EIH Limited

August 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Commercial Paper	100.00 (100.00)	CARE A1+	Reaffirmed
Commercial Paper (Carved out)*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.
*the above instrument of CP has been withdrawn on the request of the client as there was no outstanding against the same.

Rationale and key rating drivers

The rating for the short-term instrument of EIH Limited (EIHL) continues to derive strength from its experienced promoters, the strong brand equity in hospitality industry with brand like "Oberoi" and "Trident" and its established market presence . It also takes comfort from EIHL's diversified hotel portfolio, strong return indicators and its robust capital structure with a large net worth base combined with low debt levels, which providves sufficient financial flexibility and strong liquidity. On consolidated levels, the financial profile has witnessed significant improvement in FY2023 (refers to period from April 01 to March 31) and Q1FY24 (refers to period from April 01 to June 30) as reflected in its increase in topline and operating profitability which have registered growth and EIHL's RevPAR's being higher than industry's average for past years including FY23. The stronger demand recovery together with sustained cost control measures and operating leverage aided EIHL to report ₹600 crore operating PBILDT (profit before interest, depreciation & tax) in FY2023 and ₹155 crore in Q1FY24 as against a ₹2.02 crore in FY22 and ₹100 crore in Q1FY23. The strong surge in revenue profile has been supported by sustenance of domestic leisure demand, improvement in business travel, weddings/social MICE and corporate events, amidst others. EIHL's reported its decadal high quarterly revenue and profits in Q1FY24. Over the medium term, healthy pickup in demand, strong room rates and expansion of EIHL's hotel portfolio are likely to aid revenue growth for the company. EIHL's management has indicated that they have future plans on expanding the portfolio through multiple routes of owned and managed contracts, etc and the upcoming capex detailed plan is the final stages of being approved by the board. Management has further guided that going ahead the overall gearing at consolidated levels even if the capex plans is accounted for shall not exceed 0.2x. In the absence of any major debt funded projects, the coverage and leverage indicators are expected to remain comfortable going forward as well.

The rating, however, 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 its 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 which are owning/ managing 21 hotels out of the group's portfolio of 30 hotels.

The entities considered in consolidation are mentioned in Annexure-6 below.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters with strong management team: The Oberoi group was founded by Late Rai Bahadur M.S. Oberoi in 1930s. Mr Prithvi Raj Singh Oberoi, son of Late Rai Bahadur M.S. Oberoi was the Executive Chairman of EIHL until May 2022, and was awarded 'Padma Vibhushan', India's second-highest civilian honour in 2008. Under his leadership

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

and an extensive experience of around six decades in the hospitality industry, the group has expanded its operations to five countries. His nephew, Mr Arjun Singh Oberoi has been appointed in his place as the Executive Chairman since May 2022. He has been an executive director of the company for over two decades and has over 30 years of experience in the hotel industry. He worked closely with his uncle on planning and development of a number of Oberoi and Trident . Furthermore, Mr Vikramjit Singh Oberoi, son of Mr Prithvi Raj Singh Oberoi and MD & CEO of EIHL, also has over 30 years of experience in the hospitality industry. Promoter and promoter group, together, held 32.85% of shareholding as on June 30, 2023. 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.

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 and Trident. 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 along with strategically located properties: 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. 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 and a strong tangible net-worth base of ₹3,080.93 crore as on March 31, 2023. Overall gearing ratio has improved further to 0.08x as on March 31, 2023 from 0.17x as on March 31, 2022. The company became net debt negative in FY2023. On net basis company currently has cash and liquidity worth ₹287.15 crores as on March 31, 2023. The gearing may increase in future, with EIHL resorting to debt drawdown to fund its capex plans, which they are firming up, however, it is expected to remain comfortable. 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. Furthermore, the company enjoys financial flexibility by virtue of being part of the 'Oberoi group'.

Improved operational performance in FY23 and Q1FY24: There has been significant improvement in FY23 with EIH recording 100% growth over low base effect of FY22 and Q1 FY24 improved by 27% as compared to Q1 FY23 and Company has recorded a decadal high revenue. PBILDT, on consolidated level, has increased to ₹599.68 crore, which demonstrates the efficient operations and effective cost management that the company has been able to carry out over the last few years owing to Covid-19. The portfolio (owned and managed) occupancy levels increased to 73% for FY23 as compared to 47% in FY22. ARR also saw healthy traction and posted growth in FY23 and stood at an average of ₹16,471 as against ₹9,869 in FY22. Hence, RevPAR improved to ₹11,958 in FY23 from ₹4,673 in FY22. The significant increase was driven by sustenance of domestic leisure demand, improvement in business travel, weddings/social MICE and corporate events, amidst others. Going forward, increase in the in-person engagements by corporates, return of big-ticket conferences and seminars, as well as corporate offsite trips that encompass MICE activities, are expected to benefit the company's overall performance. Furthermore, with the reopening of international commercial travel, the industry is expected to receive a further boost to ARRs across hotel segments.

