHL reported average occupancy rate of 68% (PY: 70%) with ARR of Rs.11,970 (PY: Rs.12,200) in FY20. EIHL had comfortable overall gearing of 0.18x as on March 31, 2020 (PY: 0.17x) owing to large net worth base of Rs.2,911.38 crore on March 31, 2020, providing sufficient financial flexibility to raise further debt. EIHL's major investments include EIH Associated Hotels Limited, Mercury Car Rentals Private Limited (car hire/leasing business) and EIH International Limited (holding company of overseas hotels). Total investments stood at Rs.812.13 crore on March 31, 2020.

9MFY21 performance: The company reported sharp decline in total operating income of Rs.275.43 crore (PY: Rs.1,067.00 crore) in 9MFY21 as operations of the company was impacted due to lockdown and various travel restrictions imposed by the government to contain the spread of COVID 19. Further, EIHL had raised Rs.349.66 crore with the help of Rights Issue and has successfully completed allotment of rights issue of 5.38 crore shares at Rs.65 per share to fund operational losses and pay off debt obligation.

Consolidated results: EIHL, on a consolidated basis earned operating income of Rs.1,654.72 crore (PY: Rs.1,879.61 crore) in FY20 with PBILDT margin of 21.37% (PY:14.62%). The coverage indicators remained strong with interest coverage of 6.36x in FY20 and total debt/GCA of 2.35x as on March 31, 2020. The capital structure at consolidated level is strong with large net worth of Rs.2858.16 crore and overall gearing of 0.23x as on March 31, 2020.

Key Rating Weaknesses

Moderate operating performance: EIHL's portfolio of 10 owned operating hotels comprising of 2,041 keys moderated in operating metrics in FY20 with occupancy of 68% (PY: 70%) and ARR of Rs.11,970 (PY: Rs.12,200) on account of the impact of COVID 19, which was visible in the hospitality sector from February 2020. In 9MFY21, operational metrics deteriorated further owing to lockdown and various travel restrictions imposed by the government to contain the spread of COVID-19. However, after the lockdown restrictions were lifted, EIHL has been witnessing quarterly improvement in its operational performance, with occupancy improving to 17% in Q2FY21 and 37% in Q3FY21, and ARR to Rs. 7,371 in Q2FY21 and Rs. 8,086 in Q3FY21.

Execution and funding risk for projects under development: In order to maintain its quality of properties as well as upgrade the facilities, the company undertakes major repairs in hotels from time to time. As regards greenfield projects, the company is actively developing a 60-room luxury hotel in Rajgarh (Madhya Pradesh) by converting the heritage Rajgarh Palace. The Palace is situated 25 kilometres from Khajuraho and has a private lake. The same has been deferred by the company due to impact of COVID 19 on the hospitality sector.

Liquidity: Strong

The company receives around 50% guests from corporate/agent booking from which payments are received in 30-40 days. Payments for the Oberoi Flight Services (catering) are made by the airlines in 50-60 days, while printing customers make payment in 60-70 days. This results in higher collection period for the company to around 45 days in FY20. Besides, being luxury/heritage properties, the company has to maintain world-class crockery, liquor and other consumables for up to 15 days. Suppliers for grocery and other consumables are paid generally in 45-60 days. Overall the cash cycle remains between 15 to 20 days. As on December 31, 2020, the free cash and bank balance on standalone basis stood at Rs. 15.71 crore and the working capital facilities of Rs.506.52 crore as on December 31, 2020 remained unutilized. EIHL had not opted for moratorium as per RBI guidelines for COVID 19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch'

CARE's Policy on Default Recognition

Criteria for Short-term Instruments

Rating Methodology – Hotel Industry

CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

Established in 1949, EIH Ltd (EIHL) is the flagship company of the Oberoi group founded by Late Rai Bahadur M.S. Oberoi. The company is engaged in developing and operating premium luxury hotels in India. The group manages 32 hotels (owns 10 hotels while 22 hotels under management contracts) with a room inventory of 4,572 rooms as on March 31, 2021. The company operates the hotels under the brands 'Oberoi' and 'Trident'. The brands are owned by the promoter group company Oberoi Hotels Private Ltd (OHPL). Apart from hospitality sector, EIHL also provides catering and kitchen services to airlines, operates restaurants/lounges at domestic and international airports, commercial printing, air charter services and car hire/leasing services.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1609.15	1415.05
PBILDT	388.03	292.03
PAT	113.34	123.40
Overall gearing (times)	0.17	0.18
Interest Coverage	8.37	5.90

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument: Not applicable for proposed instrument

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	-	-	-	50.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (03-Apr-20)	-	1)CARE A1+ (20-Mar-19)	1)CARE A1+ (05-Oct-17)

Annexure-3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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