EIH Limited

September 01, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper	100.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**150.00 (₹ One hundred fifty crore only)**		

*Carved out of working capital limits of the company
Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating for the short-term instrument of EIH Limited (EIHL) derives strength from its experienced and resourceful promoters, its strong brand name and established market presence in the Indian hospitality sector. The rating further takes comfort from EIHL'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 adequate liquidity with EIHL. Aided by demand recovery, the company has posted a ~100% Y-o-Y growth in the revenues in FY22 (refers to the period from April 01 to March 31) and around 300% Y-o-Y growth in the revenues in Q1FY23 (refers to the period from April 01 to June 30). The demand recovery together with sustained cost control measures aided EIHL to report ₹100 crore operating PBILDT (profit before interest, depreciation & tax) in Q1FY23 as against a ₹100 crore loss in the corresponding Q1 in the last fiscal. The recovery was driven by improving vaccination coverage leading to reduced travel restrictions, pent-up demand, reopening of corporate travel, and weddings. Going forward, increase in in-person engagements by corporates, return conferences and seminars, as well as corporate offsite trips that encompass meetings, incentives, conferences, and exhibitions (MICE) activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to the average room rates (ARRs) across hotel segments.

The rating, however, remains constrained by the stiff competition, exposure to inherent seasonality in the hospitality sector and project risk pertaining to project under development. While the pandemic situation continues to evolve, and the demand may be potentially impacted by further wave of the COVID-19 pandemic in the near-term, CARE Ratings Limited (CARE Ratings) expects such disturbances to be less severe and short-lived and the industry may well touch pre-pandemic levels of operations by the end of FY23.

Rating sensitivities

Negative factors – Factors that could lead to negative rating action/downgrade:

- Overall gearing of more than 0.50x and/or higher-than-expected increase in debt levels leading to deterioration in its leverage and coverage indicators and weakening of liquidity position.
- Sustained decline in the operational parameters – ARR and average occupancy rate (AOR) – of the company.

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoters with strong management team: The Oberoi group was founded by Late Rai Bahadur M.S. Oberoi in 1930s. Prithvi Raj Singh Oberoi, son of Late Rai Bahadur M.S. Oberoi was the Executive Chairman of EIHL until May 2022, and was awarded 'Padma Vibhushan', India's second-highest civilian honour in 2008. Under his leadership and an extensive experience of around six decades in the hospitality industry, the group has expanded its operations to six countries. His nephew, Arjun Singh Oberoi has been appointed in his place as the Executive Chairman since May 2022. He has been an executive director of the company for over two decades and has over 30 years of experience in the hotel industry. He worked closely with his uncle on planning and development of a number of Oberoi and Trident . Furthermore, Vikramjit Singh Oberoi, son of Prithvi Raj Singh Oberoi and CEO of EIHL, also has over 30 years of experience in the hospitality industry. Promoter and promoter group, together, held 35.74% of shareholding as on June 30, 2022. The shareholding of the promoters is completely unpledged. This apart, the other shareholders include renowned names, such as Reliance Strategic Business Ventures (holding 18.83%), which is an investment arm of Reliance Industries Limited. The company has continued to receive financial support from its promoters and shareholders in the form of funds infusion in the rights issue in FY21 amounting to ₹346 crore (net proceeds), to support its operations during the COVID-19 outbreak.

Established presence of Oberoi and Trident brands in the hospitality sector with long track of operations: The Oberoi group is one of the pioneers in the Indian hospitality sector, and has been in the luxury hospitality business for more than six decades in India through its established brands- Oberoi and Trident. With time, it has expanded into international destinations, including 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.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Geographically and segmentally diversified hotel portfolio: EIHL'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 Oberoi 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 cyclicality.

Strategically located properties: EIHL'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, Chandigarh, Shimla and Agra, which besides domestic tourists, attracts a large number of overseas travellers, thereby yielding foreign exchange income.

Comfortable capital structure with a large net worth base: The capital structure of EIHL has been comfortable with low reliance on external debt and a strong tangible net-worth base of ₹2,748 crore as on March 31, 2022. The overall gearing ratio stood at 0.17x as on March 31, 2022, as compared with 0.18x as on March 31, 2021. Despite cash losses in FY21 and FY22, there has been debt reduction in both the years. The gearing may increase in future, with EIHL resorting to debt drawdown to fund its capex plans, which they are firming up, however, it is expected to remain comfortable. Any higher-than-expected increase in the debt levels due to expansion plans leading to deterioration in its leverage and coverage indicators shall remain a key monitorable. Furthermore, the company enjoys financial flexibility by virtue of being part of the 'Oberoi group'.

