

May 25, 2023

Strong demand to aid growth in ARR's...

About the stock: EIH 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)
- EIH also provides catering/kitchen services to airlines and operates restaurants/lounges at airports and is also into air charter and car hire services

Q4FY23 Results: EIH's standalone operational performance for Q4FY23 was better than our estimates on both revenue and profitability front.

- Revenues were up 112% YoY, 10% QoQ to ₹ 563.4 crore (higher than I-direct estimate of ₹ 527.8 crore). The revenue for the quarter was 31% higher than reported revenues during Q4FY19
- EBITDA margin came in at 40.1%, higher than our estimate of 34.8%. It was also far higher than EBITDA margin of 24.3% during Q4FY19. Absolute EBITDA came in at ₹ 225.9 crore vs. I-direct estimated EBITDA of ₹ 183.9 crore
- The company reported exceptional expenses of ₹ 10.5 crore mainly on account of impairment in the value of subsidiary investments. Despite this, EIH reported a net profit of ₹ 147 crore vs. expected net profit of ₹ 122 crore (Q4FY22: loss of ₹ 7.3 crore, Q3FY23: profit of ₹ 103.9 crore)

What should investors do? While the balance sheet provides strong immunity to weather the challenges, we expect profitability to remain healthy and margin profile to improve from FY23 levels. Strong ARR's and occupancy levels are likely to sustain given its sizeable presence in cities of Mumbai and Delhi, which are witnessing sustained demand.

- We revise our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value EIH at ₹ 240 i.e. 19.0x FY25E 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
- Looking at the strong performance in FY23, FY24 also appears promising due to many mega international events lined up (G20, CWC, etc). We expect revenue CAGR of 10% during FY23-25E. Margins are expected to stay at ~30-31% driving healthy profitability growth

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

- It has strong "Taj brand" in the premium segment along with having a larger presence in the midscale and economy segment

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23P	4 Year CAGR (FY19-23)	FY24E	FY25E	2 Year CAGR (FY22-24E)
Net Sales	1,810.8	1,596.3	493.5	985.3	2,018.8	2.8%	2,191.3	2,420.6	9.5%
EBITDA	321.2	289.6	-358.7	-1.3	597.4	16.8%	670.5	762.5	13.0%
EBITDA Margin (%)	17.7	18.1	-72.7	-0.1	29.6		30.6	31.5	
Net Profit	131.6	148.8	-369.7	-97.5	314.6	24.4%	403.8	479.4	23.4%
EPS (₹)	2.6	2.9	-6.0	-1.6	5.0		6.5	7.7	
P/E (x)	88.6	78.4	-34.5	-130.9	40.6		31.6	26.6	
EV/EBITDA (x)	40.7	41.7	-36.4	-10,214.4	21.0		18.6	15.9	
RoCE (%)	7.9	5.9	-12.0	-1.9	15.2		16.1	17.1	
RoE (%)	4.4	4.7	-11.9	-3.2	9.3		10.8	11.9	

Source: Company, ICICI Direct Research



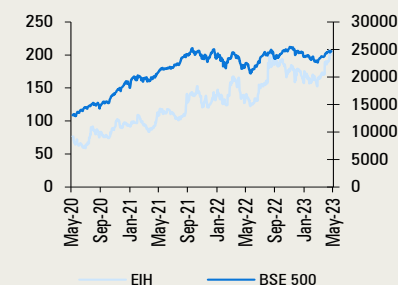
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	13,258.5
Total Debt (FY23P) (₹ crore)	238.4
Cash (FY22) (₹ crore)	458.9
EV (₹ crore)	13,038.0
52 Week H / L	218 / 128
Equity Capital (₹ crore)	114.3
Face Value (₹)	2.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	35.7	35.7	35.7	35.7	32.9
FII	3.8	3.7	3.7	3.7	3.8
DII	13.9	13.9	14.4	14.2	13.9
Others	46.6	46.6	46.2	46.4	49.4

