

May 19, 2017

₹ 168

## Taj GVK Hotels (TAJGVK)

### Weak performance...

- TajGVK reported a weak set of Q4FY17 numbers. The performance for the quarter was partly hit by demonetisation. Total revenue declined 5.0% YoY to ₹ 73.4 crore (vs. I-direct estimate: ₹ 85.6 crore)
- EBITDA also declined 40.8% YoY to ₹ 13.4 crore. The EBITDA margin came in at 18.2% (vs. I-direct estimate: 25.9%) compared to 29.2% reported last year
- With lower-than-expected revenue and margins, net profit declined sharply by 89% YoY to ₹ 0.6 crore. For the full year, the company reported a net profit of ₹ 4.0 crore vs. ₹ 3.6 crore last year. Loss from JV for the full year was at ₹ 6.16 crore vs. ₹ 4.61 crore last year

### Geographical diversification to help reduce regional concentration risk

The company has a modest scale of operation, with significant geographic concentration in Hyderabad i.e. 67% share in the room portfolio. The remaining 33% is contributed by Chandigarh and Chennai. In line with the subdued performance of the Indian hotels industry, Taj GVK also witnessed a considerable moderation in performance since the peak of FY08. The Hyderabad centric business was impacted severely by the Telangana issue. Between FY08 and FY15, its revenue growth remained flattish while increase in fixed overheads led to a sharp contraction in margins (i.e. down from 47% in FY08 to 20.3% in FY15). Hence, to reduce the dependence on one location, the company started expanding into newer geographies of Bengaluru and Mumbai. While the Mumbai property opened in January 2016, the company was allotted 7.5 acre of land in Bengaluru for the hotel project.

### Demand revival in Telangana to drive growth

The business of TajGVK has been hit hard in the past two years due to concerns on the Telangana issue along with a sharp rise in room inventory. The inventory in the organised segment has almost doubled to 5,101 in the past five years. Due to this, ARR and occupancy both declined sharply in Hyderabad. With the Telangana issue now resolved and an expected pick-up in infra spend, we expect the hotel business in Telangana to improve led by improvement in occupancy, going forward.

### Addition of Taj Santacruz to drive revenues

The company jointly with M/s Greenridge Hotels and Resorts LLP (Greenridge - a GVK company) set up a luxury hotel comprising 280 rooms near Mumbai International Airport, Santacruz, under the 'Taj' brand. Taj-GVK invested ₹ 110 crore for a 49% stake in the hotel. The hotel commenced operation from January 2016. Although the JV reported a loss of ₹ 6.2 crore for FY17, we expect losses to narrow down in FY18E and start contributing to profitability from FY19E onwards.

### Turnaround of JV holds key; maintain BUY

We expect occupancy levels to improve due to slowing down of capacity additions, rise in spending by domestic travellers and demand revival in Telangana. However, a turnaround of JV venture (Mumbai property) holds key, which remains a short-term concern. The stock is trading at an EV/room of ₹ 1.05 crore/room (below industry average of ₹ 2.5-3.0 crore/room). Given this, we maintain our **BUY** rating on the stock with a revised target price of ₹ 188/share (i.e. at 20.0x FY19E EBITDA).

#### Rating matrix

Rating	:	Buy
Target	:	₹ 188
Target Period	:	12-15 months
Potential Upside	:	12%

#### What's Changed?

Target	Changed from ₹ 195 to ₹ 188
EPS FY18E	Changed from ₹1.5 to ₹1.6
EPS FY19E	Changed from ₹2.9 to ₹2.3
Rating	Unchanged

#### Quarterly Performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	73.4	77.3	-5.0	72.4	1.4
EBITDA	13.4	22.6	-40.8	19.2	-30.4
EBITDA (%)	18.2	29.2	-1101 bps	21.7	-350 bps
PAT	0.6	5.8	-88.9	3.7	-82.8

#### Key Financials

₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	279.0	269.7	298.5	319.4
EBITDA	66.7	60.9	67.8	68.7
Net Profit	3.6	4.1	10.3	14.0
EPS (₹)	0.6	0.6	2.1	2.4

#### Valuation summary

	FY16	FY17	FY18E	FY19E
PE (x)	294.4	259.5	102.6	75.4
Target PE (x)	329.4	290.3	91.6	77.5
EV to EBITDA (x)	21.3	21.1	18.6	18.0
Price to book (x)	3.1	3.0	2.9	2.8
RoNW (%)	1.0	1.2	2.9	3.8
RoCE (%)	6.5	7.3	8.6	9.0

