

CMP: ₹ 206

Target: ₹ 250 (21%)

Target Period: 12 months

BUY

October 22, 2021

Leisure rebounds; business travel to follow soon...

About the stock: With room inventory of 19,425 rooms, Indian Hotels (IHCL) is a diversified player in the hotel industry through brands such as Taj, Vivanta, SeleQtions and Ginger.

- Indian Hotels also has a select presence in the luxury segment in the US, the UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties
- The company enjoys strong support from its key promoter Tata Sons and is also an important strategic business for Tata Group

Q2FY22 Results: Indian Hotels witnessed a sharp rebound in Q2FY22; revenue reached 72% of pre-Covid levels.

- Indian Hotels' revenues for Q2FY22 were up 184% YoY, 111% QoQ to ₹ 728.4 crore. EBITDA came in at ₹ 72.8 crore and net loss reduced to ₹ 120.6 crore vs. loss of ₹ 230 crore last year and loss of ₹ 277 crore last quarter
- Domestic segment recovered to 86% of pre-Covid revenues while international portfolio reached 62% of pre-Covid levels
- With the object of becoming debt free, the board has approved a fund raising of ₹ 4000 crore

What should investors do? Along with the improved outlook, the company is also focusing on driving more efficiencies through cost optimisation.

- We remain positive on the company and maintain our BUY rating

Target Price and Valuation: We value IHCL at ₹ 250 i.e. 31x FY23E EV/EBITDA

Key triggers for future price performance:

- The ongoing crisis would restrict overall room supply in the industry in next three to four years, auguring well for branded players like Indian Hotels
- Expect business to recover to 97% of pre-Covid levels with EBITDA surpassing pre-Covid levels by FY23E; margins are seen at over 24% in FY23E, which has the potential to further expand to 30%+
- Improved cash flows, equity infusion and divestment of non-core assets are expected to help the company become debt free

Alternate Stock Idea: Besides IHCL, in our hotel sector coverage we also like EIH.

- It is the premium segment key domestic hotel player. Like Taj, it also has strong hotel brands like Oberoi and Trident. It has a strong balance sheet
- BUY with a target price of ₹ 150/share



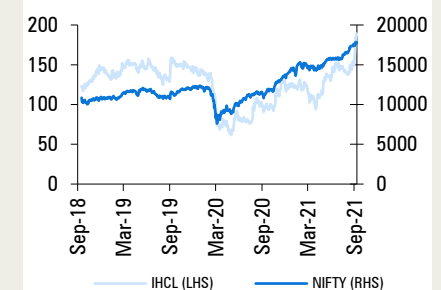
Particulars

Particular	Amount
Market Cap	₹ 24498 crore
Debt (FY21)	₹ 3592 crore
Cash (FY21)	₹ 152 crore
EV	₹ 27938 crore
52 week H/L	158/62
Equity capital	₹ 118.9 crore
Face value	₹ 1

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	40.75	40.75	40.75	40.75
FII	12.51	12.27	12.56	13.48
DII	29.59	29.16	27.99	27.07
Others	17.15	17.82	18.70	18.70

Price Chart



Key risks

- Any further stringent lockdown on likely third/fourth wave could hamper business
- Companies adopting work from home policy beyond FY22 could delay the recovery in business hotel segment

Research Analyst

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Key Financial Summary

	FY18	FY19	FY20	FY21	3 Year CAGR (%)	FY22E	FY23E	2 Year CAGR (%)
Net Sales	4,104	4,512	4,463	1,575	(27.3)	2,745	4,319	65.6
EBITDA	670	830	968	(362)	PL	163	1,065	LP
EBITDA (%)	16.3	18.4	21.7	(23.0)		5.9	24.7	
Net Profit	101	287	354	(720)	PL	(485)	300	LP
EPS (₹)	0.8	2.4	2.7	(7.2)		(4.1)	2.5	
EV/EBITDA	39.3	32.3	28.0	(77.2)		174.4	26.4	
RoNW	2.2	6.5	7.3	(23.3)		(15.6)	8.7	
RoCE	5.5	7.4	7.0	(6.1)		(1.5)	7.6	
ROE	2.2	6.5	7.3	(23.3)		(15.6)	8.7	