Price Chart



Key risks

- Lower than expected occupancy and ARR's
- Delay in finalising new projects

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key conference call highlights

- The management highlighted that average room rates (ARR) remained strong in January and February 2023. However, there was marginal seasonal softness in March but a recovery in ARR in April 2023. The management highlighted that the current ARR had significant room for increase as it was still trending below its earlier peak levels
- On category wise growth, the management indicated that the luxury segment was growing much faster than other segments
- On the potential for further increase in ARR, the management said that the hotels in India are underpriced and there is upside on both ARR and occupancy ratio aspects. Post Covid, Indians have been spending higher on travel and leisure. Also, foreign tourist arrivals are still trending below pre Covid levels and recovery in the same would provide further uptick to the ARR and occupancy ratio in FY24 and beyond
- The management said that it was looking for various growth avenues and is open to growing revenues through own hotels and/or managed hotels or through strategic partnerships with hotel owners
- The company has 11 hotel projects under discussion and is likely to announce the projects from the same once it is finalised
- The company also has a flight kitchen and airport catering business. Both were severely impacted during the Covid pandemic. The management said that airport catering is the more profitable of the two businesses and has margins in the range of 25%. Further, the industry is facing capacity constraint, which would enable the company to get better pricing and further improve its margins in the segment
- The company has a 13-acre land plot at Gurgaon. EIH will develop the plot as and when possible
- On entering new areas like Andaman and Nicobar Island, the management indicated that it would be interested if some proposal is available on good commercial terms

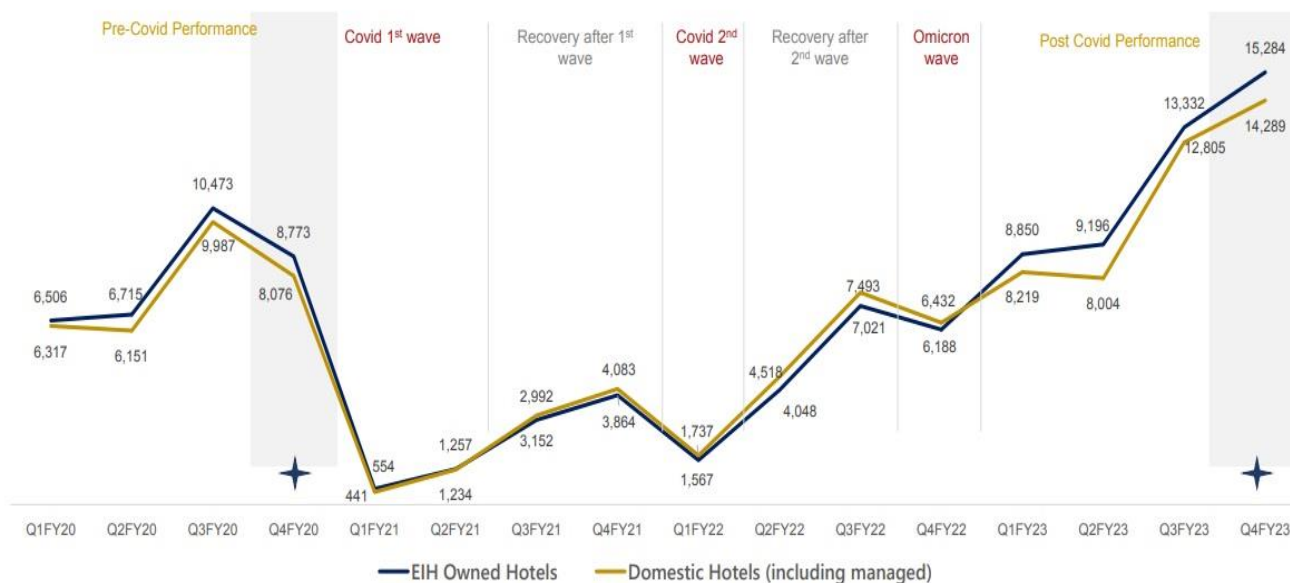
Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	563.4	527.8	265.6	112.1	512.2	10.0	Healthy occupancy and higher room rates enabled strong growth in revenues
Raw Material Expense	48.7	51.3	38.6	26.4	50.3	-3.2	
Employee Expenses	101.6	101.8	91.2	11.3	99.8	1.8	
Other Expenses	187.2	190.8	114.6	63.3	181.7	3.0	
EBITDA	225.9	183.9	21.2	966.0	180.5	25.2	EBITDA margin improved on both YoY and QoQ basis owing to strong operational performance
EBITDA Margin (%)	40.1	34.8	8.0	3212 bps	35.2	486 bps	
Depreciation	28.9	29.3	29.4	-1.7	28.8	0.6	
Interest	6.6	6.9	9.1	-28.2	6.8	-3.5	
Other Income	23.5	12.5	13.4	75.8	12.3	91.8	
PBT before Exceptional item	213.9	160.2	-4.0	-5,474.9	157.2	36.1	
Exceptional Item	10.5	0.0	-13.2		21.0		
PBT	203.4	160.2	9.2	2,108.7	136.1	36.1	
Tax Outgo	56.8	38.4	16.5	243.9	32.2	76.3	
PAT Before Minority int & other items	146.6	121.7	-7.3	-2,108.8	103.9	41.1	
Others			0.0		0.0		
PAT	146.6	121.7	-7.3		103.9	41.1	

