

## Rights issue to shore up liquidity; strengthen b/s...

The ElH board has approved fund raising of ₹ 350 crore through rights issue to shore up liquidity and strengthen the balance-sheet in the wake of an uncertain business environment. The company would issue 5.38 crore shares at ₹ 65/share (including premium of ₹ 63/share). The rights entitlement ratio has been set at eight shares for every 85 shares held in the company. While this would lead to equity dilution of 8.6% on a post diluted equity base of 62.5 crore, it would have a positive impact on EPS given the current lower RoE of 4.2% for FY22E (due to restricted business) vs. average cost of debt of ~9.2%. Assuming debt repayment of ₹ 250 crore in the current fiscal, we expect loss of FY21E to get reduced by 9.4%. For FY22E, we expect EPS to improve 4.8% to ₹ 2.3/share. Further improved liquidity buffer would place the company in a better position to cope up with the current business uncertainty. On the valuation front, the stock is available at EV/room of ₹ 1.5 crore (refer exhibit 3), factoring in the impact of equity infusion that is still at a discount of ~50% from the current replacement value. Hence, we remain positive on the company from a long term perspective and recommend subscribing to the rights issue.

## Focus on process efficiency to get visible from FY22E onwards

While there is uncertainty on a recovery that is solely dependent on launch of vaccine, the company has initiated major steps to bring down costs and come out stronger and more efficient once normalcy resumes. ElH is now focusing more on process efficiency measures on a permanent basis like back-office automation, using AI, paperless processing, focus on solar panel to bring down power costs, expertise driven services in finance, data management etc. Considering this, we expect over 7-8% reduction in total costs. Hence, in our view, while FY22 would see cost led margin expansion, it would accelerate further led by traction in room rates post FY22E.

## Improved liquidity to further strengthen balance sheet

On the liquidity front, the current debt on books is at ₹ 620 crore with D/E of 0.2x. Assuming debt repayment of ₹ 250 crore from proceeds of rights issue, the D/E would come down further to 0.1x. Further, the company has access to sanctioned borrowing facilities for working capital requirements worth ₹ 550 crore of which ₹ 335 crore was unutilised as on June 30, 2020, which makes it comfortably placed in terms of liquidity.

## Valuation & Outlook

The current pandemic environment has thrown up severe challenges for the entire hotel industry. However, ElH, with its strong b/s and strategic property locations is poised to benefit from a favourable demand supply matrix in the long run due to likely postponement or reduction in new room supplies in the industry. We maintain our **BUY** rating on the stock with a revised target price of ₹ 105/share (i.e. @ 19.5x FY22E EV/EBITDA).

### Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1529	1599	1811	1596	637	1370	-7.4%
EBITDA	261	299	406	290	-92	318	4.7%
EBITDA (%)	17.1	18.7	22.4	18.2	-14.4	23.2	
PAT	128	179	194	163	-167	146	-5.3%
EPS (₹)	2.2	3.1	3.1	2.6	-2.7	2.3	
EV/EBITDA	20.1	17.8	13.1	18.7	-55.4	16.4	
D/E	0.1	0.2	0.2	0.2	0.1	0.1	
RoNW (%)	4.6	6.2	6.5	5.2	-5.1	4.3	
RoCE (%)	6.5	8.2	9.6	5.7	-4.9	5.9	

Source: Company, ICICI Direct Research



### Stock Data

Particulars	Amount
Market Capitalization (₹ Crore)	5,029.6
Total Debt (FY20) (₹ Crore)	620.3
Cash and investments (FY20) (₹ crore)	212.2
EV (₹ Crore)	5,437.7
52 week H/L	188 / 54
Equity capital (post rights issue)	125.1
Face value	₹ 2

### Key Highlights

- ElH to issue ~5.4 crore shares by way of rights issue at price of ₹ 65/share
- Equity base to get diluted by 8.6%
- Proceeds to help company shore-up liquidity and strengthen balance sheet.
- D/E to come down from 0.2x to 0.13x. EPS for FY22E to improve by 4.8%
- Maintain BUY with revised target price of ₹ 105 (₹ 95 earlier)

### Research Analyst

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**Exhibit 1: Rights issue details**

<b>Particulars</b>	
No of rights equity shares to be issued	5.38 crore shares
Rights issue price	₹ 65/share
Rights entitlement ratio	8 shares for every 85 shares held in the company
Record date	23rd Sep 2020
Ex date	22nd Sep 2020
Total equity base post rights issue	62.5 crore shares
Equity dilution (%)	8.6%

