

## Demand stays firm in business destination...

**About the stock:** ElH Ltd is the flagship company of the Oberoi group that manages 33 hotels (~11 owned and 22 under management contract) with room inventory of ~4247 rooms.

- The company operates the hotels under the brands Oberoi - super luxury brand, Trident-five star brand and Maidens (heritage)
- ElH also provides catering/kitchen services to airlines and operates restaurants/lounges at airports and is also into air charter and car hire services

**Q3FY23 Results:** ElH's operational performance for Q3FY23 remained far better than our estimates with revenue & EBITDA reporting growth of 21% & 52%, respectively, from pre-Covid levels.

- Revenues were up 62.9% YoY, 44% QoQ to ₹ 512.2 crore (higher than I-direct estimate of ₹ 412.4 crore)
- EBITDA margin came in at 35.2%, better than our estimate of 26.5%. It was also far higher than EBITDA margin of 28.2% during Q3FY20
- The company reported exceptional expenses of ₹ 21 crore, mainly on account of impairment in the value of subsidiary investments. Despite this, net profit was up 39% from pre-Covid levels to ₹ 103.9 crore vs. expected net profit of ₹ 63.6 crore

**What should investors do?** While the balance sheet provides strong immunity to weather the challenges, we expect the growth momentum to see moderation beyond FY24E due to lack of major expansion and higher base effect.

- Hence, we now downgrade our rating on the stock from BUY to **HOLD**

**Target Price and Valuation:** We value ElH at ₹ 190 i.e. 20.0x FY24E EV/EBITDA.

### Key triggers for future price performance:

- Rebound in foreign tourist arrivals to provide further fillip to leisure and business hotel room demand, going forward
- The recent venture into premium café business to lead to potential value unlocking of F&B segment in the long run. Strong b/s to support growth
- Looking at the strong performance in 9MFY23E, FY24 is looking more promising due to many mega international events lined up (G20, CWC, etc). We expect revenue CAGR of 39.2% during FY22-24E. Margins are expected to stay above ~28% driving healthy profitability growth

**Alternate Stock Idea:** Apart from ElH, we also like Indian Hotels.

- It has strong "Taj brand" in the premium segment along with having larger presence in the midscale and economy segment
- BUY with a target price of ₹ 390/share



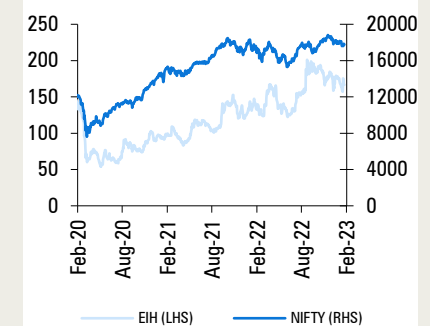
### Particulars

Particulars	Amount
Market Cap (₹ Crore)	10,505.9
Debt (FY22) (₹ Crore)	507.4
Cash & Bank (FY22) (₹ crore)	253.5
EV (₹ Crore)	10,759.8
52 week H/L	197 / 104
Equity capital (₹ crore)	125.1
Face value	₹ 2

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	35.7	35.7	35.7	35.7
FII	3.8	3.7	3.7	3.7
DII	13.9	13.9	14.4	14.4
Others	46.6	46.6	46.2	46.2

### Price Chart



### Key risks

- Sustained momentum in demand beyond FY24E
- Slowdown in the economy

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (%)	FY23E	FY24E	2 year CAGR (%)
Net Sales	1811	1596	497	1034	-17.0	1840	2005	39.2
EBITDA	406	290	-292	15	-66.6	530	574	516.6
EBITDA (%)	22.4	18.2	-58.7	1.5		28.8	28.6	
PAT	194	163	-377	-59	-167.0	305	329	LP
EPS (₹)	3.1	2.6	-6.0	-0.9		4.9	5.3	
EV/EBITDA	26.6	37.6	-36.9	713.1		19.8	17.6	
D/E	0.2	0.2	0.2	0.2		0.1	0.1	
RoNW (%)	6.5	5.2	-12.2	-1.9		9.4	9.6	
RoCE (%)	9.6	5.7	-9.9	-1.5		12.5	13.7	