#### Stock data

Particular	Amount
Market Cap	₹ 1053 crore
Debt	₹ 212 crore
Cash	₹ 1 crore
EV	₹ 1264 crore
52 week H/L (₹)	173/76
Equity capital	₹ 12.5
Face value (₹)	2

#### Price performance (%)

	1M	3M	6M	12M
Indian Hotels	12.2	23.2	58.2	24.3
Taj GVK	17.0	37.5	75.8	85.6
Hotel Leela	47.6	51.2	54.0	39.4
EIH	15.7	40.2	42.1	27.6

#### Research Analyst

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**Variance analysis**

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Total Operating Income	73.4	85.6	77.3	-5.0	72.4	1.4	Despite industrywide improvement in occupancy and ARR, the performance of the company remained sluggish during the quarter
Raw Material Expenses	8.1	8.9	8.6	-5.8	8.8	-7.6	
Employee Expenses	15.8	15.9	14.0	13.3	15.4	2.7	
P&F cost	7.1	7.8	7.0	0.9	6.8	3.8	
Other Expenses	29.1	30.8	25.1	15.7	22.2	30.9	
EBITDA	13.4	22.2	22.6	-40.8	19.2	-30.4	Margins for the quarter declined sharply on account of higher employee and other expenses
EBITDA Margin (%)	18.2	25.9	29.2	-1101 bps	21.7	-350 bps	
Interest	7.0	7.9	7.6	-8.6	7.3	-4.6	
Depreciation	4.5	5.7	4.5	-0.4	4.5	-0.4	
PBT	1.9	8.6	10.4	-82.1	7.3	-74.6	
Total Tax	1.2	3.1	4.6	-73.7	3.6	-66.2	Loss of ₹ 6.2 crore from JV (Mumbai property) further pulled down net profitability
PAT	0.6	4.2	5.8	-88.9	3.7	-82.8	
Adjusted PAT	0.6	4.2	5.8	-88.9	3.7	-82.8	

Source: Company, ICICIdirect.com Research

**Change in estimates**

(₹ Crore)	FY18E			FY19E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	315.3	298.5	-5.3	359.5	319.4	-11.1	Due to adoption of Ind-As and moderation in revenues, we lower our FY18E and FY19E estimates by 5.3% and 11.1%, respectively
EBITDA	70.0	67.8	-3.2	81.6	68.7	-15.9	
EBITDA Margin (%)	22.2	22.7	50 bps	22.7	21.5	-120 bps	With lower revenue growth, we expect some moderation in margins
PAT	9.3	10.3	10.4	17.9	14.0	-22.0	We expect share of loss from JV to reduce gradually over next two years
EPS (₹)	1.5	1.64	9.1	2.9	2.23	-22.7	

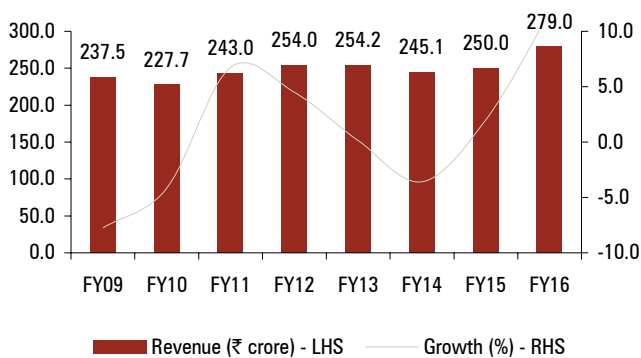
Source: Company, ICICIdirect.com Research

## Company Analysis

### Checking in new geographies to reduce concentration risk

The company has a modest scale of operation, with significant geographic concentration in Hyderabad i.e. 67% share in room portfolio. The remaining 33% is contributed by Chandigarh and Chennai. In line with the subdued performance of the Indian hotels industry, Taj GVK also witnessed a considerable moderation in performance since the peak of FY08. The Hyderabad centric business also led the Telangana issue to impact the company severely. Between FY08 and FY15, its revenue growth remained flattish while increase in fixed overheads led to a sharp contraction in margins (i.e. down from 47% in FY08 to 20.3% in FY15). To reduce the dependence on one location, the company is expanding into newer geographies of Bangalore and Mumbai, which we believe would provide the company with better scale and geographic diversity over the longer term.