Source: Company, ICICI Direct Research

Exhibit 2: RevPAR during Q4FY23 trending above pre-Covid level

In Rs.



Source: Company, ICICI Direct Research

Key triggers for future price performance

Strong trend in ARR likely to sustain: The FY23 performance of EIH was strong in terms of both revenue growth and profitability. Further in FY24, we expect the performance to continue as the company will also have the advantage of influx of incremental foreign tourists buoyed by G20 meetings and ICC Cricket World Cup.

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, in active discussion stage. The company could potentially add 750+ rooms by FY27.

Exhibit 3: Upcoming projects

	FY23 and FY24	FY25	FY26	FY27
Recently Opened and Opening Soon	Bay Club in Mumbai Managed (Opened in November 2022) Restaurant in Mumbai Leased (June 2023)			
Under Construction		The Oberoi Rajgarh Palace Owned – 48 keys	The Oberoi Kathmandu Managed – 84 keys	
		The Oberoi Bandhavgarh Managed – 24 keys	The Oberoi Wadi Safar, Saudi Arabia Managed – 60 keys	
Under Planning		The Oberoi Bardia Managed – 18 keys	Trident Tirupati Owned by subsidiary & managed by EIH - 100 keys	The Oberoi Goa Owned – 90 keys Trident Goa Owned - 150 keys The Oberoi Al Zorah Managed – 174 keys

Source: Company, ICICI Direct Research

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 0.1x.

Presence in gateway cities of Mumbai, Delhi : The company derives majority of revenues from the domestic market with Mumbai and Delhi region being the key revenue contributors, which continue to witness strong occupancy and ARR trend.

Valuation & Outlook: While the b/s provides strong immunity to weather the challenges, we expect the growth momentum to be driven by improvement in ARR. Further, the company is in active discussions for 11 new projects, which can provide revenue growth over the longer term. We roll over our estimates to FY25E and revise our rating from HOLD to **BUY** on the stock. We value the company at ₹ 240 i.e. 19.0x FY25E EV/EBITDA.