Source: Company, ICICI Direct Research

## Key performance highlights

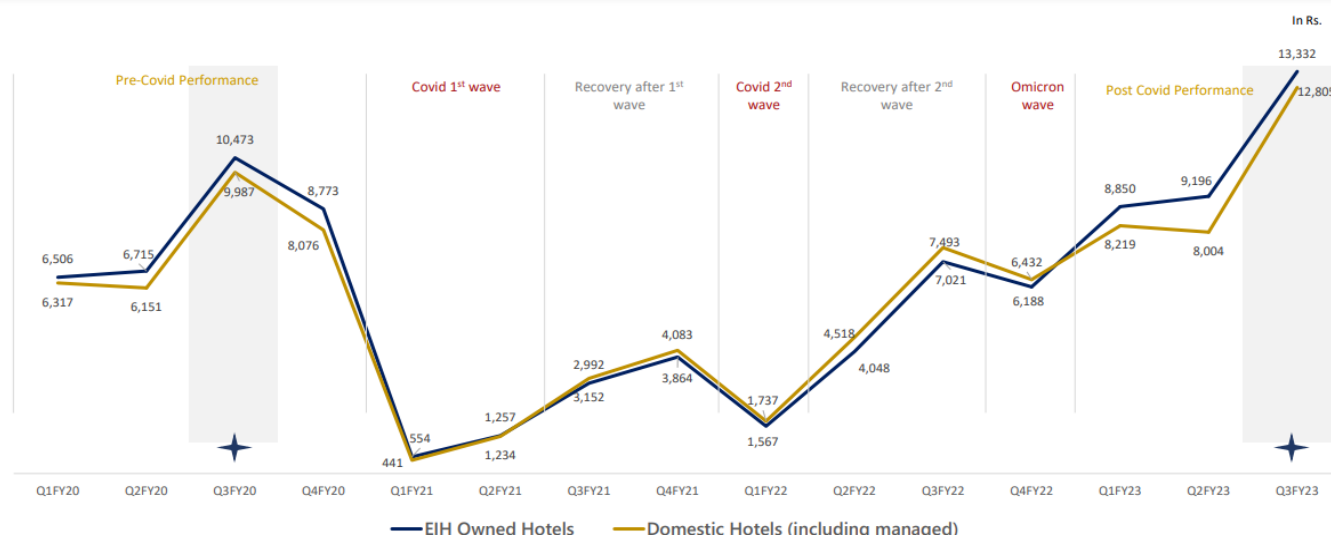
- In November 2022, the Indian hotel industry recorded its best performance since the pandemic began, with occupancy of 68-70% and average rates exceeding ₹ 7,000. Mumbai was the market leader in November 2022 and December 2022, with occupancy rates exceeding 80%
- At the company level, occupancy levels reached 77%, higher than the pre-Covid level of 74%. RevPAR at domestic hotels was up over 70% YoY to over ₹ 12,800/room. It was also higher by over ~27% from pre-Covid levels
- **Air catering business** – Many clients are foreign airlines. With the resumption of foreign travel, the company is expected to see healthy traction in the air catering business
- Room nights from foreign tourists have reached 43% in November 2022 from average of 31% during Q2FY23. This segment is yet to see a full recovery
- Reducing carbon footprint: Solar plants with total capacity of 3.0 MW at four different locations being commissioned, which is expected to generate 4.2 million units per annum

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY20	Vs Pre-covid (%)
Net Sales	512.2	412.4	314.4	62.9	355.7	44.0	422.0	121%
Other income	12.3	13.2	10.0	23.0	11.8	3.8	27.1	
Raw Material Expenses	50.3	55.6	42.4	18.7	41.0	22.9	49.1	
Employee cost	99.8	93.2	85.9	16.2	92.2	8.2	102.0	
Other Exp	181.7	154.5	117.8	54.3	144.6	25.6	151.9	
EBITDA	180.5	109.1	68.3	164.1	77.9	131.8	119.1	152%
EBITDA Margin (%)	35.2	26.5	21.7	472bps	21.9	457bps	28.2	702bps
Interest	6.8	7.5	8.5	-19.8	7.6	-10.8	13.2	
Depreciation	28.8	29.5	28.5	1.0	28.7	0.2	34.1	
PBT before exceptional exp	157.2	85.3	41.4	279.9	53.4	194.5	98.9	
Exceptional exps	21.0	0.0	0.0	NA	13.0	NA	0.0	
PBT	136.1	85.3	41.4	229.1	40.4	LP	98.9	
Tax Expenses	32.2	21.7	8.8	265.9	13.2	144.9	23.9	
PAT	103.9	63.6	32.6	219.1	27.2	282.1	75.0	139%

