EIH Limited

Sept 02, 2021

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Commercial Paper	100.00	CARE A1+ (A One Plus)	Assigned
Commercial Paper (Carved out)*	50.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**150.00 (Rs. One Hundred 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 for the short-term instrument of EIH Limited (EIHL) derives strength from the experienced and resourceful promoters, the 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.

The rating, however, remains constrained by project risk pertaining to project under development coupled with the stiff competition and exposure to inherent seasonality in the hospitality sector. The rating also factors in moderation in the operational and financial performance due to lockdowns and travel restrictions on account of COVID-19 pandemic and slower-than-anticipated recovery post the easing of restrictions. CARE Ratings expects the Revenue per Available Room (RevPAR) to be constrained in H1FY22 given the second wave of COVID-19 and recovery is expected to be gradual.

Rating Sensitivities

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

- Overall gearing of more than 0.30x.
- Continued impact of Covid pandemic leading to moderation in liquidity and a 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 and resourceful promoters with strong management team: The Oberoi group was founded by Late Mr Rai Bahadur M.S. Oberoi in 1930s. Mr Prithvi Raj Singh Oberoi, son of Late Mr Rai Bahadur M.S. Oberoi and currently the Executive Chairman of EIHL, 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 EIHL, has over 25 years of experience in the hospitality industry. The Oberoi family, together, held 35.74% of shareholding as on June 30, 2021. 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 Rs.346 crore (net proceeds), to support its operations at the time of Covid outbreak.

Established presence of Oberoi and Trident brands 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, through its established brands- Oberoi and Trident. 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: 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 EIH has been comfortable with low reliance on external debt. Overall gearing ratio stood at 0.18x as on March 31, 2021, as compared with 0.23x as on March 31, 2020. Despite cash losses of Rs.350 crore in FY21, there has been debt reduction of Rs.135 crore during the year. The operations had been managed through rights issue net proceeds of Rs.346 crore and effective working capital utilization, i.e., realization of debtors of Rs.127 crore during the year. Furthermore, the company enjoys financial flexibility by virtue of being part of the 'Oberoi group'. There are Short-term loan (STL) sanctions available amounting to Rs.337 crore as on June 30, 2021, which are available for disbursement till March 2022 to meet any operational requirements or liquidity management.

Key Rating Weaknesses

Moderation in financial and operational performance in FY21 and Q1FY22: EIHL's portfolio of ten owned operating hotels consisting of 2,041 keys moderated in operating metrics in FY21 with occupancy of 27% (PY: 68%) and ARR of Rs.8,102 (PY: Rs.12,043) on account of the impact of COVID 19, which was visible in the hospitality sector from February 2020 and led to complete halt of operations in Q1FY21. However, after the lockdown restrictions were lifted, EIHL witnessed quarterly improvement in its operational performance, with occupancy improving from 8% in Q1FY21 to 45% in Q4FY21 and ARR to Rs. 8,506 in Q4FY21 from Rs.6,464 in Q1FY21.

In FY21, total operating income of the company de-grew to Rs.542 crore (PY: Rs.1,653 crore) with PBILDT losses of Rs.244 crore (PY: 21.31%) despite cost-cutting measures adopted by the management.

Q1FY22 performance: After few months of recovery in H2FY21, the operations were again adversely impacted by second wave of covid-19. The company reported total operating income of Rs.110 crore (PY: Rs.45 crore in Q1FY21) in Q1FY22 with PBILDT loss of Rs.87 crore (PY: Loss of Rs.126 crore in Q1FY21). The PBILDT loss as well as debt servicing obligations in Q1FY22 were majorly funded from additional short-term debt in form, to the tune of Rs.90 crore. On operational front, EIH reported occupancy level of 22% in Q1FY22 as against 8% and ARR of Rs.7,068 as against Rs.6,464 in the corresponding quarter in FY21.

The management has taken several cost-containment measures such as employee cost reduction, installation of solar power plants and cut down on advertisement costs. The cost-saving resulting from these steps, more clearly visible in Q1FY22, is also expected to be partly sustained in the near-to-medium term. Furthermore, with pick-up of gradual momentum in the travel industry, major portion of revenues is expected to be driven by domestic leisure travel as the recovery of business and international travel is expected to be slower than other segments.

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 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 land has already been acquired for the same. However, on account of the impact of COVID-19 on the hospitality sector, all under-construction projects are currently on-hold.

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.

Indian hospitality industry outlook: The operational parameters of hotels improved on a quarterly basis in FY21, however, for the full year it has not yet reached pre-COVID levels. This is primarily due to ban on Foreign tourist arrivals (FTAs) which is not expected to be lifted in the near future coupled with visa relaxations for all purposes except for tourism as notified by the Government of India (GoI) in October 2020. Furthermore, restrictions on dine-in services at restaurants such as reduced operating hours, limited seating capacity amongst other restrictions led to a challenging business environment for the industry players. The recovery in demand is dependent on the global and domestic containment of virus, the progress of the vaccination drive and subsequently easing of international travel restrictions. H1FY22 is expected to face muted consumer demand on account of lean business season, however, it is expected to be higher than FY21 levels. The demand is expected to pick from Q3FY22 onwards on account of the festive and wedding season. The restrictions on outbound tourism that led to people exploring destinations within the country in FY21 is expected to continue in FY22 as well. It is to be noted that the possibility of a third wave in FY22 might strain the industry dynamics again.

Liquidity: Adequate
The liquidity position of EIH is adequate marked by reliance on unutilized short-term bank lines to meet its incremental working capital needs/ operational losses over the near-term. There are sanctioned short-term loans available to be disbursed till March 2022 amounting to Rs.337 crore as of June 30, 2021. The loans, repayable within 365 days, provide the required liquidity cushion in the form of option of being rolled over. With a comfortable gearing of 0.18 times as of March 31, 2021, 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.
On account of impact of the second wave of covid, specifically in Q1FY22, the cash accrual generation is expected to remain subdued in comparison to the debt servicing obligations in the near-term. The principal repayment for FY22 stood at Rs.63 crore. As on March 31, 2021, the free cash and bank balance on standalone basis stood at Rs.4.06 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. EIHL had not opted for moratorium as per RBI guidelines for COVID-19.

Analytical approach: Consolidated; For analysing EIH, 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 (68.75% of the portfolio). 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

Change in approach: A standalone approach was being followed earlier. Now, CARE Ratings has changed its analytical approach to a consolidated basis due to the presence of common management, brand name and operational linkages with the subsidiaries.

Applicable Criteria
[Criteria on assigning outlook and credit watch to ratings]
[CARE's policy on default recognition]
[Financial ratios- Non-Financial sector]
[Liquidity Analysis of Non-Finance sector companies]
[Criteria for short-term instruments]
[Factoring Linkages in ratings]
[Rating methodology: Hotel Industry]
[Criteria on consolidation]

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)	FY20 (A)	FY21 (A)
Total operating income	1653.29	542.46
PBILDT	352.25	-244.21
PAT	165.15	-375.44
Overall gearing (times)	0.23	0.18
Interest Coverage	6.33	-6.67

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

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+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	100.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Commercial Paper-Commercial Paper (Carved out)	ST	50.00	CARE A1+	1)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)	-	1)CARE A1+ (20-Mar-19)
2.	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	-	-	-

Annexure 4: 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
2.	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure 5: Bank Lender Details: **NA**

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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