Improved operational performance in FY22 and Q1FY23: The total operating income (TOI) of EIHL registered a significant growth of around 100% in FY22 over a low base effect of FY21, which was marred due to the outbreak of COVID-19, with hospitality sector being hit the worst. After a debilitating second wave of the pandemic in Q1 FY2022, which witnessed the portfolio occupancy drop again after the pick-up witnessed in Q3 and Q4FY21, the room occupancy picked-up sharply to average at 53% by September 2021-end and touched 70% in December 2021. The Omicron wave, which hit the country in January 2022, was short lived and the operations were only impacted for four to five weeks, leading to decent Y-o-Y recovery in revenues in Q4 FY2022 and occupancy at 61%. Meanwhile, the portfolio (owned and managed) ARR also saw healthy traction and posted growth in FY22 and stood at an average of ₹11,019 by Q4FY22 as against ₹9,025 for Q4FY21 and ₹13,230 for Q4FY20. The recovery was driven by improving vaccination coverage leading to reduced travel restrictions, pent-up demand, staycations, weddings and reopening of corporate travel. Going forward, increase in the in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments. While the pandemic situation continues to evolve, and the demand may be potentially impacted by further waves of the COVID-19 in the near-term, CARE Ratings expects such disturbances to be less severe and short-lived, and the industry may well touch the pre-pandemic levels of operations by the end of FY23.
Q1FY23 - EIHL's performance in 1QFY23 was strong as the occupancy increased to 72% from 56% in 4QFY22 (owned and managed), driven by pick-up in the corporate travel and strong demand from leisure travel, MICE and sports events (IPL). ARR increased by 0.4% Q-o-Q to ₹11,066, which led to RevPar increasing by 2.9% Q-o-Q to ₹7,967. The foreign travel is expected to pick-up in H2FY23, which should further aid RevPar going forward. Furthermore, cost efficiency measures such as reduction in the employee per room and lower total expenses compared to the pre-COVID-19 levels continue to aid profitability.

<u>Key rating weaknesses</u>
Macro-economic factors and seasonal uncertainty: The company is exposed to the changes in the macro-economic factors, industrial growth, and tourist arrival growth in India, international and domestic demand-supply scenarios, competition in the industry, government policies and regulations and other socio-economic factors, which leads to inherent cyclicality in the hospitality industry. These risks can impact the occupancy rate of the company and thereby the company's profitability. However, these risks are to an extent mitigated by the company through its extensive presence across the value chain and a strong brand image.

Project risk for under-development projects: 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 planning to develop 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 estimated cost of this project is ₹250 crore, which shall be completely funded out of internal accruals in a gradual manner. EIHL also has a project planned in Bangalaore under the Trident brand which will be a 200-room hotel, and they are also actively looking for expansions in Goa. As guided by the management, they will be resorting to some debt for these expansions but the exact expansion plans and finnacing are still under discussion stages and the board is yet to approve the same. CARE Ratings will continue to monitor any developments regarding the same, and any higher-than-expected increase in the debt levels leading to deterioration in its leverage and coverage indicators shall remain a key monitorable.

Indian hospitality industry outlook: After an abysmal FY21, the Indian hospitality sector made a steady recovery in FY22 as successful vaccination drives and reduction in COVID-19 cases have helped improve travel sentiment. Though the Omicron wave caused a temporary blip, FY22 has witnessed a sharp rebound in the revenues. The revival can be largely attributed to pent-up demand for leisure and business travel, supported by increased bookings on account of weddings and significant uptick in MICE. The sector also saw some green shoots from international travel, after a lull of nearly two years. The sector is on track to achieve or even surpass the pre-COVID-19 level occupancies in FY23. As per the estimated data available for the hospitality industry, the fiscal year 2022 closed at ARR in the range of ₹4,400 - ₹4,590 and occupancy of 44%-46%. The performance of the industry improved significantly despite the temporary roadblock caused due to emergence of the third COVID-19 wave (Omicron). According to CARE Ratings, the hospitality sector is slowly moving into 'hospitable territory', anticipating recovery of domestic and international travel gradually through FY23 till the end of FY24 to the pre-COVID-19 levels. For FY23, CARE Ratings estimates the majority of its portfolio of hotel companies to report improved performance, largely restored to pre-COVID-19 levels. Domestic tourism is expected to be the key growth driver, with international travel slowly gaining momentum, specifically post resumption of international flights. The situation is, however, still evolving, and the same remains contingent on the possibility of another COVID-19 wave and its severity on the sector. The operational profitability margins, which remained in the positive zone post Q1FY22, are expected to further improve to the pre-COVID-19 levels during FY23, owing to the improved demand outlook and sustained cost optimisation measures adopted.