Source: Company, ICICI Direct Research

Exhibit 2: RevPAR during Q3FY23 surpasses pre-Covid levels by 27%



Source: Company, ICICI Direct Research

## Key triggers for future price performance

**Benefit of efficiency measures now getting visible:** FY23 began on a strong note for the hotel sector in terms of growth and margin expansion. With the full reopening, corporate demand and MICE segment also joined the growth bandwagon in Q1FY23 while leisure continued to perform well. This, in turn, helped the company to raise room tariffs without disturbing demand. Further, the company utilised the long 18-24 months of the pandemic phase to structurally realign its cost base and become leaner in terms of costs. Hence, in our view, while FY23 would see efficiency led margin expansion, it would accelerate further with traction in occupancies from FY24E.

**To add 20 properties over next five years:** The company is adding 20 properties under owned and managed contracts to its portfolio over the next five years. Of these, four properties are in different stages of construction, five are under planning stage and 11 hotels, including one serviced apartment, under active discussion stage

Exhibit 3: Upcoming projects

	FY23	FY25	FY26	FY27
<b>Opening Soon</b>	<p>Club in Mumbai   Managed (November 2022)</p> <p>Restaurant in Mumbai   Leased (March 2023)</p>			
<b>Under Construction</b>		<p>The Oberoi Rajgarh Palace   Owned – 48 keys</p> <p>The Oberoi Bandavgarh   Managed – 24 keys</p>	<p>The Oberoi Kathmandu   Managed – 84 keys</p> <p>The Oberoi Wadi Safar, Saudi Arabia   Managed – 60 keys</p>	
<b>Planning Stage</b>		<p>The Oberoi Bardia   Managed – 18 keys</p>	<p>Trident Tirupati   Owned by subsidiary &amp; managed by EIH - 100 keys</p>	<p>The Oberoi Goa   Owned – 90 keys</p> <p>Trident Goa   Owned - 150 keys</p> <p>The Oberoi Al Zorah   Managed – 174 keys</p>

Source: Company, ICICI Direct Research

**Company has strong balance-sheet:** On the b/s front, the company is well placed as far as liquidity and debt is concerned with D/E being 0.2x. As the company derives majority of revenues from the domestic market with Mumbai and Delhi being the key revenue contributor, looking at the strong performance in the seasonally weak quarter, H2FY23 (i.e. peak season) is now looking more promising. This season will also have an advantage of influx of foreign tourists who generally visit India for long haul vacation.

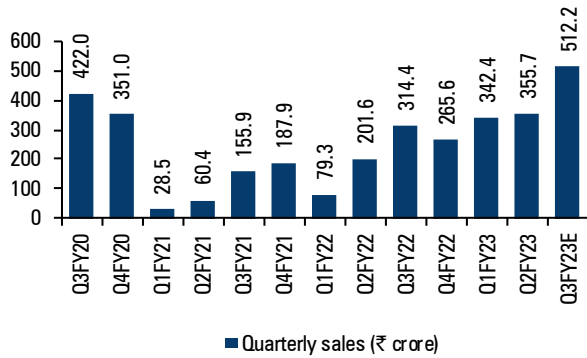
**Valuation & Outlook:** While the b/s provides strong immunity to weather the challenges, we expect the growth momentum to see moderation beyond FY24E due to lack of major expansion and higher base effect. Hence, we now downgrade our rating on the stock from BUY to HOLD. We value the company at ₹ 190 i.e. 20.0x FY24E EV/EBITDA