**Exhibit 1: Annual revenue trend**



Source: Company, ICICIdirect.com, Research

**Exhibit 2: Hotel details**

Hotel Name	Location	Rooms
Taj Krishna	Hyderabad	261
Taj Banjara	Hyderabad	122
Taj Deccan (Residency)	Hyderabad	151
Taj Chandigarh	Chandigarh	152
Taj Mount Road	Chennai	215
Taj Begumpet (Vivanta)	Hyderabad	181
Taj Santacruz (JV 49% stake)	Mumbai	137
<b>Total</b>		<b>1219</b>

Source: Company, ICICIdirect.com, Research

### Telangana region on verge of recovery

The business of TajGVK has been hit hard in the past two years due to concerns on the Telangana issue along with a sharp rise in room inventory. The inventory in the organised segment has almost doubled to 5,101 in the past five years. Due to this, ARR and occupancy both declined sharply in Hyderabad. With the Telangana issue now resolved and an expected pick-up in infra spend, we expect the hotel business in Telangana to improve, going forward.

**Exhibit 3: Trend of average room rates (ARR) across properties**

ARR trend	FY15				FY16				FY17
	Q1	Q2	Q3*	Q4	Q1	Q2	Q3	Q4	Q1
<b>Hyderabad</b>									
Taj Krishna	7500	7600	7650	7700	7500	7500	7800	8000	7900
Taj Deccan	4700	4700	4800	4900	4500	4600	4900	5400	5100
Taj Banjara	4200	4200	4350	4500	4200	4200	4400	5100	4800
VBT Begumpet	4400	4600	4650	4700	4400	4600	4900	5600	5300
<b>Chandigarh</b>									
Taj Chandigarh	6300	6600	6950	7300	7000	6900	7600	7300	7100
<b>Chennai</b>									
Taj Mount Road	4200	4300	4400	4500	4300	4300	4300	5000	5000

Source: Company, ICICIdirect.com Research

**Exhibit 4: Occupancy trend**

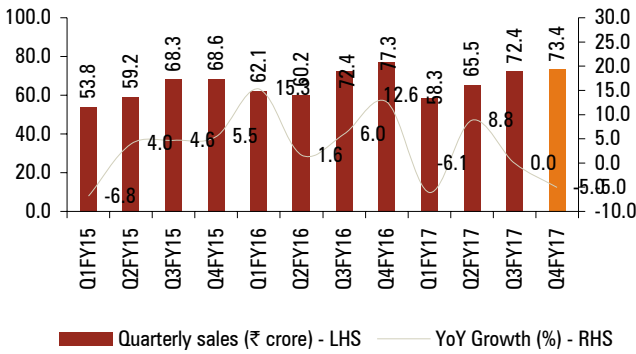
Occupancy	FY15				FY16				FY17
	Q1	Q2	Q3*	Q4	Q1	Q2	Q3	Q4	Q1
<b>Hyderabad</b>									
Taj Krishna	35%	37%	51%	52%	42%	41%	48%	55%	40%
Taj Deccan	56%	59%	61%	62%	61%	66%	69%	69%	56%
Taj Banjara	50%	58%	59%	61%	58%	55%	69%	63%	47%
VBT Begumpet	48%	51%	54%	55%	53%	61%	59%	62%	54%
<b>Chandigarh</b>									
Taj Chandigarh	58%	52%	53%	54%	61%	48%	61%	59%	52%
<b>Chennai</b>									
Taj Mount Road	58%	57%	63%	69%	65%	68%	60%	65%	58%

Source: Company, ICICIdirect.com Research

**Expect revenue CAGR of 8.8% in FY17-19E**

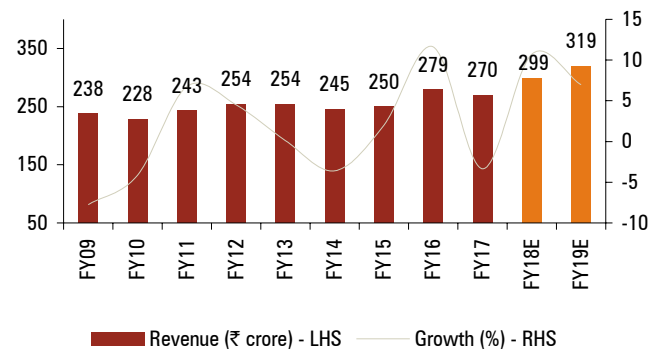
The Hyderabad centric business has led the Telangana issue to impact the company severely. Between FY08 and FY15, its revenue growth remained flattish. However, given the expected recovery in demand from Hyderabad (led by improvement in the macro environment) coupled with addition of Taj Santacruz, we expect revenue growth to improve over the next two years. Taking this into account, we expect revenue CAGR of 8.8% during FY17-19E.