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates post rights Issue**

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	636.9	636.9	0.0	1,370.3	1,370.3	0.0	NA
EBITDA	-92.0	-92.0	NA	318.4	318.4	0.0	NA
EBITDA Margin (%)	-14.4	-14.4	NA	23.2	23.2	0 bps	
PAT	-184.0	-166.7	-9.4	127.7	146.4	14.7	NA
EPS (₹)	-3.2	-2.7	-17.2	2.2	2.3	4.8	Assuming debt repayment of ₹250 crore through rights issue proceeds, we expect EPS to increase by 4.8% YoY in FY22E

Source: Company, ICICI Direct Research

**Exhibit 3: Current EV per room**

<b>EV per room</b>	<b>rooms</b>
<b>Total room portfolio</b>	4,572
Owned	4,174
Managed	398
<b>Owned property break-up</b>	
Domestic	3,425
International	749
<b>Owned domestic property break-up</b>	
Standalone	2,551
JV/associate (37% stake in EIH Associated Hotels)	874
Total adjusted owned rooms	3,623
Current Enterprise value (₹ crore)	5,566
<b>Current EV per room (₹ crore)</b>	<b>1.5</b>

Source: ICICI Direct Research, Company

Exhibit 4: EIH group brand wise portfolio

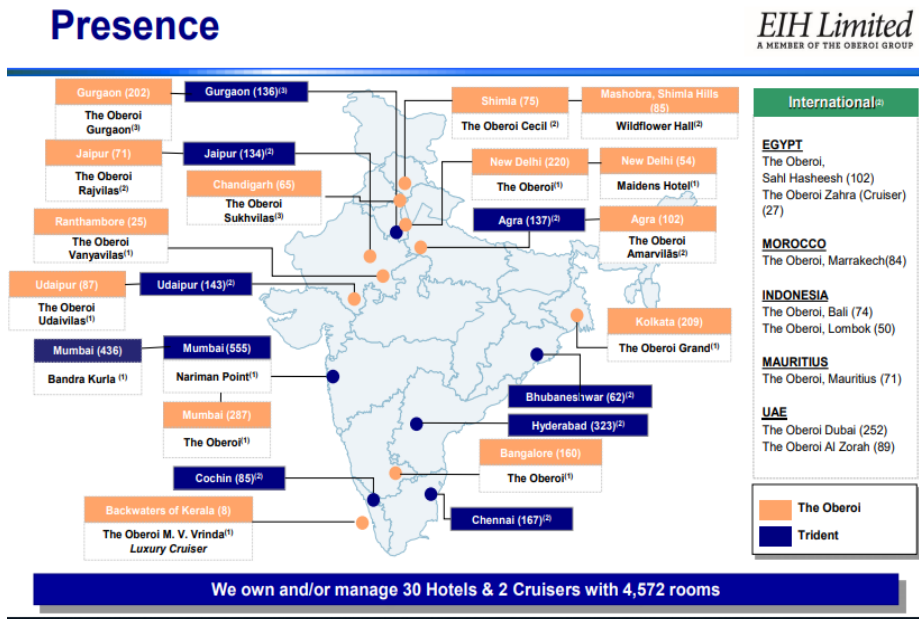


Out of total room portfolio of 4572 rooms, over 2300 rooms are operated under super luxury segment

\* Includes The Oberoi, Marrakech opened on 1<sup>st</sup> December 2019

Source: Company, ICICI Direct Research

Exhibit 5: Market leader in most micro markets where EIH has presence



The company has balanced room portfolio across key business and leisure destinations in India

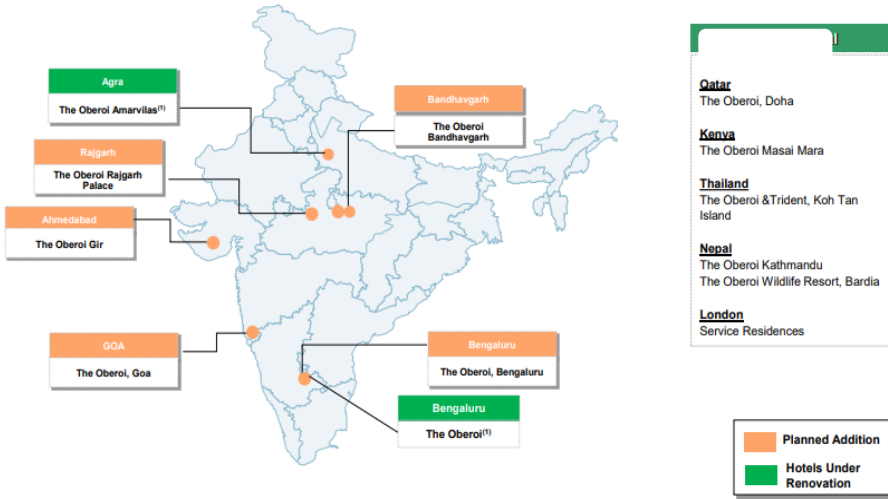
Source: ICICI Direct Research, Company

EIH’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 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 Udaipur, Jaipur, Shimla, Agra, etc, which attract, besides domestic tourists, a large number of overseas travellers.