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,791.3	1,839.8	2.7%	1,911.3	2,004.8	4.9%	NA
EBITDA	485.1	530.3	9.3%	509.5	573.7	12.6%	NA
EBITDA Margin (%)	27.1	28.8	175 bps	26.7	28.6	196 bps	
PAT	279.0	305.0	9.3%	311.5	328.7	5.5%	NA
EPS (₹)	4.5	4.9	9.3%	5.0	5.3	5.5%	

Source: Company, ICICI Direct Research

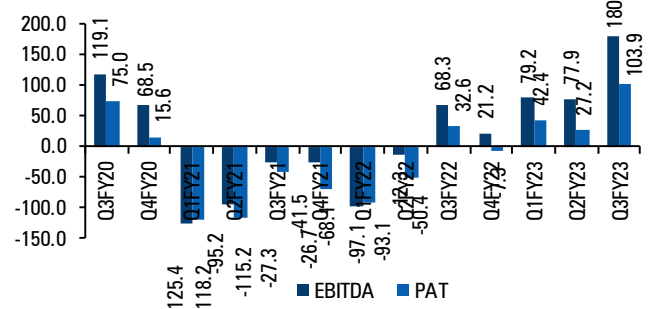
Financial Story in charts

Exhibit 4: Quarterly revenue trend



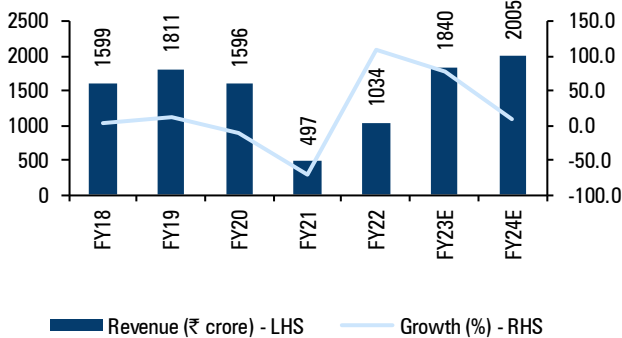
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA & PAT



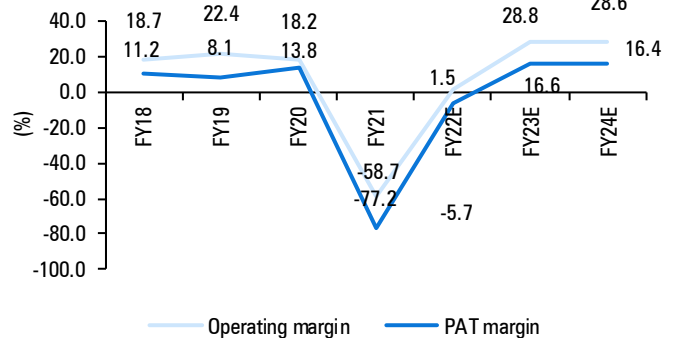
Source: Company, ICICI Direct Research

Exhibit 6: Expect revenue CAGR of 39.2% during FY22-24E on lower base



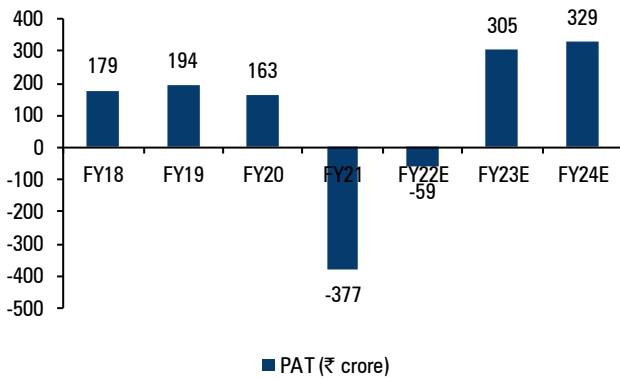
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margins to rebound in FY23E, stay healthy going forward