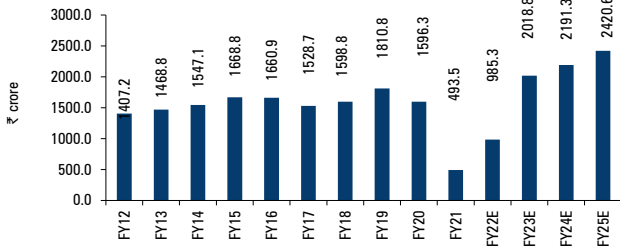
Change in Estimates

(₹ Crore)	FY23P	FY24E			FY25E Introduced
		Old	New	% Change	
Revenue	2,018.8	2,004.9	2,191.3	9.3	2,420.6
EBITDA	597.4	573.7	670.5	16.9	762.5
EBITDA Margin (%)	29.6	28.6	30.6	198 bps	31.5
PAT	314.6	328.7	399.5	21.6	479.1
EPS (₹)	5.0	5.3	6.4	20.5	7.7

Source: Company, ICICI Direct Research

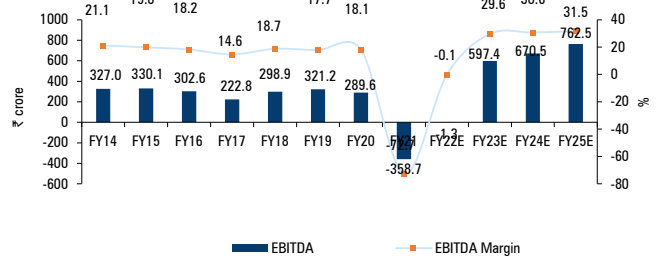
Financial Story in charts

Exhibit 4: Annual revenue trend



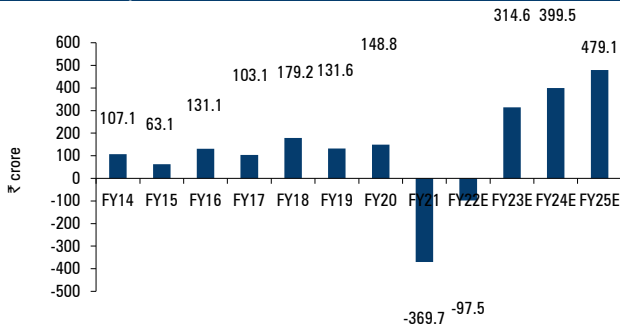
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA & EBITDA margin trend



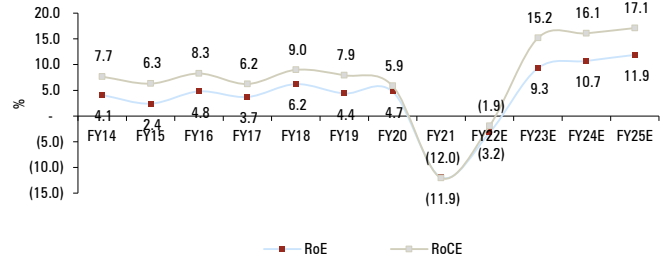
Source: Company, ICICI Direct Research

Exhibit 6: Net profit trend



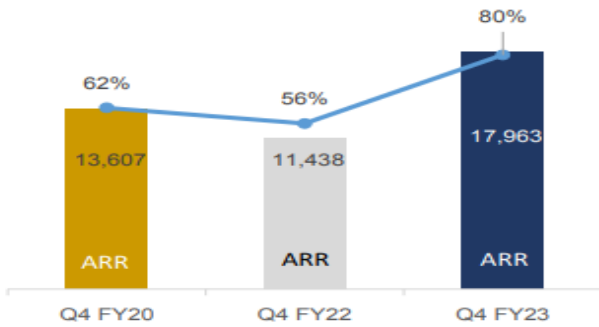
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



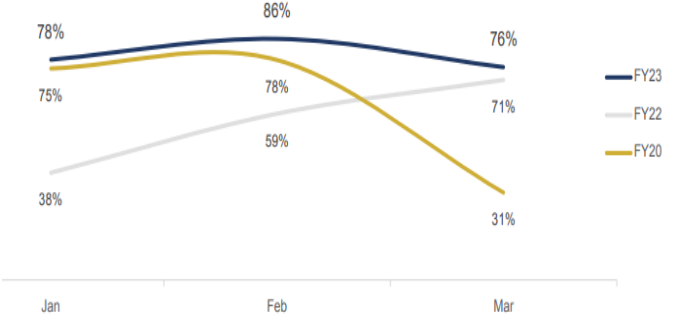
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly occupancy & ARR



