

**EIH Ltd**  
 April 03, 2020

**Ratings**

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

*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) derives strength from the experienced promoters, the strong 'Oberoi' brand name and its established market presence in the Indian hospitality sector, EIHL's diversified hotel portfolio, its healthy operating metrics and comfortable capital structure with large net worth base combined 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.

Rating Sensitivity*Negative Factors*

- Overall gearing of more than 0.50x
- PBILDT margin of less than 15%

**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 Mr M.S. Oberoi and 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 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 is one of pioneers in the Indian hospitality sector. The group has been in the luxury hospitality business for more than six decades in India and has, with time, expanded into international destinations viz. Indonesia, Mauritius, Egypt, - and the UAE. The group has been increasing its presence through an asset-light model by signing operation and management contracts. Owing to its excellence in service and strong market standing, Oberoi has won various accolades including World's Best Hotel Brand (2017) and the World's Leading Luxury Hotel Brand for six 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. 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 as well as cyclical specific to a particular region and the client segments 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, 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 top tourist destinations such as

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Udaipur, Jaipur, Shimla, Agra, etc. which attract, besides domestic tourists, a large number of overseas travellers, thereby yielding foreign exchange income.

#### **Sound operating performance**

EIHL's portfolio of 10 owned operating hotels comprising of 2,041 keys witnessed an improvement in operating metrics in FY19. Overall company's RevPAR grew by 8% to Rs.8,490 in FY19.

#### **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 FY19, the company achieved y-o-y growth of 15% growth in operating income backed by improved operating performance of hotels with occupancy and ARR of 70% and Rs. 12,200 respectively (PY: 70% and Rs. 11,246). Besides, the hotels continued to perform better in FY19 marked by 8% growth in RevPAR from Rs.7880 in FY18 to Rs.8,490 in FY19.

EIHL had comfortable overall gearing of 0.17x as on March 31, 2019 (PY: 0.16x) on account of its large net worth base of Rs. 2,848 crore on March 31, 2019, providing sufficient financial flexibility to raise further debt.

EIHL's major investments include EIH Associated Hotels Ltd (hotels ownership), Mercury Car Rentals Private Limited (car hire/leasing business), EIH International Limited (holding company of overseas hotels), etc. Total investments stood at Rs.763 cr on March 31, 2018 which increased to Rs. 823 cr as on March 31, 2019

**9MFY20 performance:** The company achieved total operating income of Rs. 1,067 crore. Higher operating overheads resulted in the PBILDT margin being lower at 21.04% in 9MFY20 against 22.66% in 9MFY19. However, the company reported PAT of Rs. 109 crore during 9MFY20 which is 97% of projected PAT for FY20.

**Consolidated results:** The group earned operating income of Rs. 1,879.61 crore in FY19, witnessing a growth of 11% with PBILDT margin of 14.62% (PY: 23.18%). The coverage indicators remained strong with interest coverage of 5.45x in FY19 and total debt/GCA of 2.12x as on March 31, 2019. The capital structure at the group level is strong with a significant net worth of Rs. 2,784.86 crore and overall gearing of 0.22x as on March 31, 2019.

#### **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 a term debt of Rs. 300 crore and balance from internal accruals. The hotel was closed in Apr-2016 and reopened on January 1, 2018.

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 kilometers from Khajuraho and has a private lake. The planned cost is around 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.

#### **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 48 days. Besides, being luxury/heritage properties, the company has to maintain world-class crockery, liquor and other consumables for upto 15 days. Suppliers for grocery and other consumables are paid generally in 40-50 days. Overall the cash cycle remains between 20 to 30 days. As on March 31, 2019, the free cash and bank balance on standalone basis stood at Rs. 6 crore while at consolidated level was Rs. 241 cr.

#### **Industry scenario**

With the COVID-19 pandemic unfolding across the globe, the hospitality and leisure industry – dependent entirely on travel, business and tourism- is among the sectors directly impacted by it. Its performance in Jan-March 2020 quarter- a busy season otherwise- has been hit hard on account of cancellations on earlier bookings and absence of fresh footfalls on account of travel advisories and, thereafter, the nationwide lockdown. The end of the crisis remains uncertain. However, as the lean season seeps in for both business and leisure segments from April, the hotel players will have some time to realign themselves in terms of cost rationalization and process improvement measures before the next peak season. Nonetheless, the operational parameters ORs and ARRs of the hotel players are expected to get adversely impacted for the next couple of quarters. Besides, even if the crisis winds up in the medium term, the effects on the sector in terms of lower cash flows and pressure on their profitability and liquidity are likely to persist for long.

Since hotel projects are characterized by long gestation periods, hotel entities with recent expansions or groups with a higher portfolio of new assets compared to mature ones are likely to face additional heat on their already weak financials. With high debt repayments and squeezed profitability, these entities may witness tightening in their liquidity and credit profile. Furthermore, hotels might need to revisit their capex plans as the Covid-19 impact is expected to derail the future growth.

**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 Service 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 4,525 rooms as at December 31, 2019. The company operates the hotels under the brands 'Oberoi', 'Trident' and 'Maidens'. 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) | FY18 (A) | FY19 (A) |
|------------------------------|----------|----------|
| Total operating income       | 1,401    | 1,609    |
| PBILDT                       | 271      | 388      |
| PAT                          | 112      | 113      |
| Overall gearing (times)      | 0.16     | 0.17     |
| Interest coverage (times)    | 13.85    | 8.37     |

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

**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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1.      | Commercial Paper                       | ST              | 50.00                          | CARE A1+ | -                                         | 1)CARE A1+ (20-Mar-19)                    | 1)CARE A1+ (05-Oct-17)                    | -                                         |

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto: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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