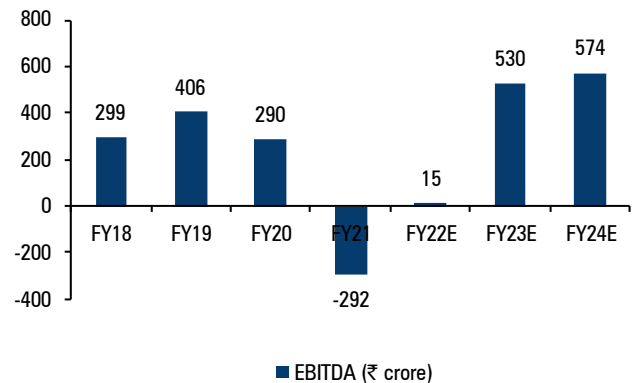
Source: Company, ICICI Direct Research

Exhibit 8: Profitability trend



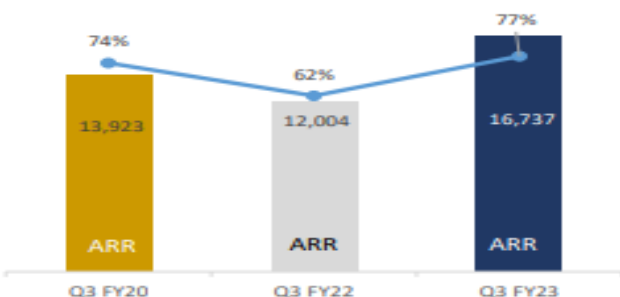
Source: Company, ICICI Direct Research

Exhibit 9: EBITDA trend over FY22-24E



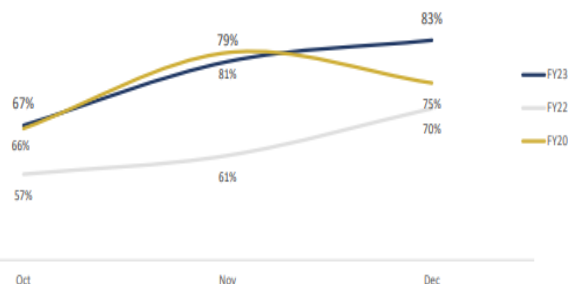
Source: Company, ICICI Direct Research

Exhibit 10: Quarterly occupancy & ARR



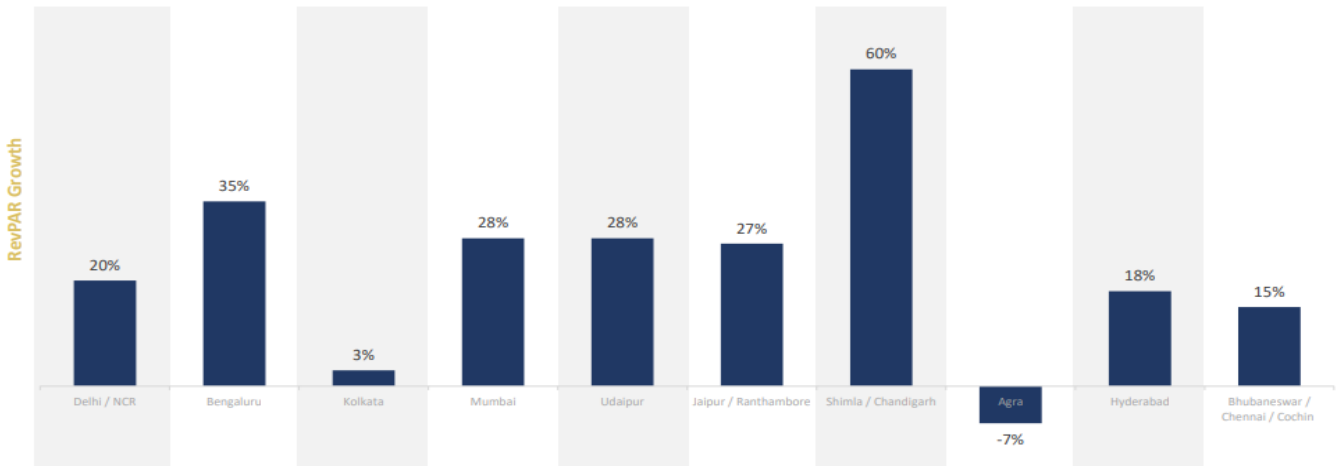
Source: Company, ICICI Direct Research

Exhibit 11: Monthly occupancy trend (%)