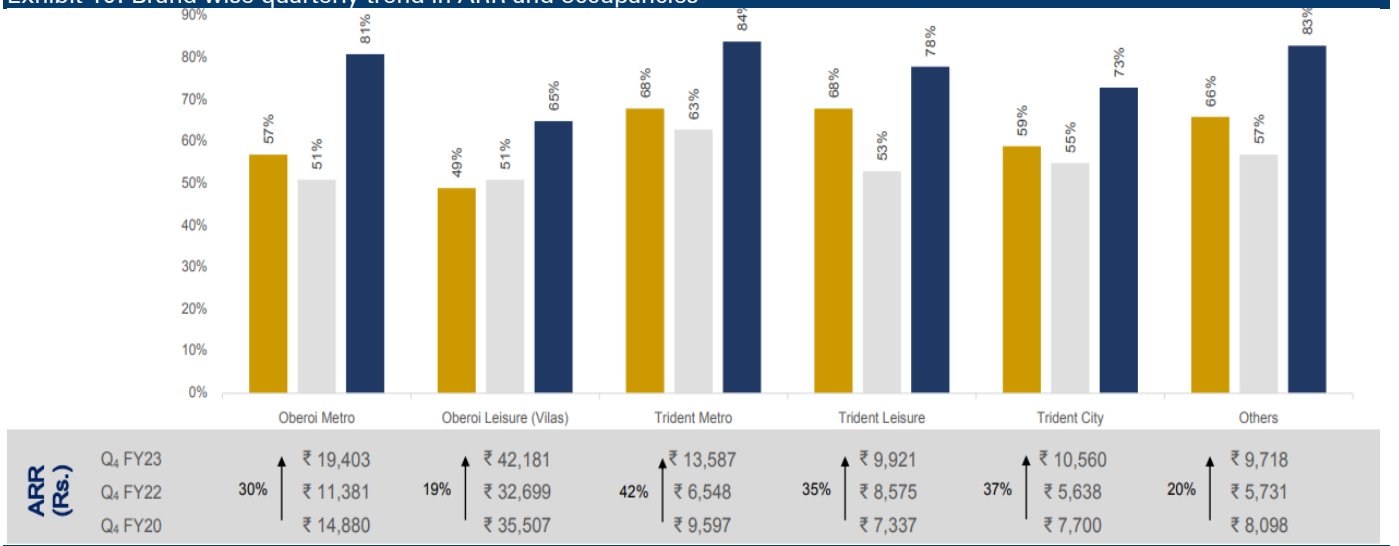
Source: Company, ICICI Direct Research

Exhibit 9: Monthly occupancy trend (%)