**Exhibit 5: Q4FY17 revenue declines due to moderation in demand**



Source: Company, ICICIdirect.com Research, \*Q1FY17 are standalone numbers

**Exhibit 6: Expect revenue CAGR of 8.8% during FY17-19E**

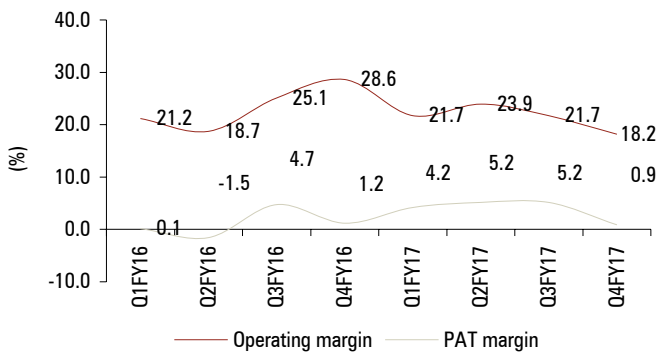


Source: Company, ICICIdirect.com Research

**Margins to remain stable during FY17-19E**

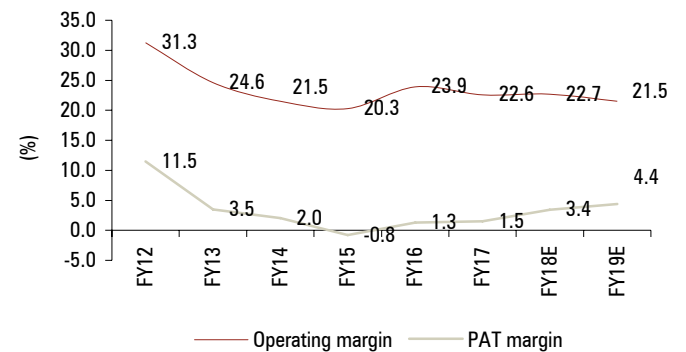
While revenue growth remained flattish due to a slowdown in Hyderabad, an increase in fixed overheads coupled with addition of new properties led to a sharp contraction in margins (i.e. down from 47% in FY08 to 20.3% in FY15). With the demand recovery in the Telangana region along with cost control initiatives, we expect margins to stabilise at 21.5% in FY19E.

**Exhibit 7: Quarterly trend in margins**



Source: Company, ICICIdirect.com Research, \*Q3FY17 are standalone numbers

**Exhibit 8: Annual trend in margins**

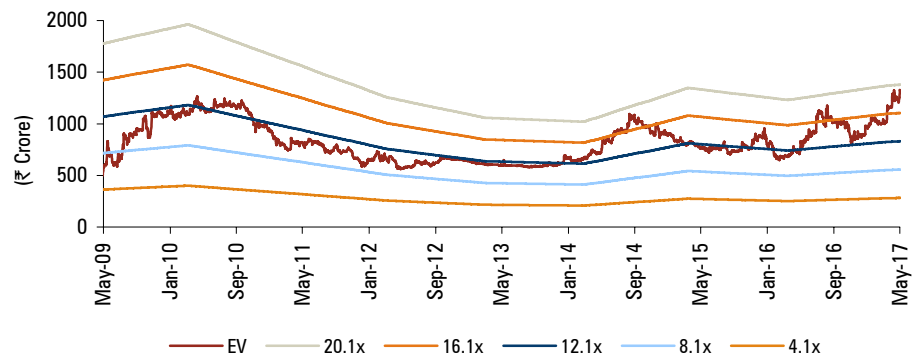


Source: Company, ICICIdirect.com Research

## Outlook and valuations

We expect occupancy levels to improve due to slowing down of capacity addition, rise in spending by domestic travellers and demand revival in Telangana. However, a turnaround of JV venture (Mumbai property) holds key which remains a short-term concern. The stock is trading at an EV/room of ₹ 1.05 crore/room (which is below industry average of ₹ 2.5-3.0 crore/room). Given this, we maintain **BUY** rating on the stock with a revised target price of ₹ 188/share (i.e. at 20.0x FY19E EBITDA).