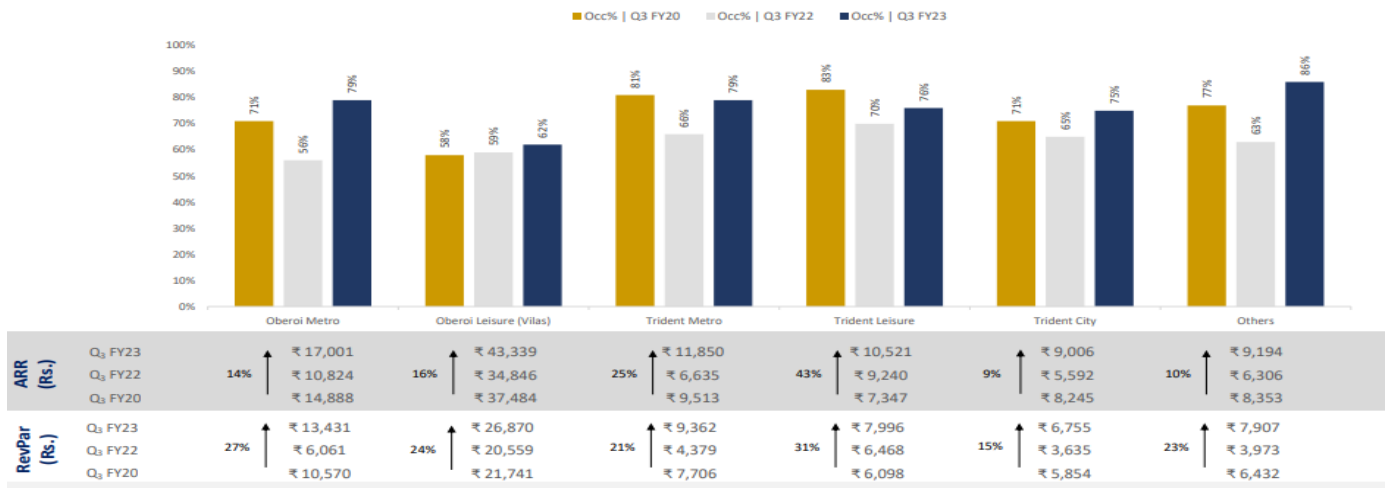
Source: Company, ICICI Direct Research

Exhibit 12: City-wise RevPAR growth at domestic hotels (Q3FY23 vs. Q3FY20)