Source: Company, ICICI Direct Research

Key performance highlights

- **Consolidated revenues reached 72% of pre-Covid levels** to ₹ 728.4 crore. It was up 184% YoY, 111% QoQ (better than I-direct estimate: ₹ 626.2 crore). EBITDA came in at ₹ 72.8 crore (ahead of I-direct estimate: ₹ 46.1 crore). However, net loss of ₹ 120.6 crore remained lower than our estimates (₹ 103.1 crore) due to exchange loss of ₹ 11 crore on borrowings
- Occupancy at standalone level was at 57% vs. 28.5% in Q1FY22. Average room rate also saw a jump of 18% QoQ to ₹ 8273/room leading to RevPAR growth of 235% QoQ to ₹ 4679/room
- **Domestic segment recovered to 86% of pre-Covid level revenues** led by superior recovery in leisure destinations like Goa (121%), Rajasthan (152%). South based business locations like Chennai, Hyderabad reported 73% and 85% of pre-Covid revenues, respectively, while Mumbai & Delhi reached 66% & 64% of pre-Covid revenues, respectively
- International leisure destinations like Maldives (108%) & Dubai (136%) also crossed pre-Covid level revenues while the US and UK reached 56% of pre-Covid revenues. Overall, the company's **international room portfolio revenue recovered to 62% of pre-Covid levels**
- Total expenditure has been kept at 77% of pre-Covid levels. It was up 61.1% YoY, 33% QoQ. Fixed cost per month increased marginally from ₹ 126 crore per month during Q1FY22 to ₹ 129 crore per month. However, it was down 21% YoY (i.e. ₹ 164 crore/month in Q2FY20). Staff to room ratio has been brought down from 1.53x last year to 1.1x in Q2FY22 i.e. same as Q1FY22
- The gross debt has increased from ₹ 3,663 crore in FY21 to ₹ 4,081 crore in Q2FY22 (flat QoQ) to maintain the liquidity. The net debt is now at ₹ 3,571 crore with net D/E ratio of 0.93x vs 0.73x FY21. The average cost of debt is at 6.9% (up 40 bps from March 2021)
- With the object of becoming debt free, **the board of directors has approved of ₹ 4000 crore of fund raising**: ₹ 2000 crore will be raised by way of rights issue and additional ₹ 2000 crore through QIP, subject to receipt of requisite approvals
- The board also announced the approval of purchase of balance shares (39.4% stake) from existing shareholders of Roots Corporation, which operates the Ginger brand. Post this transaction, Roots Corporation will become 100% subsidiary of IHCL

Exhibit 1: Quarterly financial performance

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Q2FY20	As % of Pre-covid level
Total Operating Income	728.4	626.2	256.7	183.8	344.6	111.4	1,007.4	72.3
Other Income	23.9	27.4	66.9	-64.2	25.8	-7.1	21.1	
Raw Material Expenses	62.8	55.9	21.8	187.7	28.1	123.7	84.8	
Employee Expenses	278.8	255.5	204.3	36.5	248.6	12.1	365.2	
Other Expenses	314.0	241.3	180.9	73.6	216.7	44.9	397.0	
Total Expenditure	655.5	552.7	407.0	61.1	493.4	32.9	847.0	77.4
EBITDA	72.8	46.1	-150.3	-148.5	-148.8	-148.9	160.5	45.4
EBITDA Margin (%)	10.0	7.4	-58.6	NA	-43.2	NA	15.9	
Interest	113.9	109.7	96.8	17.7	109.7	3.7	86.8	
Depreciation	101.8	105.4	102.8	-1.1	102.5	-0.8	99.9	
PBT	-129.7	-122.9	-262.6	PL	-315.0	PL	-5.4	
Exceptional	10.8	0.0	-20.5	-152.8	-20.3	-153.3	0.3	
Less: Tax	-11.3	-40.6	-42.9	-73.6	-45.0	-74.8	-85.5	
PAT	-120.6	-103.1	-230.0	-47.6	-277.3	-56.5	71.3	NA