Exhibit 6: Future plans

# Business Expansion and Development *EIH Limited*

A MEMBER OF THE OBEROI GROUP

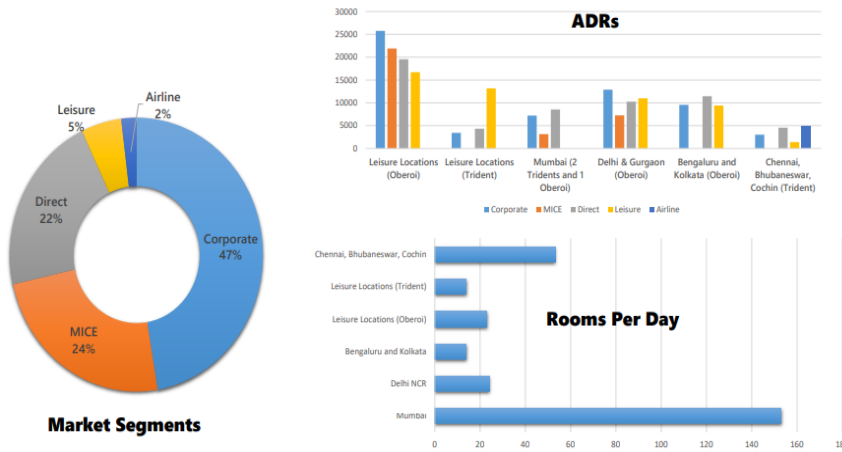


(1) Existing properties under renovation

Source: Company, ICICI Direct Research

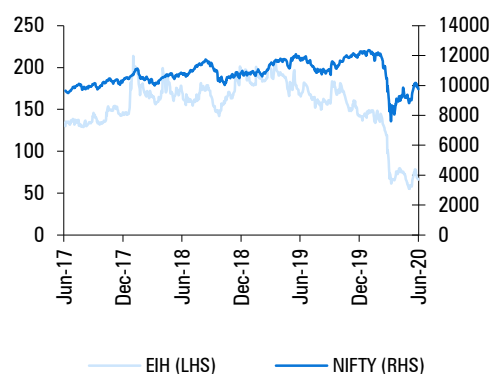
Exhibit 7: Corporates account for 47% of total revenue during April-August 2020

## Trends: India (01 April 2020 to 14 August 2020)



Source: Company, ICICI Direct Research

Exhibit 8: Three year price chart vs Nifty



Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 9: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (m)	Change
1	Reliance Strategic B	23-Sep-19	18.5	105.91m	0.00m
2	Itc Ltd	31-Dec-19	15.0	85.62m	0.00m
3	Oberoi Hotels Pvt Lt	31-Mar-20	14.6	83.65m	0.00m
4	Oberoi Holdings Pvt	31-Mar-20	5.9	33.44m	0.00m
5	Oberoi Investments P	31-Mar-20	4.9	28.15m	0.00m
6	Reliance Capital Tru	15-Jun-20	3.9	22.36m	0.00m
8	Oberoi Building & In	31-Mar-20	3.2	18.06m	0.00m
8	L&T Mutual Fund	31-May-20	2.8	16.23m	(0.00)m
8	Hdfc Asset Managemen	31-May-20	1.9	11.08m	(0.12)m
8	Sundaram Asset Manag	30-Apr-20	1.6	9.30m	(0.12)m

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 10: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	35.25	35.25	35.25	35.25	35.25
FII	4.25	4.38	4.26	4.08	3.43
DII	14.55	16.05	16.11	16.29	15.67
Others	45.95	44.32	44.38	44.38	45.65