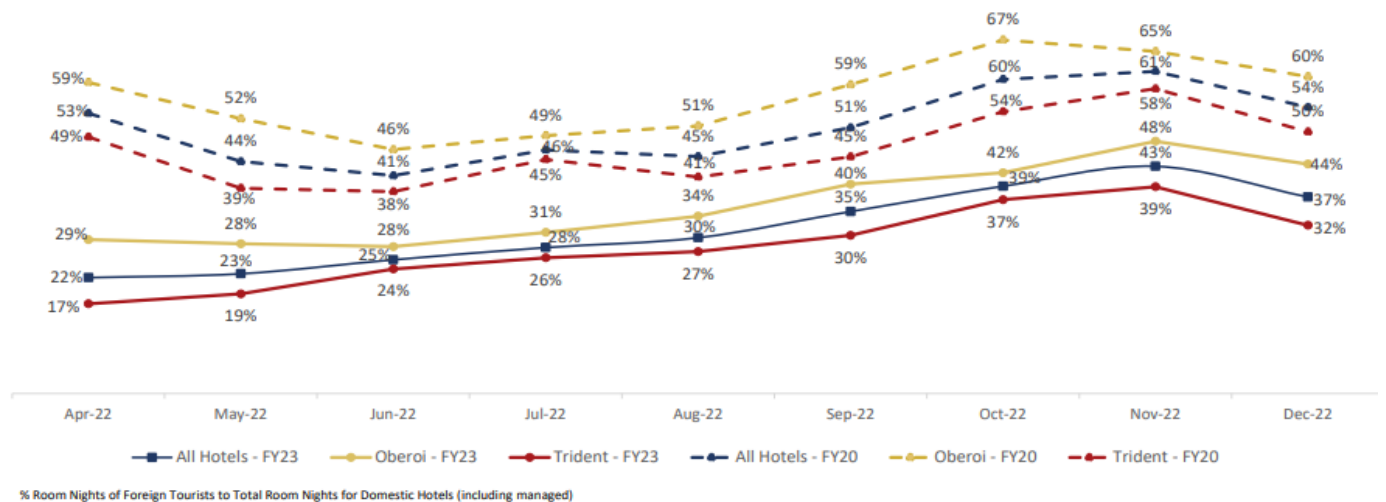
Source: Company, ICICI Direct Research

Exhibit 13: Brand wise quarterly trend in ARR and occupancies



Source: Company, ICICI Direct Research

Exhibit 14: Increasing room nights from foreign tourists



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 15: Profit & Loss Account

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Total operating income</b>	<b>1,596.3</b>	<b>497.1</b>	<b>1,034.5</b>	<b>1,839.8</b>	<b>2,004.8</b>
Growth (%)	-11.8	-68.9	108.1	77.8	9.0
Raw Material Expenses	199	75	140	248	271
Employee Expenses	469	352	362	399	419
Other Exp	637	362	517	662	742
Total Operating Expenditure	1,306.0	789.0	1,019.4	1,309.4	1,431.1
<b>EBITDA</b>	<b>290.3</b>	<b>-291.9</b>	<b>15.1</b>	<b>530.3</b>	<b>573.7</b>
Growth (%)	-28.5	-200.5	-105.2	3,414.7	8.2
Depreciation	146.5	132.7	139.5	136.8	136.8
Interest	55.6	45.7	46.7	29.9	16.1
Other Income	78.4	57.9	69.5	71.6	75.8
PBT	166.7	-412.4	-101.6	435.2	496.6
Others	-54.8	72.3	-16.3	-5.4	2.0
Total Tax	0.9	-100.9	-26.7	135.6	165.9
<b>Reported PAT</b>	<b>220.6</b>	<b>-383.8</b>	<b>-58.6</b>	<b>305.0</b>	<b>328.7</b>
Growth (%)	49.7	-274.0	NA	LP	LP
<b>Adjusted EPS (₹)</b>	<b>2.6</b>	<b>-6.0</b>	<b>-0.9</b>	<b>4.9</b>	<b>5.3</b>

Source: Company, ICICI Direct Research

### Exhibit 17: Balance Sheet summary

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>					
Equity Capital	114.3	125.1	125.1	125.1	125.1
Reserve and Surplus	3,005.3	2,980.0	2,901.6	3,122.8	3,304.3
Total Shareholders funds	3,119.6	3,105.1	3,026.7	3,247.9	3,429.4
Total Debt	620.3	475.4	507.4	325.4	175.4
Deferred Tax Liability	76.1	41.4	33.0	41.4	41.4
Minority Interest / Others	99.7	94.4	97.4	97.4	97.4
<b>Total Liabilities</b>	<b>3,916</b>	<b>3,716</b>	<b>3,665</b>	<b>3,712</b>	<b>3,744</b>
<b>Assets</b>					
Gross Block	4,309.5	4,201.5	4,163.1	4,163.1	4,163.1
Less: Acc Depreciation	1,788.9	1,788.9	1,788.9	1,925.7	2,062.5
Net Block	2,520.5	2,412.5	2,374.2	2,237.4	2,100.6
Capital WIP	130.4	168.9	54.1	110.0	80.0
Total Fixed Assets	2,651.0	2,581.4	2,428.2	2,347.4	2,180.6
Goodwill on consolidation	370.1	360.9	376.8	360.9	360.9
Investments	613.0	564.4	523.9	564.4	564.4
Inventory	61.0	51.4	48.7	102.5	62.3
Debtors	205.7	77.8	115.7	201.6	219.7
Loans and Advances	149.6	144.2	0.0	0.0	0.0
Other Current Assets	93.0	63.1	244.4	197.2	203.8
Cash	212.2	205.1	253.5	315.1	576.1
Total Current Assets	721.5	618.1	803.7	957.8	1,203.3
Creditors	296.2	266.2	277.4	292.3	318.6
Provisions	151.4	150.2	198.5	233.9	254.9
Total Current Liabilities	447.5	416.4	475.9	526.2	573.4
Net Current Assets	274.0	201.7	327.8	431.6	629.9
Others Assets	7.7	7.7	7.7	7.7	7.7
<b>Application of Funds</b>	<b>3,916</b>	<b>3,716</b>	<b>3,665</b>	<b>3,712</b>	<b>3,744</b>