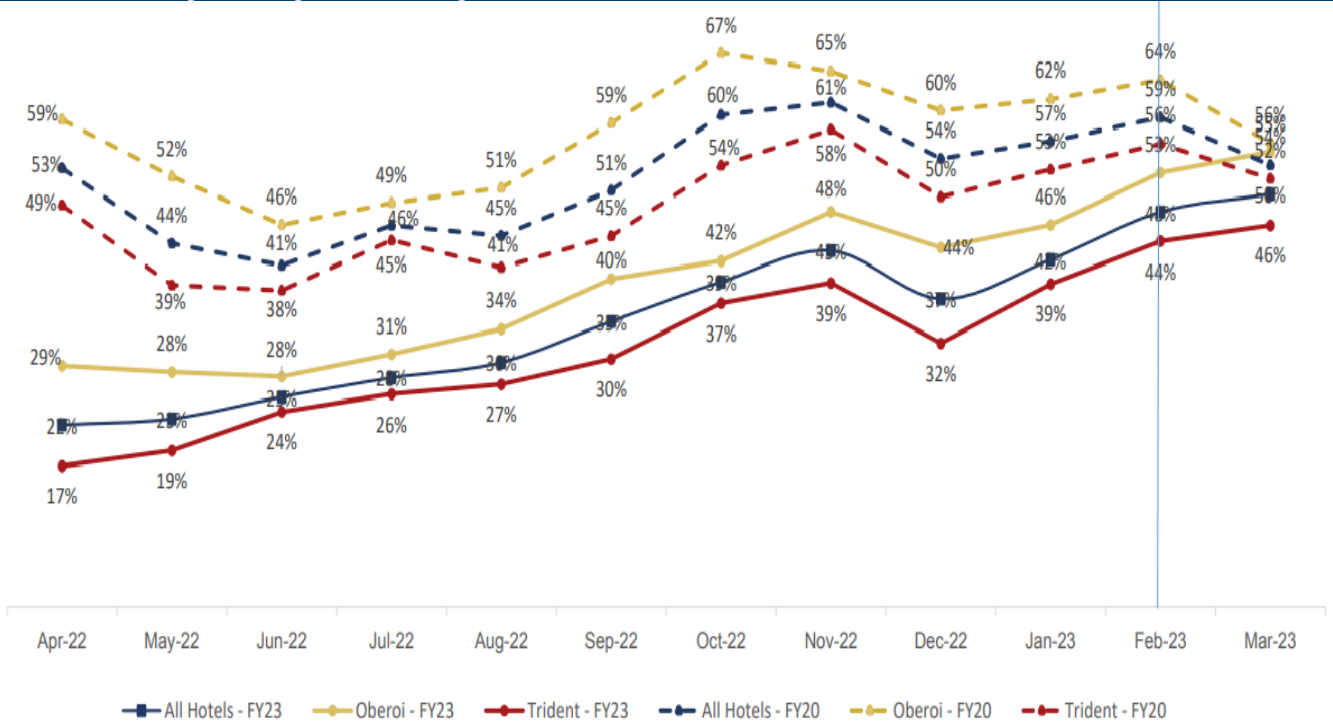
Source: Company, ICICI Direct Research

Exhibit 10: Brand wise quarterly trend in ARR and occupancies



Source: Company, ICICI Direct Research

Exhibit 11: Increasing room nights from foreign tourists



% Room Nights of Foreign Tourists to Total Room Nights for Domestic Hotels (incl. incline managed)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit & Loss Account

(Year-end March)	FY22A	FY23P	FY24E	FY25E
Net Sales	985.3	2,018.8	2,191.3	2,420.6
Growth (%)	(38.3)	104.9	8.5	10.5
Total Raw Material Cost	132.8	192.4	241.0	266.3
Gross Margins (%)	86.5	90.5	89.0	89.0
Employee Expenses	373.7	431.2	468.9	508.3
Other Expenses	480.1	797.9	810.8	883.5
Total Operating Expenditure	986.5	1,421.4	1,520.8	1,658.1
EBITDA	(1.3)	597.4	670.5	762.5
EBITDA Margin	(0.1)	29.6	30.6	31.5
Interest	34.9	35.6	37.3	39.2
Depreciation	124.3	126.2	138.8	152.7
Other Income	58.7	77.6	83.0	86.4
Exceptional Expense	55.2	(69.0)	-	-
Others	(49.2)	(4.9)	(12.0)	(12.0)
PBT	(95.7)	439.3	565.4	645.0
Total Tax*	1.7	124.7	161.7	165.6
Profit After Tax	(97.5)	314.6	403.8	479.4

