Lianhe Ratings Global

Press Release
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Lianhe Global publishes 'B+' global scale Long-term Issuer Credit Rating with Negative Outlook to eHi Car Services Limited

HONG KONG, 21 December 2023 – Lianhe Ratings Global Limited ("Lianhe Global"), an international credit rating company, publishes 'B+' global scale Long-term Issuer Credit Rating to eHi Car Services Limited ("eHi" or "the company"). The Outlook is Negative.

The Issuer Rating reflects eHi's established leading market position, nationwide service network, and improving operating performance underpinned by the recovery of domestic tourism, However, eHi's rating is constrained by its tight liquidity and high financial leverage with concentrated debt maturity.

The Negative Outlook reflects our expectation that eHi's ongoing capital expenditure for new-vehicle purchases will continue to pressure its liquidity position and financial leverage.

Key Rating Rationales

Leading Franchise in China's Car Rental Services: eHi is one of the top two players in China's car rental industry. The company's income is mainly driven by the short-term car rental service mainly via its direct operations across its nationwide service network in China, with over 1,400 rental stores covering over 500 cities. Besides, eHi has a leading advantage in license plates. eHi has more than 10,000 license plates in China (besides Hainan Province) with a value of over RMB1.2 billion (valued by third parties), and more than 7,000 license plates in Hainan Province, which is believed to be one of the key advantages to support the company's future development.

Recovering Market Demand Enhances Car Utilization: As the domestic tourism economy has bounced quickly since the beginning of 2023, eHi's average car utilization rate recovered strongly to 70.3% in 3Q2023, from around 59.5% in 2022. The company's RevPAC (average daily rental revenue per available car) also increased to RMB178 in 3Q2023 from RMB119.4 in 2022, contributing to a 19.2% increase in its car rental revenue in 3Q2023 (vs. 3Q2022).

Ongoing Capex to Support Business Expansion: We expect eHi to have relatively large capital expenditure for purchasing new vehicles in the next 2-3 years to support its business expansion as it has adjusted its strategy towards the expansion of the total fleet size and the network of rental stores since the beginning of 2023. Rental vehicles accounted for about 70% of the company's total assets at end-1H2023 with a total fleet size of around 90,000.

Improving Operating Performance but High Leverage: As the domestic market demand continues to recover, we expect strong growth in eHi's car rental revenue. The normalized business operations will improve eHi's operating cash flow and widen eHi's EBITDA margin which we expect to stay at around 45%-50% in 2023-2025. However, its EBITDA leverage (debt/EBITDA) and EBITDA interest coverage (EBITDA/Interest) would likely remain weak given the heavy reliance on debt financing. eHi's EBITDA leverage and EBITDA interest coverage were 7.4x and 1.7x, respectively, in 2022. Its debt to capitalization ratio was high at 91.6% at end-2022 (end-2021: 74.7%) and further increased to 95.6% as of end-1H2023.

Significant Indebtedness Constrains Liquidity: eHi's quick ratio (the sum of cash and cash equivalents and short-term investments and receivables divided by current liabilities) was low in the range of 0.4x-0.5x between 2020-2022, as a significant portion of its assets were rental vehicles. It had RMB611.5 million cash and cash equivalents (excluding restricted cash) and RMB696 million trade receivables (net of allowance for impairments), compared with its RMB2,247.1 million debt due within one year as of end-2022. Its cash and cash equivalents decreased to RMB363.8 million at end-1H2023 primarily due to new vehicle purchases.

Refinancing Pressure from Concentrated Debt Maturity: Successful refinancing of maturing debts is essential in supporting eHi's business operation and liquidity, in light of its concentrated debt maturity profile with more than 70% of its debt (as of end-1H2023) due in two years. eHi has been proactive in liability management, including rolling over short-term bank borrowings and exploring alternative refinancing sources for buying back its 2024 USD Notes. eHi had a credit line totaling RMB6.3 billion, of which about RMB5 billion was used at end-1H2023. In addition, its unpledged fleets add flexibility in its debt and liquidity management.

Rating Sensitivities

We would consider downgrading eHi's rating if (1) it increases its financial leverage as measured by its EBITDA interest coverage consistently below 3.0x and EBITDA leverage consistently above 5.5x, or (2) it suffers a significant deterioration in operating performance in terms of revenue, margin or cash flow generation, or (3) its liquidity is materially worsened.

We would consider revising the Outlook to Stable or upgrading eHi's rating if (1) it improves its debt maturity profile, and/or (2) it lowers its debt to capitalization ratio to below 70% consistently.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodologies used in this eHi's rating are *Lianhe Global's General Corporate Rating Criteria* published on 31 December 2021 and *General Corporate Rating Criteria: Addendum* published on 30 August 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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