

October 12, 2020

Strain on business to continue...

The strain on occupancy during times of restricted travel and subsequent low demand is expected to impact profitability of premium hotels even in Q2FY21. Although lifting of lockdown curbs, gradual relaxation of travel restrictions in domestic market would provide some breather QoQ, overall demand is expected to remain muted as change in consumer behaviour and social distancing norms will impact travel plans in the near term, which will also get elongated due to monsoon. Hence, alternative revenue verticals like online food business, quarantine business of repatriation guests, stay for medical professional or even tie-ups with hospitals would continue to be key revenue drivers this quarter as well. This demand, albeit temporarily coming with highly discounted room rates, is expected to provide some breather to hotel players in Q2FY21E. In terms of individual performances, we expect premium segment hotel players to report a sharp drop in revenue of over 75% YoY while mid-scale players like Lemon Tree would report revenue decline of ~66% YoY. Overall, we expect I-direct hotel universe to report revenue decline of 74.9% YoY during the quarter.

Realignment of fixed costs to help narrow down losses

Hotel industry has majority of its costs fixed (i.e. ~70% of total costs), with power/lighting and employee costs taking the major share. With a drop in room rates, hotel players have realigned their cost base to tackle this exceptionally challenging environment. Hence, we expect over 54% YoY reduction in operating cost as well. This would help companies narrow down their losses QoQ. During the quarter, we expect Indian Hotels' operating loss of ₹ 124.4 crore while EIH would report operating loss of ₹ 86.9 crore. With stringent cost control measures initiated by Lemon Tree, we expect it to make operating profits on similar lines with Q1FY21.

Recent fund raising by companies to provide enough liquidity support

In our coverage universe, EIH Ltd is best placed on B/S front. The recent fund raising of ₹ 350 crore via rights issue would improve the debt/equity mix to 0.1x from 0.2x. While Indian Hotels has a strong promoter backing, its debt/equity is 0.7x, which combined with capex requirement could lead to rise D/E further to 0.9x if the current Covid issue persists for longer. Lemon Tree Hotels, being on a capex mode, is highly levered vs peers but also has strong institutional backing for liquidity support.

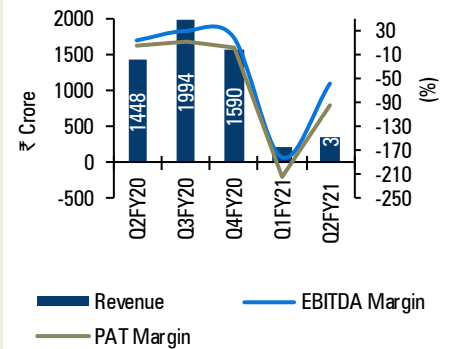
Exhibit 1: Estimates for Q2FY21E: (Hotels)

(₹ Crore)

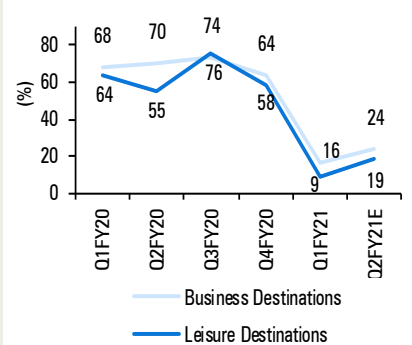
| Company | Revenue | | Change (%) | | EBITDA | | Change (%) | | PAT | | Change (%) | |
|-------------------|--------------|--------------|-------------|---------------|-----------|-----------|---------------|-----------|-----------|-----|------------|--|
| | Q2FY20E | YoY | QoQ | Q2FY21E | YoY | QoQ | Q2FY21E | YoY | QoQ | YoY | QoQ | |
| EIH | 69.9 | -75.7 | 145.5 | -86.9 | PL | NA | -90.1 | PL | NA | | | |
| Indian Hotel | 241.8 | -76.0 | 68.4 | -124.4 | PL | NA | -185.9 | PL | NA | | | |
| Lemon Tree Hotels | 52.0 | -65.9 | 28.0 | 7.7 | -84.1 | 76.3 | -54.7 | PL | NA | | | |
| Total | 363.7 | -74.9 | 71.0 | -203.6 | NA | NA | -330.7 | NA | PL | | | |

Source: Company, ICICI Direct Research

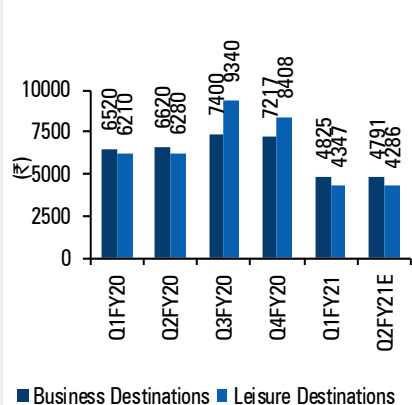
Topline & Profitability (Coverage Universe)



Trend in average occupancy levels (%)



Trend in average room rates (In ₹)



Top Picks

EIH

Research Analysts

Rashesh Shah
rashesh.shah@icicisecurities.com

cheragh.sidhwa@icicisecurities.com

Company specific view

| Company | Remarks |
|---------------|---|
| Indian Hotels | On the revenue front, the domestic business is expected to witness a marginal pick-up on a QoQ basis with gradual unlocking. Further, on the international front, opening of hotels in the UK would provide a marginal breather. However, the overall business environment would continue to remain weak in Q2FY21 as well. As a result, we expect Q2FY21E revenues to decline 76% YoY. With higher fixed getting reset in Q1FY21, we expect operational losses to narrow down sequentially |
| EIH | Revenue of EIH (being a premium domestic player) would also get impacted most during the quarter. Further, with lower revenues from the catering business we expect revenue drop of 75.7% YoY. We expect the company to make operational loss of ₹ 85 crore for the quarter |
| Lemon Tree | While the company is expected to make operating profits vs. peers due to stringent cost controls measures taken during the quarter, higher interest and depreciation charge due to addition of new properties will lead the company to report higher loss during the quarter |

Source: Company, ICICI Direct Research

Exhibit 2: Valuation matrix (Hotels)

| Sector/Company | CMP | | M Cap | EPS | | | P/E (X) | | | EV/EBITDA | | | ROCE (%) | | | RoE (%) | | | |
|-----------------------|-----|-------|-------|--------|--------|------|---------|-------|------|-----------|-------|------|----------|-------|------|---------|-------|-------|-------|
| | (₹) | TP(₹) | | Rating | (₹ Cr) | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E | FY22E | FY20 | FY21E |
| Indian Hotel (INDHOT) | 95 | 80 | HOLD | 11298 | 3.0 | -4.7 | -0.1 | 32 | 0 | 0 | 14 | -57 | 24 | 7.0 | -8.1 | 2.6 | 8.1 | -14.8 | -0.2 |
| EIH (EIH) | 79 | 103 | BUY | 4515 | 2.6 | -2.7 | 2.3 | 22 | 0 | 34 | 18 | -54 | 16 | 5.7 | -4.9 | 5.9 | 5.2 | -5.1 | 4.3 |
| Lemon Tree Hotels | 26 | 26 | HOLD | 2023 | -0.2 | -1.7 | -0.2 | NM | NM | NM | 15 | 29 | 14 | 5.5 | 0.8 | 5.0 | -1.5 | -17.3 | -2.1 |

Source: ICICIdirect.com 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**



ANALYST CERTIFICATION

I/We, Rashesh Shah, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.