EIH Limited

August 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial paper (Proposed)	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of the rating for the short-term instrument of EIH Limited (EIHL) continues to derive strength from its experienced promoters and an established market presence discernible by a strong brand equity in hospitality industry of "Oberoi" and "Trident" brands. The rating also takes comfort from EIHL's geographically and segmentally diversified hotel portfolio, which has strategically enabled it to report consistently improving RevPAR, which are higher than industry's average for past years, including FY24. The improving operational performance has led to growing scale of operations, strong profitability, and return indicators in FY24 (refers to period April 01 to March 31) on a consolidated basis. The strong surge in revenue profile has been aided by recovery in the meetings, incentives, conferences, and exhibitions (MICE) and the corporate travel segments, which have significantly contributed to the positive trajectory of major commercial markets and strong demand from domestic tourism at leisure destinations. The profitability has been slightly impacted in Q1FY25 (refers to April 01 till June 30) as demand was soft on the back of elections in the country, while cost has inched back due to higher employee benefit expenses and other regular maintenance though revenue remained stable largely due to stable average room rates (ARRs). Over the medium term, sustenance of ARR and occupancy at FY24 levels amidst increasing supply are likely to aid revenue growth for the company, though profitability will experience slight moderation attributable to rising cost pressure still expected to remain healthy.

EIHL has a robust capital structure with presence of a large net worth base combined with low debt levels, which provides sufficient financial flexibility and strong liquidity. EIHL's management has indicated that they have future plans on expanding the portfolio through multiple routes of owned and managed contracts. However, on the back of healthy net cash position of the company, upcoming capex in the medium term will be funded through internal accruals and free liquidity. Management has further guided that going ahead the overall gearing at consolidated levels after factoring in the capex plans shall not exceed 0.2x. The coverage and leverage indicators are expected to remain comfortable going forward as well.

However, the rating remains constrained by the seasonal and cyclical nature of the hotel industry and also macroeconomic and exogenous factors.

Rating sensitivities: Factors likely to lead to rating actions

Negative factors

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

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 and associates which are owning/ managing 17 hotels of the group's portfolio of 30 hotels. The entities considered in consolidation are mentioned in Annexure-6 below.

Outlook: Not applicable

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

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters with strong management team

Oberoi Group was founded by Late Rai Bahadur M.S. Oberoi in 1930s. The business was then carried forward by his son, Late Prithvi Raj Singh Oberoi, who received 'Padma Vibhushan', India's second-highest civilian honour, in 2008. He served the group for over six decades, expanding its operations to six countries. Post his demise in 2023, the legacy has now been taken over by his nephew, Arjun Singh Oberoi (Executive Chairman), and son, Vikramjit Singh Oberoi (Managing Director and Chief Executive Officer). Arjun Singh Oberoi has been an executive director of the company for over two decades and has over 30 years of experience in the hotel industry, working closely on planning and development of several Oberoi and Trident projects and businesses. Vikramjit Singh Oberoi has also served the company for over two decades in various capacities. Promoter and promoter group together held 32.84% of shareholding as on June 30, 2024, with the promoters' shareholding 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.

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, Trident, and Maidens Hotel. 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.

Geographically and segmentally diversified hotel portfolio and strategically located properties

EIHL's portfolio is characterised by significant geographical diversification with hotels situated across commercial and industrial cities, and leisure destinations. The major hotel brands, 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. EIHL's business hotels are located at strategic locations in or near Central Business Districts (CBDs) across cities, such as Mumbai (Nariman Point, Bandra Kurla Complex), National Capital Region (Zakir Hussain Marg / Gurgaon), and Bengaluru (MG Road), with many 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. The leisure properties are situated in the foremost tourist destinations, such as Udaipur, Jaipur, Chandigarh, Shimla, Agra, Chennai, and Bhubaneswar, which besides domestic tourists, attracts a large number of overseas travellers, yielding foreign exchange income.
EIHL is further expanding in leisure destinations such as Madhya Pradesh, Andhra Pradesh, Goa, and Bengaluru, in domestic market and Nepal and Thailand in International. The company currently has 10 projects under planning and development in these locations which are expected to complete gradually in next four fiscals.