Source: Company, ICICI Direct Research

### Exhibit 16: Cash flow statement

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Profit after Tax	220.6	-383.8	-58.6	305.0	328.7
Add: Depreciation	146.5	132.7	139.5	136.8	136.8
(Inc)/dec in Current Assets	236.9	172.9	-72.4	-92.4	15.5
Inc/(dec) in CL and Provisions	-4.7	-31.1	59.5	50.3	47.2
<b>CF from operating</b>	<b>599.3</b>	<b>-109.3</b>	<b>68.0</b>	<b>399.7</b>	<b>528.2</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-549.3	-63.1	13.7	-55.9	30.0
Others	-41.3	-30.9	-21.2	24.3	0.0
<b>CF from investing</b>	<b>-590.7</b>	<b>-94.0</b>	<b>-7.5</b>	<b>-31.7</b>	<b>30.0</b>
Issue/(Buy back) of Equity	0.0	10.8	0.0	0.0	0.0
Inc/(dec) in loan funds	89.3	-144.9	32.1	-182.1	-150.0
Dividend paid & dividend tax	-66.2	0.0	0.0	-73.6	-147.2
Inc/(dec) in Sec. premium	0.0	338.9	0.0	0.0	0.0
Others	-16.5	19.5	-19.8	-10.2	0.0
<b>CF from financing</b>	<b>6.6</b>	<b>224.3</b>	<b>12.2</b>	<b>-265.8</b>	<b>-297.2</b>
Net Cash flow	-17.9	-7.1	48.4	61.7	261.0
Opening Cash	230.2	212.2	205.1	253.5	315.1
<b>Closing Cash</b>	<b>212.2</b>	<b>205.1</b>	<b>253.5</b>	<b>315.1</b>	<b>576.1</b>

Source: Company, ICICI Direct Research

### Exhibit 18: Ratio sheet

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>					
Adjusted EPS	2.6	-6.0	-0.9	4.9	5.3
Cash EPS	5.9	-4.0	1.3	7.1	7.4
BV	49.9	49.7	48.4	51.9	54.8
DPS	0.9	0.0	0.0	0.0	0.0
Cash Per Share	3.4	3.3	4.1	5.0	9.2
<b>Operating Ratios (%)</b>					
EBITDA Margin	18.2	-58.7	1.5	28.8	28.6
PAT Margin	13.8	-77.2	-5.7	16.6	16.4
Inventory days	13.8	41.2	17.7	15.0	15.0
Debtor days	47.0	57.1	40.8	40.0	40.0
Creditor days	67.7	195.5	97.9	58.0	58.0
<b>Return Ratios (%)</b>					
RoE	5.2	-12.2	-1.9	9.4	9.6
RoCE	5.7	-9.9	-1.5	12.5	13.7
RoIC	4.5	-14.7	-4.4	14.2	17.0
<b>Valuation Ratios (x)</b>					
P/E	46.8	0.0	0.0	33.8	31.4
EV / EBITDA	36.9	-36.3	700.7	19.5	17.3
EV / Net Sales	6.7	21.3	10.2	5.6	4.9
Market Cap / Sales	6.5	20.8	10.0	5.6	5.1
Price to Book Value	3.3	3.3	3.4	3.2	3.0
<b>Solvency Ratios</b>					
Debt/EBITDA	2.1	-1.6	33.6	0.6	0.3
Debt / Equity	0.2	0.2	0.2	0.1	0.1
Current Ratio	1.1	0.8	0.9	1.0	0.8
Quick Ratio	1.0	0.7	0.8	0.8	0.7

Source: Company, ICICI Direct Research



## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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