

EIH Limited
March 20, 2019

Ratings

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|--|--|-------------------|
| Short term instruments- Commercial Paper (Proposed) | 50.00 | CARE A1+ (A One Plus) | Reaffirmed |
| Total instruments | 50.00 (Rupees Fifty crore only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the short-term instruments of EIH Ltd (EIHL) derive strength from the experienced promoters, strong 'Oberoi' brand name and its established market presence in the Indian hospitality sector, diversified hotel portfolio, healthy operating metrics and comfortable capital structure with large Networth base coupled with low overall gearing, which provides sufficient financial flexibility and strong liquidity.

The ratings, however, remain constrained by project risk pertaining to project under-development coupled with competition and seasonal nature of hotel industry.

Going forward, achievement of the envisaged operating metrics, timely completion of projects under development and any further capex and its corresponding funding pattern are key rating sensitivities.

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

Oberoi Group was founded by Late Rai Bahadur M.S. Oberoi in 1930s. Mr. Prithvi Raj Singh Oberoi, son of Mr M.S. Oberoi and Executive Chairman of EIHL, has more than 6 decades of experience in the hospitality industry & was awarded 'Padma Vibhushan', India's second highest civilian honour in 2008. Under his leadership, the Group has expanded its operations to 6 countries. Mr. Vikramjit Singh Oberoi, son of Mr Prithvi Oberoi and acting CEO of EIHL, has over 25 years of experience in the hospitality industry.

Established presence with 'Oberoi' brand in hospitality sector with long track of operations

Oberoi Hotels is one of pioneers in the Indian hospitality sector. The Group has been into luxury hospitality business for more than six decades in India and has, with time, has expanded into international destinations viz. Indonesia, Mauritius, Egypt, UAE. The Group has been increasing its presence through asset-light model by signing operation and management contracts. Owing to its excellence in service and strong market standing, the Oberoi Hotels have won various accolades including World's Best Hotel Brand (2017) and the World's Leading Luxury Hotel Brand for 6 consecutive years by World Travel Awards (2017)..

Geographically and segmentally diversified hotel portfolio

EIHL's portfolio is strengthened by its geographical diversification with hotels situated in commercial/industrial cities as well as leisure destinations. Also, the major hotel brands viz. premium luxury 'Oberoi' & 5-Star 'Trident' serve different customer segment. Such diversification insulates the company from revenue risks as well as cyclicity specific to a particular region & client segment served (tourists and business travellers).

Strategically located properties

EIHL's business hotels are located at sound locations in/near Central Business Districts (CBDs) across various cities such as Mumbai (Nariman Point, Bandra Kurla Complex), Gurgaon, Bengaluru (MG Road), etc, with many located within 10 km from airport. Favourable location of hotel properties lends visibility which coupled with connectivity results in higher occupancy. Furthermore, the leisure properties are situated in top tourist destinations such as Udaipur, Jaipur, Shimla, Agra, etc. which along with domestic tourists attract a large of overseas travellers, yielding foreign exchange income.

Sound operating performance

EIHL's portfolio of 10 owned operating hotels saw an improvement in operating metrics in FY18, except for Oberoi Delhi which stands closed for renovation. Overall the company's RevPAR grew by 3% to Rs.7,880 in FY18, despite lower inventory.

Strong financial profile marked by healthy profitability and comfortable capital structure

EIHL's financial profile is strong marked by large revenue, healthy profit margins and coverage indicators along with comfortable capital structure. In FY18, the company achieved 3.01% growth in operating income backed by improved

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

operating performance of hotels with occupancy and ARR of 70% & Rs. 11,246 respectively (PY: 71% & Rs. 10,695 respectively). However, with the closure of Oberoi Delhi (for renovation) from April-2016 to Jan-2018, there was a slight moderation in PBILDT margin to 19.40% in FY18 from 20.44% in FY17.

EIHL had comfortable overall gearing of 0.16x as on March 31, 2018 (PY: 0.12x) owing to large network base of Rs.2,807 crore on March 31, 2018, providing sufficient financial flexibility to raise further debt.

EIHL's major investments include EIH Associated Hotels Ltd (hotels ownership), Mercury Car Rentals Pvt Ltd (car hire/leasing business), EIH International Limited (holding company of overseas hotels), etc. Total investments stood at Rs.763 crore on March 31, 2018. During FY18, EIHL earned Rs. 6.26 crore as dividend income from subsidiaries/associates.