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet summary

(Year-end March)	FY22A	FY23P	FY24E	FY25E
Equity Capital	125.1	125.1	125.1	125.1
Reserve and Surplus	2,901.6	3,249.5	3,606.1	3,905.9
Total Shareholders funds	3,026.7	3,374.6	3,731.1	4,031.0
Total Debt	475.1	238.4	88.4	38.4
Non Current Liabilities	186.3	316.7	293.2	303.0
Source of Funds	3,688.0	3,929.7	4,112.7	4,372.3
Gross block	3,267.4	3,410.8	3,510.8	3,610.8
Less: Accum depreciation	413.6	539.8	678.6	831.3
Net Fixed Assets	2,853.7	2,871.0	2,832.2	2,779.5
Capital WIP	54.8	110.0	110.0	110.0
Intangible assets	-	-	-	-
Investments	364.9	384.5	576.7	634.4
Inventory	48.7	63.8	90.1	99.5
Cash	261.0	458.9	398.3	672.4
Debtors	115.7	224.3	312.2	338.2
Loans & Advances & Other CA	189.8	61.4	55.3	49.7
Total Current Assets	615.2	808.4	855.8	1,159.8
Creditors	176.0	304.3	300.2	331.6
Provisions & Other CL	272.8	207.8	224.3	237.1
Total Current Liabilities	448.8	512.1	524.5	568.7
Net Current Assets	166.5	296.3	331.3	591.1
LT L&A, Other Assets	248.1	267.9	262.5	257.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	3,688.0	3,929.7	4,112.7	4,372.3

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement

(Year-end March)	FY22A	FY23P	FY24E	FY25E
Profit/(Loss) after taxation	-97.5	314.6	403.8	479.4
Add: Depreciation	124.3	126.2	138.8	152.7
Net Increase in Current Assets	-162.0	4.7	-108.0	-29.9
Net Increase in Current Liabilities	132.4	63.4	12.4	44.2
others	0.0	0.0	0.0	0.0
CF from operating activities	-2.8	508.9	446.9	646.4
(Inc)/dec in Investments	46.2	-19.5	-192.2	-57.7
(Inc)/dec in Fixed Assets	21.5	-198.7	-100.0	-100.0
Others	12.6	-19.8	5.4	5.3
CF from investing activities	80.3	-238.0	-286.9	-152.4
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-35.2	-236.7	-150.0	-50.0
Others	12.5	163.7	-70.7	-169.8
CF from financing activities	-22.7	-72.9	-220.7	-219.8
Net Cash flow	54.8	197.9	-60.7	274.2
Opening Cash	206.2	261.0	458.9	398.3
Closing Cash	261.0	458.9	398.3	672.4

Source: Company, ICICI Direct Research

Exhibit 15: Ratio sheet

(Year-end March)	FY22A	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	-1.6	5.0	6.5	7.7
Cash EPS	0.5	7.3	8.9	10.3
BV	48.4	54.0	59.7	64.5
DPS	0.0	1.1	1.7	2.0
Cash Per Share	4.2	7.3	6.4	10.8
Operating Ratios (%)				
EBITDA margins	-0.1	29.6	30.6	31.5
PBT margins	-9.7	21.8	25.8	26.6
Net Profit margins	-9.9	15.6	18.4	19.8
Inventory days	18.1	11.5	15.0	15.0
Debtor days	42.9	40.5	52.0	51.0
Creditor days	65.2	55.0	50.0	50.0
Return Ratios (%)				
RoE	-3.2	9.3	10.8	11.9
RoCE	-1.9	15.2	16.1	17.1
RoIC	-2.1	18.0	18.6	21.2
Valuation Ratios (x)				
P/E	NA	40.6	31.6	26.6
EV / EBITDA	NA	21.0	18.6	15.9
EV / Sales	13.2	6.2	5.7	5.0
Market Cap / Revenues	12.9	6.3	5.8	5.3
Price to Book Value	4.2	3.8	3.4	3.2
Solvency Ratios				
Debt / Equity	0.2	0.1	0.0	0.0
Debt/EBITDA	NA	0.4	0.1	0.1
Current Ratio	0.8	0.7	0.9	0.9
Quick Ratio	0.7	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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