Source: Company, ICICI Direct Research

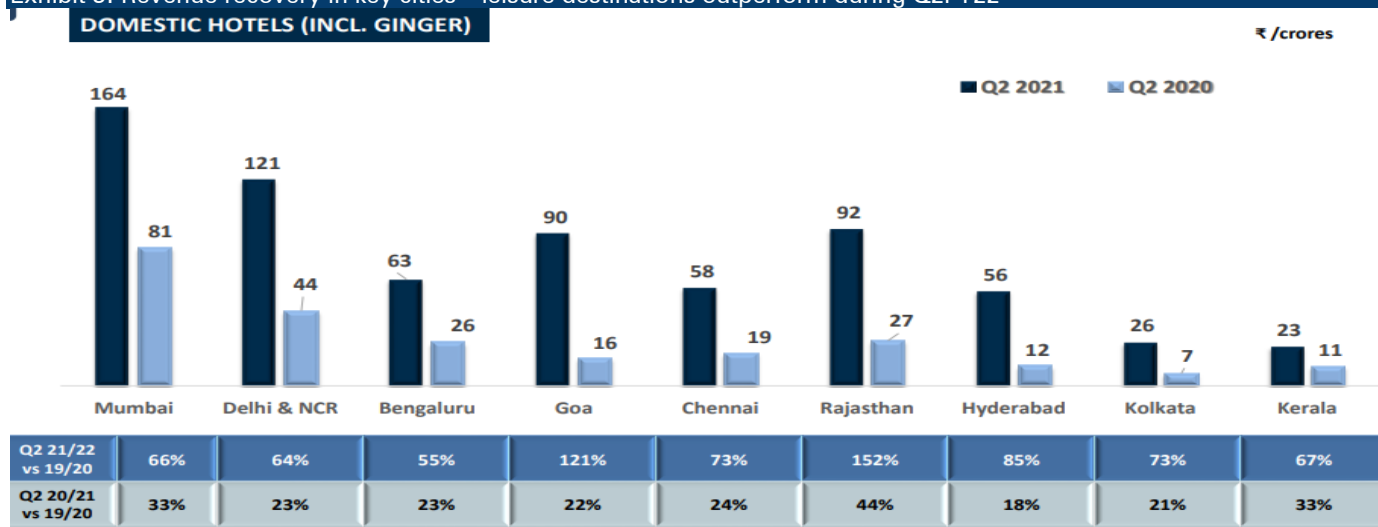
Financial story in charts

Exhibit 2: ARR & occupancy trend during Q2 in domestic segment

Particulars	Q1	Jul	Aug	Sep	Q2	H1	H1 LY
Occupancy %	28.4	52.3	56.6	60.9	56.6	42.5	26.4
ARR in ₹	7,024	7,981	8,419	8,391	8,273	7,858	5,202
RevPAR in ₹	1,992	4,177	4,767	5,107	4,679	3,342	1,373
(₹/ crores)							
Room Revenue	82	58	66	69	193	275	111
F & B Revenue	65	51	57	58	166	231	68
Other Revenue*	79	30	34	58	122	201	153
Total Revenue	226	139	157	185	481	707	332