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 11: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total operating income</b>	<b>1,810.8</b>	<b>1,596.3</b>	<b>636.9</b>	<b>1,370.3</b>
Growth (%)	13.3	-11.8	-60.1	115.1
Raw Material Expenses	244	199	92	185
Employee Expenses	481	469	375	394
Other Exp	680	637	261	473
Total Operating Expenditure	1,404.9	1,306.0	728.9	1,051.9
<b>EBITDA</b>	<b>405.9</b>	<b>290.3</b>	<b>-92.0</b>	<b>318.4</b>
Growth (%)	35.8	-28.5	-131.7	-446.2
Depreciation	132.6	146.5	137.1	137.4
Interest	50.4	55.6	39.5	38.7
Other Income	81.1	78.4	39.2	58.8
PBT	304.0	166.7	-229.4	201.1
Others	74.7	-54.8	-19.3	4.0
Total Tax	82.0	0.9	-43.3	50.7
<b>Adjusted PAT</b>	<b>194.4</b>	<b>163.2</b>	<b>-166.7</b>	<b>146.4</b>
Growth (%)	8.5	-16.0	-202.1	-187.8
<b>Adjusted EPS (₹)</b>	<b>3.1</b>	<b>2.6</b>	<b>-2.7</b>	<b>2.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	114.3	114.3	125.1	125.1
Reserve and Surplus	2,867.5	3,005.3	3,167.0	3,313.4
Total Shareholders funds	2,981.8	3,119.6	3,292.1	3,438.5
Total Debt	531.0	620.3	420.3	420.3
Deferred Tax Liability	98.5	76.1	76.1	76.1
Minority Interest / Others	88.5	99.7	99.7	99.7
<b>Total Liabilities</b>	<b>3,700</b>	<b>3,916</b>	<b>3,888</b>	<b>4,035</b>
<b>Assets</b>				
Gross Block	3,812.5	4,309.5	4,329.9	4,329.9
Less: Acc Depreciation	1,642.5	1,788.9	1,926.1	2,063.5
Net Block	2,170.0	2,520.5	2,403.8	2,266.4
Capital WIP	78.6	130.4	110.0	100.0
Total Fixed Assets	2,248.6	2,651.0	2,513.8	2,366.4
Goodwill on consolidation	339.9	370.1	370.1	370.1
Investments	579.8	613.0	613.0	563.0
Inventory	59.8	61.0	33.3	116.9
Debtors	248.0	205.7	116.9	187.7
Loans and Advances	367.6	149.6	79.7	413.6
Other Current Assets	70.9	93.0	34.4	157.5
Cash	230.2	212.2	357.4	226.5
Total Current Assets	976.4	721.5	621.6	1,102.2
Creditors	306.0	296.2	108.2	232.8
Provisions	146.2	151.4	129.8	142.0
Total Current Liabilities	452.2	447.5	238.0	374.7
Net Current Assets	524.2	274.0	383.6	727.4
Others Assets	7.2	7.7	7.7	7.7
<b>Application of Funds</b>	<b>3,700</b>	<b>3,916</b>	<b>3,888</b>	<b>4,035</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	147.3	220.6	-166.7	146.4
Add: Depreciation	132.6	146.5	137.1	137.4
(Inc)/dec in Current Assets	-83.4	236.9	245.0	-611.4
Inc/(dec) in CL and Provisions	-15.0	-4.7	-209.5	136.7
<b>CF from operating activit</b>	<b>181.4</b>	<b>599.3</b>	<b>6.0</b>	<b>-190.9</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-1.6	-549.3	0.0	10.0
Others	-28.3	-41.3	0.0	0.0
<b>CF from investing activit</b>	<b>-29.9</b>	<b>-590.7</b>	<b>0.0</b>	<b>10.0</b>
Issue/(Buy back) of Equity	0.0	0.0	10.8	0.0
Inc/(dec) in loan funds	75.0	89.3	-200.0	0.0
Dividend paid & dividend tax	-66.2	-66.2	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	338.9	0.0
Others	23.7	-16.5	-10.5	0.0
<b>CF from financing activit</b>	<b>32.5</b>	<b>6.6</b>	<b>139.2</b>	<b>0.0</b>
Net Cash flow	61.2	-17.9	145.2	-130.9
Opening Cash	169.0	230.2	212.2	357.4
<b>Closing Cash</b>	<b>230.2</b>	<b>212.2</b>	<b>357.4</b>	<b>226.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
Adjusted EPS	3.1	2.6	-2.7	2.3
Cash EPS	4.5	5.9	-0.5	4.5
BV	47.7	49.9	52.6	55.0
DPS	0.9	0.9	0.0	0.0
Cash Per Share	3.7	3.4	5.7	3.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	22.4	18.2	-14.4	23.2
PBT / Total Operating income	8.1	13.8	-26.2	10.7
PAT Margin	8.1	13.8	-26.2	10.7
Inventory days	11.2	13.8	27.0	20.0
Debtor days	50.0	47.0	67.0	50.0
Creditor days	61.7	67.7	62.0	62.0
<b>Return Ratios (%)</b>				
RoE	6.5	5.2	-5.1	4.3
RoCE	9.6	5.7	-4.9	5.9
RoIC	9.0	4.5	-7.5	5.4
<b>Valuation Ratios (x)</b>				
P/E	36.7	24.5	0.0	36.9
EV / EBITDA	14.0	20.0	-59.4	17.6
EV / Net Sales	3.1	3.6	8.6	4.1
Market Cap / Sales	3.0	3.4	8.5	3.9
Price to Book Value	1.8	1.7	1.6	1.6
<b>Solvency Ratios</b>				
Debt/EBITDA	1.3	2.1	-4.6	1.3
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	1.7	1.1	1.1	2.3
Quick Ratio	1.5	1.0	1.0	2.0

Source: Company, ICICI Direct Research

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