Liquidity: Adequate

There has been improvement in the liquidity position of EIHL with the improving outlook for the sector. The liquidity position of EIHL is adequate marked by reliance on unutilised short-term bank lines to meet its incremental working capital needs/ operational losses over the near-term. Though there was shortfall of drawing power in FY21 and part of FY22, as the levels of operations were low, when operations gradually increased, WC lines were also available for operational needs. As on March 31, 2022, latest cash and bank balance stood at ~₹53 crore at EIHL standalone level and ~₹316 crore at a consolidated level. There are sanctioned short-term loans available to EIHL to be disbursed till March 2023 to be repaid within 365 days within option of roll-over available. With a comfortable gearing of 0.17x as of March 31, 2022, the company has sufficient headroom to raise additional debt for working capital needs. Furthermore, comfort is also derived from the possibility of fund infusion by the promoters, in case of requirement, as was the case in FY21.
Annual repayment is due in the range of ₹60-70 crore and lease rental annual of ₹28 crore. By virtue of having strong promoter background and renowned shareholders with EIHL and strong brand image, EIHL has strong financial flexibility in terms of raising low-cost debt from the financial institutions and refinance of the maturing debt, if need arises.

Analytical approach

Consolidated; For analysing EIHL, consolidated financials have been considered due to the presence of common management, brand name and operational linkages with the subsidiaries which are owning/ managing 22 hotels out of the group's portfolio of 32 hotels. The entities being consolidated are as under:

Name of Entity	% Ownership	Relation with EIH
Mumtaz Hotels Ltd	60.00%	Subsidiary
Mashobra Resort Ltd	78.79%	Subsidiary
Oberoi Kerela Hotels and Resorts Ltd	80.00%	Subsidiary
EIH Flights Services Ltd	100.00%	Subsidiary
EIH international Ltd	100.00%	Subsidiary
EIH Holdings Ltd	100.00%	Subsidiary
PT Widja Putra Karya	70.00%	Subsidiary
PT Waka Oberoi Indonesia	96.33%	Subsidiary
PT Astina Graha Ubud	60.00%	Subsidiary
Associates and Joint Ventures		
EIH Associated Hotels Limited	36.81	Associate
Mercury Car Rentals Private Limited	40%	Joint Venture
Oberoi Mauritius Ltd	50%	Joint Venture
La Roseraie De L'atlas	47.93%	Associate
Usmart Education Limited	25.10%	Associate

Applicable criteria

Policy on default recognition

Consolidation

Factoring Linkages Parent Sub JV Group

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Hotel

Policy on Withdrawal of Ratings

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 4,499 rooms as on March 31, 2022. 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 the 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.
Pursuant to the approval of the Board of Directors of the company at its meeting held on March 2, 2022, the company, during the year 2021-22, sold the assets of its EIH Printing Press unit located at Manesar, Haryana. The total consideration from the sale of these assets amounted to ₹95.29 crore resulting in one-time profit of ₹55.24 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	494	985	394
PBILDT	-281	2	100
PAT	-375	-95	66
Overall gearing (times)	0.18	0.17	NM
Interest coverage (times)	NM	NM	11.72

A: Audited; UA: Unaudited; NA: Not available, NM: Not meaningful
Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Carved out) (Proposed)		-	-	-	50.00	CARE A1+
Commercial paper-Commercial paper (Standalone) (Proposed)		-	-	-	100.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper-Commercial paper (Carved out)	ST	50.00	CARE A1+	-	1)CARE A1+ (02-Sep-21) 2)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-
2	Commercial paper-Commercial paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (02-Sep-21)	-	-

*Long term/Short term.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Carved out)	Simple
2	Commercial paper-Commercial paper (Standalone)	Simple

Annexure-5: Bank lender details for this company: NA

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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