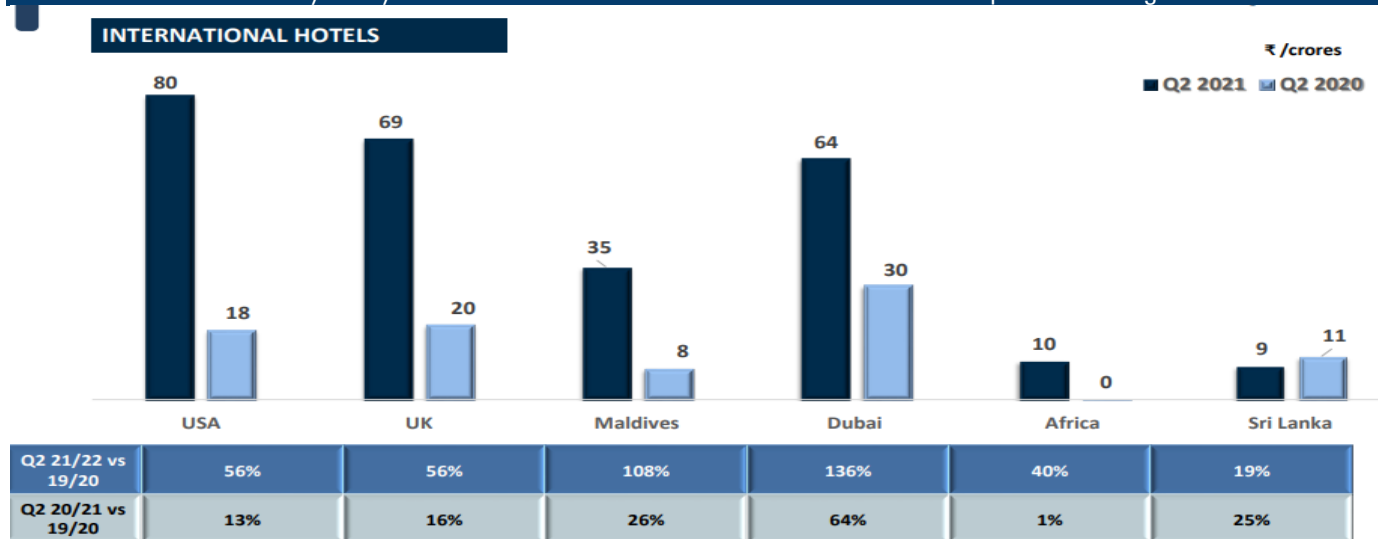
Source: Company, ICICI Direct Research

Exhibit 3: Revenue recovery in key cities – leisure destinations outperform during Q2FY22



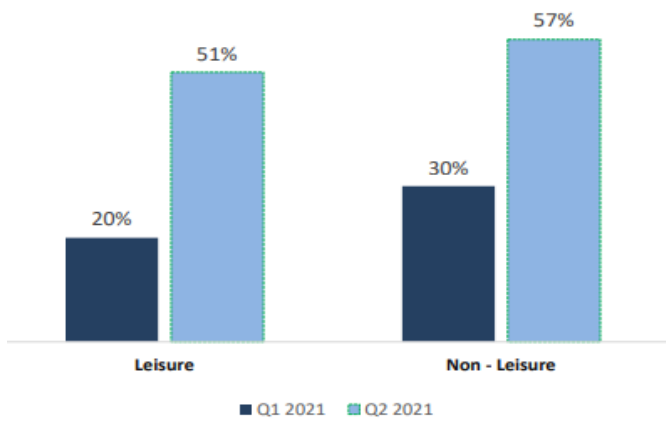
Source: Company, ICICI Direct Research

Exhibit 4: Revenue recovery in key international cities – leisure destinations here also outperform during Q2FY22



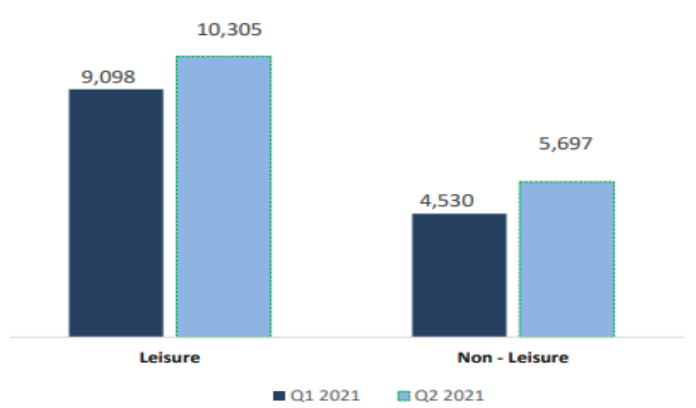
Source: Company, ICICI Direct Research

Exhibit 5: Domestic occupancy trend (%)



