

EIH Ltd

October 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Short term instruments	50	CARE A1+ (A One Plus)	Assigned
Total instruments	50 (Rs. Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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

The rating, however, is constrained by project risk pertaining to ongoing capex in Oberoi Delhi as well as projects 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 are the 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 market standing, the Oberoi Hotels have won various accolades including World's Best Hotel Brand (2016) by Travel + Leisure (USA) for the 2nd consecutive year, World's Leading Luxury Hotel Brand for 5th consecutive year by World Travel Awards (2016).

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

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

customer segment. Such diversification insulates the company from revenue risks as well as cyclicity specific to a particular region & clientele segment served (tourists and business travellers).

Strategically located properties

EIHL's business hotels are located at sound locations in/near Central Business Districts (CBDs) such as Nariman Point, Bandra Kurla Complex, Gurgaon, MG Road (Bengaluru), etc, with many located within 10 km from airport. Favorable 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 large foreign travellers, yielding foreign exchange income.

Sound operating performance

EIHL's portfolio of 10 owned operating hotels saw improvement in operating metrics in FY17, except Oberoi Delhi which is closed for renovation and Oberoi Bangalore owing to increased room supply. Overall the company's RevPAR grew by 4% to Rs.7,700 in FY17, despite lower inventory. Overall the company achieved growth of 9% in hotel revenue in FY16 and 5% in FY17 (without considering Oberoi Delhi). In terms of contribution of top 5 hotels (Trident Nariman Point, Trident Bandra Kurla, Oberoi Mumbai, Oberoi Udaivilas & Oberoi Grand Kolkata) towards the total operating income was 56% in FY17.

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 FY16, the company achieved 7.07% growth in operating income backed by improved operating performance of hotels with occupancy and ARR of 72% & Rs.10,300 respectively. However, with the closure of Oberoi Delhi (for renovation) in Jan-2016, the operating margin was stable at 21.54% in FY16. During FY17, the operating revenue witnessed growth of 5% (without considering Oberoi Delhi which was closed for renovation; including Oberoi Delhi, there was de-growth of 6.90%). There was slight moderation in PBILDT margin to 20.44%.

EIHL had comfortable overall gearing of 0.12x as on 31-Mar-17 (PY: 0.10x) owing to large net worth base of Rs.2,551 crore on 31-Mar-17, providing sufficient financial flexibility. The company had availed short-term loans of Rs.55 crore on 31-Mar-17 (PY: Rs.85 crore) as well as fund-based facility of Rs.61 crore (sanctioned: Rs.130 crore); average CC utilization was comfortable at 40% during 12m ending 31-May-17.

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.763.74 crore on 31-Mar-17. During FY17, EIHL earned Rs.23.89 crore as dividend income from subsidiaries/ associates.

Q1 results: The company achieved about 9% growth in operating revenue in Q1FY18 to Rs.303 crore backed by higher hotel revenue. Higher operating metrics led to significant jump in PBILDT margin from 11.95% in Q1FY17 to 15.40% in Q1FY18. The furthermore, the company reported PAT of Rs.11.52 crore during the quarter against loss of Rs.12.25 cr, which was mainly due to exceptional loss of Rs.18.35 crore booked for Oberoi Delhi's renovation.

Consolidated results: The Group earned operating income of Rs.1,614 crore in FY17, de-growth of 4.79% from FY16 owing to closure of Oberoi Delhi; the same lead to moderation in PBILDT% to 21.58% in FY17 (PY: 22.47%). Nevertheless, coverage indicators remained strong with Interest coverage of 19.52x in FY17 & total debt/GCA of 1.61x. Capital structure is strong with large net worth of Rs.2,357 crore and overall gearing of 0.15x as on 31-Mar-17.

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. Currently, EIHL is undertaking overall revamp in Oberoi Delhi including change in interiors, furniture, fittings, etc. The hotel was closed in April 2016 and is expected to be reopened in Jan-2018. In greenfield projects, the company is 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 COD is scheduled in September 2019. The loan is yet to be tied-up. With 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

Improved economic scenario, greater supply and easy availability helped in overall occupancy increasing to 64% in FY17 compared to 62% in FY16, while ARR was Rs 5,700 during FY17. Going forward, CARE expects the industry to register an overall healthy growth in revenue on back of economic growth and consistently growing middle class along with increasing disposable income. There are various other key factors that drive the market, including India's attractiveness as a medical tourism destination; steadily growing MICE segment; and, an increasing fondness among millennial to travel.

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 \(Non-Financial Sector\)](#)

About the Company

Established in 1949, EIHL 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 31 hotels (owned 10 hotels while 22 hotels under management contracts) with a room inventory of 4,524 rooms as at March 31, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,463	1,362
PBILDT	315	278
PAT	109	97
Overall gearing (times)	0.10	0.12
Interest coverage (times)	13.87	19.20

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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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 (proposed)	-	-	NA	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	50.00	CARE A1+	-	-	-	-

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