Strong capital structure with a large net worth base

EIHL's capital structure has been comfortable with low reliance on external debt and a strong tangible net worth (TNW) base of ₹3,691.44 crore as on March 31, 2024. The company has become net debt negative since March 31, 2023. As on March 31, 2024, the company's total debt stood at ₹199.30 crore, which only comprises lease liability, as the company has repaid its entire term loan in FY24. Hence, overall gearing ratio has improved further to 0.05x as on March 31, 2024 from 0.08x as on March 31, 2023. On net basis, company has cash and liquidity worth ₹440.21 crore as on March 31, 2024. The gearing will continue to be comfortable in the absence of debt-funded capex on the back of strong liquidity position. 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. However, the company enjoys financial flexibility by virtue of being part of the 'Oberoi group'.
The company also has a vision of opening up 50 new properties by 2030 and currently has 10 under-development projects in national and international markets. The company currently has 10 projects under planning and development in these locations which are expected to complete gradually in next four fiscals. However, the management has guided that capex in the near term will be funded largely through the cash balance and internal accruals of the company. The company may resort to partial long-term debt to fund these projects. However, as articulated by the management, the overall gearing shall not exceed 0.2x on a sustained basis.

Consistently improving operational performance in FY24 and Q1FY25

EIHL's total operating income (TOI) recorded a healthy growth of 24% y-o-y in FY24 even on a high base of FY23. The TOI stood at ₹2,511.46 crore in FY24 on a consolidated basis up from ₹2,019.01 crore in FY23. The company's RevPAR has been on a continuous upwards trajectory in FY24 attributable to a higher improvement in ARR. The average ARR of FY24 for all domestic hotels including managed was recorded at ₹16,753 against ₹14,332 in FY23 buoyed by strong demand from domestic and inbound tourism. However, the average occupancy remained largely stable at close to 75% for last two fiscals ending FY24. The company's PBILDT margin also augmented significantly to 36.92% in FY24 from 29.70% in FY23 indicating efficient operations and effective cost management.

In Q1FY25, the company has recorded total income of ₹559.91 crore on consolidated basis largely similar to ₹522.60 crore in Q1FY24. However, the profitability was impacted due to stable ARR as demand was soft in Q1FY25 on the back of elections in the country, while the cost has inched back due to rising employee cost and other regular maintenance. Thus, PBILDT margin slightly reduced to 30% in Q1FY25 against 34% in Q1FY24, though remains healthy. PBILDT margin is expected to be recovered in the remaining quarters. Though PBILDT remain vulnerable to seasonal industry, general economic cycles and exogenous factors (geo-political crisis, terrorist attacks, disease outbreaks, and others). Nonetheless, the risk to revenues is partially mitigated by EIH's geographically diversified portfolio, allowing it to withstand demand vulnerability related to a particular micro-market.

Key weakness

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 company's occupancy rate and thereby the company's profitability. However, these risks are mitigated by the company through its extensive presence across the value chain and a strong brand image, allowing it to withstand demand vulnerability related to a particular region except rare case scenarios such as COVID-19 among others.

Liquidity: Strong

The company's strong liquidity is characterised by nil long-term debt against strong cash accruals in the medium term. The liquidity is further strengthened by free cash and bank balance of ₹639.51 crore and liquid investments of ₹97.34 crore as on March 31, 2024 on a consolidated basis. The company has maintained net cash of ₹650 crore on a standalone level as on June 30, 2024. The company also has fund-based sanctioned limit of ₹330 crore, which remains unutilised providing an additional buffer if there is mismatch in short-term liquidity. Because of its strong promoter background, renowned shareholders, and strong brand image, EIHL has strong financial flexibility in terms of raising low-cost debt from the financial institutions, if needed.