EIHL's performance in 1QFY24 was strong as the occupancy for all domestic hotels including managed hotels increased to 70% in Q1FY24 and ARR to ₹13,579, driven by pick-up in the corporate travel and strong demand from leisure travel, MICE. RevPAR has also improved by 16% Q-o-Q basis for both EIH owned hotels and all domestic hotels (including managed hotels) to ₹10,236 and ₹9,484 respectively. Going forward, it is expected to improve further in Q2FY24 owing to G-20 summit and ICC Cricket world cup.

Key weaknesses

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 domestic hospitality sector's demand outlook is positive, indicating a promising future for the industry. The hospitality sector's RevPAR, which is estimated to reach ₹ 4,000-4,100 by the end of FY23, reflects marginal growth over FY19 levels, thanks to the strong recovery in occupancy and average rates. The RevPAR's recovery was mainly driven by the average daily room rate (ARR), with weddings and domestic leisure travel being significant contributors to the ARR jump in FY23.Despite the possibility of inflation putting pressure on the growth rate in FY24, the ARR has already recovered above the pre-pandemic level indexed at 105-107 when compared to FY19 levels. Leveraging India's G-20 presidency, the ICC Cricket World Cup, and the resumption of foreign inbound travel, along with robust domestic leisure travel, the sector's ARR should continue to inch higher in FY24, boosting RevPAR. CareEdge estimates that RevPAR should grow 3-5% over FY23 levels. All key performance indicators such as RevPAR, ARR, and occupancy rate are ahead of pre-pandemic levels, and the industry is on its way back to profitability. Domestic hotel players are now in a favourable position to resume pending projects and undertake new ones, given the improved revenues and enhanced accruals cushioned by the realignment of the cost structure by the players. This, in turn, will boost the sector's supply.

Liquidity: Strong
There has been improvement in the liquidity position of EIH with the improving outlook for the sector. Its unutilized bank lines are also available to meet its incremental working capital needs over the near-term. There are sanctioned short term loans/CC and CP Standalone facilities available remain unutilised as on March 31, 2023. These can be availed to meet short term liquidity gaps if any. Further, the company has Rs. 67.96 crore in the form of liquid investments and cash & bank balance of Rs. 457.60 crores as on March 31, 2023 (cash balance of Rs. 85.97 crores and other bank balances of Rs. 372.92 crores, majority of which is in kept as fixed deposits). 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.

Environment, social, and governance (ESG) risks

Environment: The company is actively working on reducing its carbon footprint by equipping buildings with energy-efficient technologies. It is also swiftly transitioning toward renewable energy sources. It has also implemented effective waste management and have integrated responsible processes and technologies across its properties.

Social: The company has conducted awareness programs on an ongoing basis, maintained adequate health and safety management systems and have undertaken several measures aimed at promoting employee well-being. It has also fostered close collaborations with its value chain partners to leverage their support to magnify sustainable initiatives. It has collaborated with local communities to empower children and young adults with special abilities and has extend efforts to various initiatives such as wildlife conservation, clothing donations for those in need and organising blood donation drives.

Governance: The company has robust governance architecture that upholds responsible and ethical conduct throughout the company. It also ensures the utmost protection and privacy of the customers' data. It has dedicated committee to proactively lead risk management.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Hotel
Policy on Withdrawal of Ratings

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, 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 30 hotels (owns 9 hotels while 21 hotels under management contracts) with a room inventory of 4,269 rooms as on June 30, 2023. 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 domestic and international airports, air charter services and car hire/leasing services.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	985.29	2019.01	498.10
PBILDT	2.02	599.68	155.46
PAT	-84.05	339.17	106.03
Overall gearing (times)	0.17	0.08	NA
Interest coverage (times)	0.06	16.86	25.24

A: Audited UA: Unaudited; NA: Not Available, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various 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 (Carved out)		-	-	-	0.00	Withdrawn
Commercial Paper-Commercial Paper (Standalone) (Proposed)		-	-	7-365 days	100.00	CARE A1+

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (01-Sep-22)	1)CARE A1+ (02-Sep-21) 2)CARE A1+ (01-Apr-21)	1)CARE A1+ (03-Apr-20)
2	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (01-Sep-22)	1)CARE A1+ (02-Sep-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

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: Lender details: Not Applicable

Annexure-6: Entities considered for consolidation

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
Associates and Joint Ventures		

EIH Associated Hotels Limited	36.81%	Associate
Mercury Car Rentals Private Limited	40.00%	Joint Venture
Oberoi Mauritius Ltd	50.00%	Joint Venture
La Roseraie De L'atlas	47.93%	Associate
Usmart Education Limited	25.10%	Associate
Island Resort Limited	46.10%	Subsidiary of Oberoi Mauritius Limited

Note on the complexity levels of the 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 any clarifications.

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About us:

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