**Exhibit 9: One year forward EV/EBITDA**



Source: Company, ICICIdirect.com Research

**Exhibit 10: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	279.0	11.6	0.6	NA	294.4	21.3	1.0	6.5
FY17	269.7	-3.4	0.6	12.9	259.5	21.1	1.2	7.3
FY18E	298.5	10.7	1.6	153.0	102.6	18.6	2.9	8.6
FY19E	319.4	7.0	2.2	36.0	75.4	18.0	3.8	9.0

Source: Company, ICICIdirect.com Research

### Recommendation history vs. Consensus estimate



Source: Bloomberg, Company, ICICIdirect.com Research

### Key events

Date	Event
Mar-07	Announces launch of its new premium Five Star Hotel in the centre of Chennai under the name Taj Mount Road
Jul-07	Adds new facilities in the existing block of Taj Deccan at a cost of ₹ 25 crore and also proposes to construct a spa and other facilities at the existing premise of Taj Krishna
Jul-07	The company's hotels at Chandigarh and Chennai clock improved occupancy levels of 75% and 63%, respectively in Q1
Dec-10	Opens new brand in Sri Lanka
Dec-11	Announces setting up of a luxury hotel comprising 275 rooms near the Mumbai International Airport, Santacruz, Mumbai, jointly with M/s. Greenridge Hotels and Resorts LLP (Greenridge - a GVK Company) under the Taj brand
Jan-16	Taj GVK opens Taj Santacruz hotel

Source: Company, ICICIdirect.com Research

### Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bhupal (Shalini)	31-Mar-17	36.90	23.14	0.00
2	Tata Group of Companies	31-Mar-17	25.52	16.00	0.00
3	Reddy (Sanjay G V)	7-Sep-15	16.18	10.15	8.90
4	Reddy (Krishna G V)	31-Mar-17	6.07	3.81	0.00
5	Reddy (Indira Krishna G)	31-Mar-17	6.00	3.76	0.00
6	Altavista Capital India Fund, Ltd.	31-Mar-17	3.39	2.13	0.00
7	Kabra (Kamal Shyamsunder)	31-Mar-17	2.39	1.50	0.00
8	Damani Estates & Finance Pvt. Ltd.	31-Mar-17	2.38	1.49	0.00
9	Sundaram Asset Management Company Limited	31-Mar-17	1.43	0.90	0.00
10	Bhupal (Krishna Ram)	31-Mar-17	0.50	0.31	0.00

### Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	74.99	74.99	74.99	74.99	74.99
FII	3.39	3.39	3.39	3.54	3.54
DII	0.64	0.67	0.84	2.05	2.97
Others	20.98	20.95	20.78	19.42	18.50

Source: Reuters, ICICIdirect.com Research

### Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Franklin Templeton Asset Management (India) Pvt. Ltd.	0.24	0.10			

Source: Reuters, ICICIdirect.com Research



## Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total operating Income	279.0	269.7	298.5	319.4	
Growth (%)	11.6	-3.4	10.7	7.0	
Raw Material Expenses	32.6	31.0	35.2	38.8	
Employee Expenses	59.5	60.6	65.7	68.7	
Power & Fuel Exp	30.1	28.8	32.8	38.8	
Other Exp	90.2	88.4	97.0	104.5	
Total Operating Expenditure	212.3	208.8	230.8	250.8	
EBITDA	66.7	60.9	67.8	68.7	
Growth (%)	9.6	-8.8	11.4	1.3	
Depreciation	20.1	18.1	18.5	18.3	
Interest	33.1	29.1	27.3	24.7	
Other Income	0.0	0.0	0.0	0.0	
PBT	13.6	13.7	22.0	25.6	
Others	0.0	1.4	4.0	2.0	
Total Tax	6.6	8.3	7.7	9.7	
PAT	3.6	4.1	10.3	14.0	
Growth (%)	NA	12.9	153.0	36.0	
EPS (₹)	0.6	0.6	2.1	2.4	