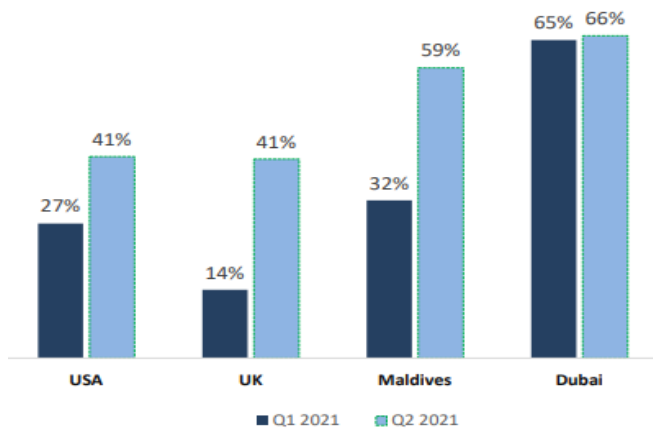
Source: Company, ICICI Direct Research

Exhibit 6: Domestic ARR trend



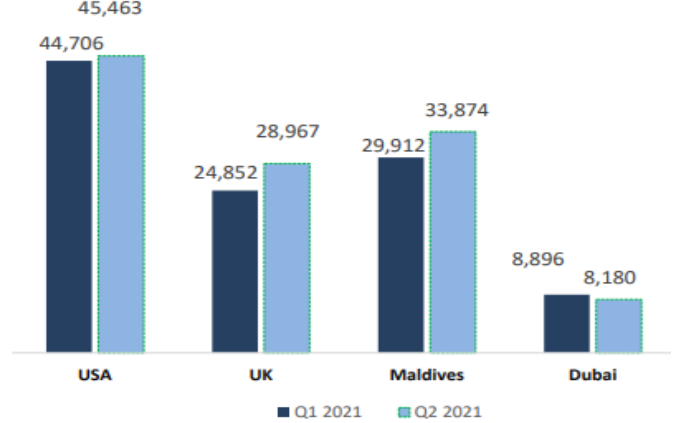
Source: Company, ICICI Direct Research

Exhibit 7: Occupancy trend of key international cities



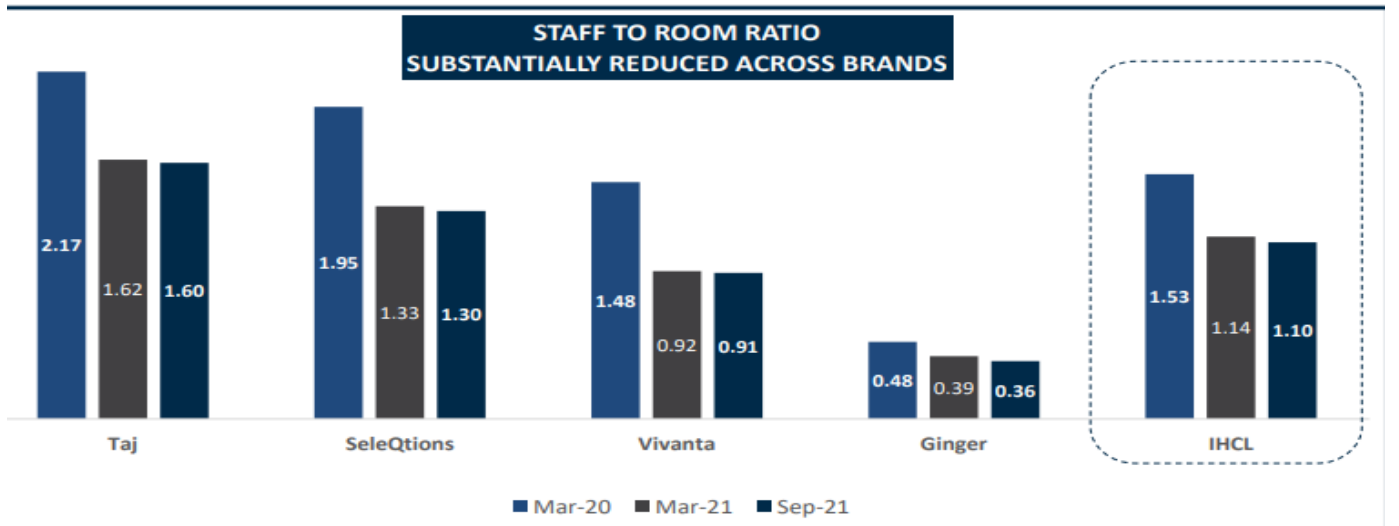
Source: Company, ICICI Direct Research

Exhibit 8: ARR trends of key international cities



Source: Company, ICICI Direct Research

Exhibit 9: Manpower optimisation continues across brands



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	4,463.1	1,575.2	2,744.8	4,319.1
Growth (%)	-1.1	-64.7	74.3	57.4
Raw Material Expenses	370.6	143.8	235.0	410.3
Employee Expenses	1,494.6	894.0	1,095.4	1,180.7
Power & Fuel Exp	0.0	0.0	0.0	0.0
Other Exp	1,630.5	899.1	1,251.3	1,662.8
Total Operating Exp	3,495.6	1,936.9	2,581.7	3,253.9
EBITDA	967.5	-361.8	163.2	1,065.2
Growth (%)	16.6	-137.4	-145.1	552.8
Depreciation	404.2	409.6	417.8	430.3
Interest	341.1	402.8	443.1	412.5
Other Income	132.4	164.7	104.6	123.0
PBT	354.6	-1,009.5	-593.1	345.3
Others/Minority Int	-18.7	-336.9	-85.5	30.6
Total Tax	44.8	-155.3	-86.3	64.9
Adjusted PAT	354.4	-815.1	-484.6	299.8
Growth (%)	23.6	-330.0	-40.5	-161.9
Adjusted EPS (₹)	3.0	-6.9	-4.1	2.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	354.4	-720.1	-484.6	299.8
Add: Depreciation	404.2	409.6	417.8	430.3
(Inc)/dec in Current Assets	-1.5	237.7	-194.7	-114.5
Inc/(dec) in CL and Provisions	-87.1	186.9	172.2	-6.2
CF from operating activit	670.0	114.1	-89.3	609.4
(Inc)/dec in Investments	4.7	3.7	0.0	0.0
(Inc)/dec in Fixed Assets	-569.6	-787.9	-561.8	-412.3
Others	-61.8	-192.2	124.3	176.3
CF from investing activiti	-626.7	-976.3	-437.5	-236.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	377.1	688.5	500.0	-200.0
Dividend paid & dividend tax	-71.7	0.0	0.0	0.0
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-248.3	10.0	0.0	0.0
CF from financing activiti	57.1	698.5	500.0	-200.0
Net Cash flow	100.4	-163.7	-26.8	173.4
Opening Cash	215.0	315.5	151.7	125.0
Closing Cash	315.5	151.7	125.0	298.4

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	118.9	118.9	118.9	118.9