Environment, social, and governance (ESG) risks

Environment: EIHL undertakes several eco-conscious practices across hotels and resorts to minimise the environmental impact and aim to achieve Net Zero by 2050. These include green architecture practices in construction, such as high thermal resistance insulation, reflective tiles, and the use of recycled materials. Operational improvements and the introduction of energy-efficient systems were carried out to support rigorous energy conservation efforts. Significant initiatives include the deployment of energy-efficient pumps, fans and motors, and advanced lighting systems, and sensor-based automation for water faucets. The company also transitioned from diesel to gas for boiler fuel systems, installed waste heat recovery systems (WHRS), and adopted energy-efficient heat pumps. In FY25, the company plans to install heat pumps, energy-efficient chillers, and water conservation devices. Additionally, the company has also invested in waste and water management by adopting "3R" model and rain water harvesting systems.

Social: The company offers comprehensive support and resources needed to enhance the skills and competencies of its employees. EIHL aim to have 100% of permanent employees trained on mandatory and skill development courses by 2025. The company has curated training programmes across topics such as health and safety, upskilling and open-air sessions. Employee well-being is also managed by providing flexible working hours, paid parental leave, infant and childcare facilities, and by ensuring comprehensive support for the employees and their families.

In the reporting year, the company also conducted a study to understand the best-in-class practices followed in the industry on human rights-related aspects, including policies, assessments, and governance. Based on these initiatives, a human rights framework has been implemented across the organisation. The framework will help to seamlessly integrate human rights in day-to-day operations and promote effective stakeholder engagement.

Governance: The company has a Code of Conduct which promotes fairness and accountability by requiring adherence to all applicable laws and legal requirements. This includes anti-bribery, anti-corruption measures, and ethical approaches to conflicts of interest. To ensure legal compliance, the company has implemented a Whistle-blower Policy for all employees, vendors, and partners in their entire value chain. This policy provides a safe avenue for reporting concerns about corruption and bribery without fear of repercussions.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Hotels & Resorts
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Leisure services	Hotels & resorts

Established in 1949, 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 30 hotels (owns nine hotels while 21 hotels under management contracts) with a room inventory of 4,269 rooms as on June 30, 2024. 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 international airports, air charter services and car hire/leasing services.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	2,019.01	2,511.46	559.91
PBILDT	599.68	927.31	168.23
PAT	339.17	677.71	96.75
Overall gearing (times)	0.08	0.05	NA
Interest coverage (times)	16.86	47.77	36.41

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Proposed - Standalone)	-	-	-	7-365 days	100.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial paper-Commercial paper (Carved out)	ST*	-	-	-	1)Withdrawn (31-Aug-23)	1)CARE A1+ (01-Sep-22)	1)CARE A1+ (02-Sep-21) 2)CARE A1+ (01-Apr-21)
2	Commercial paper-Commercial paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (31-Aug-23)	1)CARE A1+ (01-Sep-22)	1)CARE A1+ (02-Sep-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
	Subsidiaries		These entities are strategically important for EIHL's business and have operational linkages with EIHL.
1	Mumtaz Hotels Ltd	Proportionate	
2	Mashobra Resort Ltd	Proportionate	
3	Oberoi Kerela Hotels and Resorts Ltd	Proportionate	
4	EIH international Ltd	Full	
5	EIH Holdings Ltd	Full	
6	PT Widja Putra Karya	Proportionate	
7	PT Waka Oberoi Indonesia	Proportionate	
8	PT Astina Graha Ubud	Proportionate	
	Associates and Joint Ventures		
9	EIH Associated Hotels Limited*	Proportionate	
10	Avis India Mobility Solutions Private Limited (formerly known as Mercury Car Rentals Private Limited)	Proportionate	
11	Oberoi Mauritius Ltd	Proportionate	
12	La Roseraie De L'atlas	Proportionate	
13	Usmart Education Limited	Proportionate	
14	Island Resort Limited	Proportionate	

Note on complexity levels of 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 clarifications.

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About us:
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