9MFY19 performance: EIHL achieved about 19% growth in operating revenue in 9MFY19 to Rs.1,157 crore backed by higher hotel revenue on account of operationalization of Oberoi Delhi. Higher operating metrics led to a significant jump in PBILDT margin from 17.82% in 9MFY18 to 22.64% in 9MFY19. Furthermore, the company reported PAT of Rs. 101 crore during 9MFY19.

Consolidated results: The Group earned operating income of Rs.1,689.75 crore in FY18, witnessing a growth of 5% with PBILDT margin of 23.18% (PY: 21.49%). The coverage indicators remained strong with Interest coverage of 16.95x in FY18 & total debt/GCA of 1.58x as on March 31, 2018. Apart from EIHL, only EIH Flight Services Ltd (Mauritius) has availed debt of Rs.63.40 cr. Capital structure at Group level is strong with large net worth of about Rs. 2,636 crore and overall gearing of 0.19x as on March 31, 2018.

Strong liquidity position

The company has ~50% guests from corporate/agent booking from which payments are received in 30-40 days. Also, payments are made by the airlines for the Oberoi Flight Services (catering) in 50-60 days, while customers of printing business make payment in 60-70 days. This result in higher collection period for the company to 48 days in FY18 (PY: 48 days). Also, being luxury/heritage properties, the company has to maintain world-class crockery, liquor and other consumables for upto 15 days. Suppliers for grocery, etc. are paid generally in 30-40 days. Overall the cash cycle is between 20 to 30 days. The cash and bank balance on standalone basis stood at Rs. 7.86 crore as on 31-Mar-18 (free: Rs. 7.86 crore) while at consolidated level was Rs. 176.02 cr as on 31-Mar-18 (free: 109.28 cr).

Key Rating Weaknesses

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. EIHL undertook overall revamp in Oberoi Delhi including change in interiors, furniture, fittings, etc. The estimated cost of renovation was Rs. 515 crore which was funded out of term debt of Rs. 300 crore and balance from internal accruals. The hotel was closed in Apr-2016 and has reopened on January 1, 2018

In 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 kilometers from Khajuraho and has a private lake. The planned cost is ~Rs.200 cr which is envisaged to be funded equally out of term debt and internal accruals.

With a successful track record of hotel development as well as healthy capital structure, the construction and funding risks for projects under development are mitigated to a large extent.

Industry scenario

The hotel industry is likely to have bottomed out the downward cycle of oversupply and subdued demand to now witness an increase in demand with diminishing rate of supply growth. The sector is on the upward trend backed by economic growth, consistently growing middle class & working population and increasing levels of disposable income. Higher disposable income increases discretionary spending of the individuals, leading to rising travel & tourism activities. This has resulted into rising occupancy levels over FY14-17, giving the hoteliers leverage to have a better control over pricing. Increasing room occupancy and RevPAR, is likely to provide healthy growth in the revenue. The operational metrics like ARR and RevPAR have begun to surge thereby strengthening the margins of different hotel companies and ultimately bringing a turnaround in the industry.

According to CARE, ARR is expected to witness an average growth of 3.5% and overall the hotel industry is expected to see room revenue CAGR of ~12% over FY17-21E.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short-term Instruments](#)

[CARE's methodology for hotel companies](#)

[CARE's methodology for financial ratios \(Non-Financial Sector\)](#)
[CARE's methodology for Factoring Linkages in Ratings](#)
About the Company

Established in 1949, EIH Ltd (EIHL) is flagship company of the Oberoi Group founded by Late Rai Bahadur M.S. Oberoi. The company is engaged in developing and operating 5-Star hotels in India. The Group manages 32 hotels (owned 10 hotels while 22 hotels under management contracts) with a room inventory of 4,525 rooms as at December 31, 2018. The company operates the hotels under the brands 'Oberoi', 'Trident' and 'Maidens'. The brands are owned by 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) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 1,362.38 | 1,403.37 |
| PBILDT | 278.48 | 272.25 |
| PAT | 96.54 | 112.28 |
| Overall gearing (times) | 0.12 | 0.16 |
| Interest coverage (times) | 19.20 | 13.82 |

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 | - | - | - | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Commercial Paper | ST | 50.00 | CARE A1+ | - | 1)CARE A1+ (05-Oct-17) | - | - |

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