Reserve and Surplus	4,237.8	3,527.7	3,043.1	3,342.9
Total Shareholders funds	4,356.7	3,646.6	3,162.0	3,461.8
Total Debt	2,903.4	3,591.9	4,091.9	3,891.9
Deferred Tax Liability	110.4	78.1	68.1	58.1
Minority Interest / Others	2,625.5	2,561.7	2,573.0	2,584.3
Total Liabilities	9,995.9	9,878.3	9,894.9	9,996.1
Gross Block	9,559.6	10,426.6	10,860.9	11,352.0
Less: Acc Depreciation	4,288.9	4,698.6	5,089.5	5,497.5
Net Block	5,270.7	5,728.0	5,771.3	5,854.4
Capital WIP	244.1	165.0	265.7	164.6
Total Fixed Assets	5,514.7	5,893.0	6,037.0	6,019.0
Investments	1,426.6	1,483.2	1,428.2	1,353.2
Goodwill on consolidation	1,204.9	1,180.0	1,180.0	1,180.0
Right-of-use-asset				
Inventory	93.6	92.9	117.7	142.6
Debtors	290.0	219.8	263.2	390.5
Loans and Advances	410.3	314.1	399.6	291.5
Cash	315.5	151.7	125.0	298.4
Other current assets	599.0	528.4	569.5	639.8
Total Current Assets	1,708.4	1,307.0	1,474.9	1,762.8
Current liabilities	389.3	352.8	451.2	473.3
Provisions	0.0	0.0	0.0	0.0
Total Current Liabilities	389.3	352.8	451.2	473.3
Net Current Assets	1,319.1	954.2	1,023.7	1,289.5
Application of Funds	9,995.9	9,878.3	9,894.9	9,996.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	3.0	-6.1	-4.1	2.5
Cash EPS	6.4	-2.6	-0.6	6.1
BV	36.6	30.7	26.6	29.1
DPS	0.5	0.0	0.0	0.0
Cash Per Share	6.4	-2.6	-0.6	6.1
Operating Ratios (%)				
EBITDA Margin	21.7	-23.0	5.9	24.7
PBT / Total Operating income	8.9	-53.9	-21.3	8.0
PAT Margin	7.9	-45.7	-17.7	6.9
Inventory days	7.1	21.6	14.0	11.0
Debtor days	23.7	50.9	35.0	33.0
Creditor days	31.8	81.7	60.0	40.0
Return Ratios (%)				
RoE	8.1	-19.7	-15.3	8.7
RoCE	7.0	-9.8	-3.2	7.9
RoIC	6.0	-8.1	-2.7	6.7
Valuation Ratios (x)				
P/E	69.1	0.0	0.0	81.7
EV / EBITDA	28.0	-77.2	174.4	26.4
EV / Net Sales	6.1	17.7	10.4	6.5
Market Cap / Sales	5.5	15.6	8.9	5.7
Price to Book Value	5.6	6.7	7.7	7.1
Solvency Ratios				
Debt/EBITDA	3.0	-9.9	25.1	3.7
Debt / Equity	0.7	1.0	1.3	1.1
Current Ratio	1.2	0.8	0.8	1.0
Quick Ratio	1.0	0.7	0.7	0.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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