Source: ICICIdirect.com Research

Balance sheet		₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E	
<b>Liabilities</b>					
Equity Capital	12.5	12.5	12.5	12.5	
Reserve and Surplus	334.4	339.1	346.4	357.4	
Total Shareholders funds	346.9	351.6	358.9	370.0	
Total Debt	369.4	231.8	211.8	191.8	
Deferred Tax Liability	47.8	56.0	56.0	56.0	
Total Liabilities	764.1	639.3	626.7	617.7	
<b>Assets</b>					
Gross Block	847.4	756.9	767.9	772.9	
Less: Acc Depreciation	239.8	239.8	239.8	239.8	
Net Block	607.6	517.1	528.1	533.1	
Capital WIP	0.0	0.0	0.0	0.0	
Total Fixed Assets	608	517.1	528.1	533.1	
Investments	0.0	99.3	71.3	71.3	
Inventory	8.4	9.0	8.6	10.3	
Debtors	13.5	11.4	14.4	15.4	
Loans and Advances	142.7	62.4	57.0	51.6	
Other Current Assets	3.2	24.7	35.0	28.9	
Cash	0.7	3.2	4.7	6.1	
Total Current Assets	168.5	110.8	119.8	112.3	
Creditors	79.6	80.8	85.1	91.1	
Provisions	6.1	7.1	7.4	8.0	
Total Current Liabilities	85.6	87.9	92.6	99.1	
Net Current Assets	82.9	22.9	27.2	13.2	
Deferred tax Assets	0.0	0.0	0.0	0.4	
Application of Funds	764.1	639.3	626.3	617.7	

Source: Company, ICICIdirect.com Research

Cash flow statement		₹ Crore			
(Year-end March)	FY18E	FY17	FY18E	FY19E	
Profit after Tax	3.6	4.1	10.3	14.0	
Add: Depreciation	20.1	18.1	18.5	18.3	
(Inc)/dec in Current Assets	-36.2	60.2	-7.5	8.9	
Inc/(dec) in CL and Provisions	33.4	2.3	4.7	6.5	
CF from operating activities	20.8	84.7	26.0	47.6	
(Inc)/dec in Investments	110.3	-99.3	28.0	0.0	
(Inc)/dec in Fixed Assets	-144.7	72.4	-29.5	-23.3	
Others	0.6	0.0	0.0	0.0	
CF from investing activities	-33.9	-26.9	-1.5	-23.3	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	82.5	-137.7	-20.0	-20.0	
Dividend paid & dividend tax	-3.0	0.0	-3.0	-3.0	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-67.4	82.4	0.0	0.0	
CF from financing activities	12.1	-55.3	-23.0	-23.0	
Net Cash flow	-0.9	2.5	1.5	1.3	
Opening Cash	3.2	0.7	3.2	4.7	
Closing Cash	0.7	3.2	4.7	6.1	

Source: Company, ICICIdirect.com Research

Key ratios					
(Year-end March)	FY17	FY18E	FY19E	FY19E	
<b>Per share data (₹)</b>					
EPS	0.6	0.6	1.6	2.2	
Cash EPS	3.8	3.5	4.6	5.1	
BV	55.1	56.1	57.2	59.0	
DPS	0.4	0.0	0.4	0.4	
Cash Per Share	0.1	0.5	0.8	1.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	23.9	22.6	22.7	21.5	
PBT / Total Operating income	3.6	6.8	7.4	8.0	
PAT Margin	1.3	1.5	3.4	4.4	
Inventory days	10.8	11.8	10.8	10.8	
Debtor days	17.6	15.4	17.6	17.6	
Creditor days	104.1	109.4	104.1	104.1	
<b>Return Ratios (%)</b>					
RoE	1.0	1.2	2.9	3.8	
RoCE	6.5	7.3	8.6	9.0	
RoC	6.1	6.7	7.9	8.2	
<b>Valuation Ratios (x)</b>					
P/E	294.4	259.5	102.6	75.4	
EV / EBITDA	21.3	21.1	18.6	18.0	
EV / Net Sales	5.1	4.8	4.2	3.9	
Market Cap / Sales	3.8	3.9	3.5	3.3	
Price to Book Value	3.1	3.0	2.9	2.8	
<b>Solvency Ratios</b>					
Debt/EBITDA	5.5	3.8	3.1	2.8	
Debt / Equity	1.1	0.7	0.6	0.5	
Current Ratio	2.0	1.3	1.3	1.1	
Quick Ratio	2.0	1.2	1.2	1.1	

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Hotels)

Sector/Company	CMP			M Cap (₹ Cr)	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Indian Hotel (INDHOT)	141	145	BUY	13949	-0.7	-0.3	0.9	NA	NA	150.0	28.1	26.1	23.5	3.8	4.8	5.7	-1.9	-1.1	3.0
Elh (Elh)	142	150	BUY	8116	2.2	1.8	2.2	76.8	64.2	43.6	21.6	25.7	23.3	6.9	5.6	6.0	4.7	4.4	4.7
TajGVK Hotels (TAJGVK)	169	188	BUY	1053	0.6	0.6	2.2	294.4	259.5	75.4	21.3	21.1	18.0	6.5	7.3	9.0	1.0	1.2	2.9

Source: Company, ICICIdirect.com Research



## **RATING RATIONALE**

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