May 28, 2018

Indian Hotels (INDHOT)

₹ 142

Healthy growth in domestic margins…

Rating matrix

Rating	:	Buy
Target	:	₹ 160
Target Period	:	12 months
Potential Upside	:	13%

What's Changed?

Target	Changed from ₹155 to ₹160
EPS FY19E	Changed from ₹ 1.1 to ₹ 1.2
EPS FY20E	Introduced at ₹ 1.6
Rating	Unchanged

Quarterly Performance (Consolidated)

	Q4FY18*	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	1,143.5	1,052.2	8.7	1,197.3	-4.5
EBITDA	244.7	177.7	37.7	280.5	-12.8
EBITDA (%)	21.4	16.9	451 bps	23.4	-203 bps
PAT	76	40	88.9	108	NA

Key Financials (Consolidated)

	FY17	FY18	FY19E	FY20E
Net Sales	4018.2	4103.6	4226.7	4353.5
EBITDA	609.6	670.4	739.7	785.8
Net Profit*	-63.2	100.9	144.8	184.9
EPS	-0.6	0.8	1.2	1.6

Valuation summary

	FY17	FY18	FY19E	FY20E
PE (x)	NA	167.1	116.4	91.2
Target PE (x)	NA	188.6	131.4	102.9
EV to EBITDA (x)	32.6	27.9	25.4	24.0
Price to book (x)	5.6	4.0	4.0	3.9
RoNW (%)	-3.7	2.2	3.4	4.2
RoCE (%)	5.3	5.5	6.2	6.5

Stock data

Particular	Amount
Market Cap	₹ 16858 crore
Debt (FY18)	₹ 2427 crore
Cash (FY18)	₹ 601 crore
EV	₹ 18684 crore
52 week H/L	160/103
Equity capital	₹ 118.9 crore
Face value	₹ 1

Price performance (%)

	1M	3M	6M	12M
Indian Hotels	-8.7	4.0	15.1	6.7
Taj GVK	-7.8	28.2	26.9	41.7
Hotel Leela	-13.7	-13.7	-21.0	-23.4
EIH	-12.8	-1.0	9.7	19.0

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- Indian Hotels reported a good set of Q4FY18 numbers. The results were above our estimates on all front
- Consolidated revenues increased 8.7% YoY to ₹ 1,143.5 crore (vs I-direct estimate of ₹ 1,107.0 crore) mainly led by 10.8% YoY increase in domestic revenues
- EBITDA margin increased 451 bps YoY to 21.4% (vs. I-direct estimate of 20.4%) led by 478 bps YoY increase in domestic EBITDA margins to 32.5%. The company has recommended a dividend of 0.4/share

Favourable demand supply mix in domestic market to drive growth

The hotel industry had been reeling under pressure mainly led by lower occupancy and subdued ARR (driven by room supply exceeding demand). However, in the recent few years, the industry has been witnessing some green shoots mainly led by a decline in room supply and increase in demand. The proposed supply of rooms has significantly reduced from 1,14,446 in FY08 to 47,067 in FY17 (source: HVS). This is further validated by the fact that demand growth (5.0% YoY) has outpaced supply growth (3.2% YoY) in FY18. Overall occupancy has also improved 1.8% YoY to 65% while the average room rate (ARR) improved 1.4% YoY in FY18. We expect occupancy levels to improve further due to rise in spending by domestic travellers. Also, with improved tourism measures by the government, we expect the sector to see better growth trajectory and healthy pricing in the next three to four years.

Strategic initiatives to boost margins

The company has outlined its strategy to boost margins by at least 10% in FY18-22E. IHCL aims to achieve the same by revenue optimisation, cost rationalisation and debt reduction. Under revenue optimisation, the company will focus on RevPAR growth, increase in management fee income and higher income from new inventory that will boost margins by 3-4%. Further, under cost rationalisation it will aim to optimise payroll, sourcing, corporate overheads and asset contract cost that will increase margins by 3-4%. Further, asset light strategy, debt reduction will boost margins by 1.0% each leading to margin expansion of 10% in FY18-22E.

Making balance sheet leaner!

In order to address high debt, the company has recently come out with a rights issue. The proceeds of the rights issue have helped pare down debt by ~₹ 950 crore. Going forward, the company further aims to make balance sheet leaner by unlocking value through sale and leaseback, monetisation of non core assets like ITDC shares, residential apartments & land bank and simplifying structure.

Well poised to capture upcoming demand; maintain BUY

The domestic hotel industry is expected to witness robust growth in coming years led by higher occupancy, limited capacity addition and rise in spending by domestic travellers. Indian Hotels, one of the largest domestic hotel players, will be a key beneficiary of a turnaround in the industry. In addition, the company plans to add 20 new hotels in India through management contracts that will further boost topline. In addition, cost rationalisation and RevPAR growth are expected to drive margins in FY18-20E. Further, divestment or turnaround of loss making international subsidiaries and debt reduction remain key positive triggers for the long term. Hence, we have a positive view on the stock. We maintain **BUY** recommendation on the stock with a revised target price of ₹ 160/share (i.e. valuing at EV/room of ₹ 2.5 crore/room).

Variance analysis

	Q4FY18*	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Total Operating Income	1,143.5	1,107.0	1,052.2	8.7	1,197.3	-4.5	Improving domestic revenues (up 10.8% YoY) drove revenues
Other Income	20.6	18.8	17.0	20.9	19.9	3.5	
Raw Material Expenses	98.2	101.8	94.4	4.0	111.4	-11.9	
Employee Expenses	334.4	347.6	327.7	2.0	346.2	-3.4	
Fuel, Power & Light	0.0	0.0	0.0	NA	0.0	NA	
Other Expenses	466.2	431.7	452.4	3.1	459.1	1.5	
License Fees	0.0	0.0	0.0	NA	0.0	NA	
EBITDA	244.7	225.8	177.7	37.7	280.5	-12.8	
EBITDA Margin (%)	21.4	20.4	16.9	451 bps	23.4	-203 bps	We believe improving RevPAR in domestic segment and operating leverage drove margins in the quarter
Interest	52.0	76.0	78.0	-33.3	76.0	-31.6	Decline debt (due to rights issue) led to decline in interest expenses
Depreciation	85.2	75.1	89.6	-4.9	74.2	14.8	
PBT	113.7	93.6	66.0	72.2	169.0	LP	
Exceptional	14.4	0.0	-38.8	NA	-18.7	NA	
Less: Tax	56.8	45.3	34.1	66.6	81.9	-30.6	
PAT	75.6	56.1	40.0	88.9	107.9	LP	Lower interest expenses and higher other income drove net print in the quarter

*Source: Company, ICICI Direct Research, * as per IND AS (excluding JV revenues)*

Change in estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	Introduced	Change	Comments
Revenue	4,161.6	4,226.7	1.6	NA	4,353.5	NA	We revise our revenue estimates upwards mainly due to improving occupancy and ARR in domestic market
EBITDA	728.3	739.7	1.6	NA	785.8	NA	
EBITDA Margin (%)	17.5	17.5	0 bps	NA	18.1	NA	Cost rationalisation to boost margins by 171 bps over FY18-20E
PAT	135.0	144.8	7.2	NA	184.9	NA	
EPS (₹)	1.1	1.2	7.2	NA	1.6	NA	

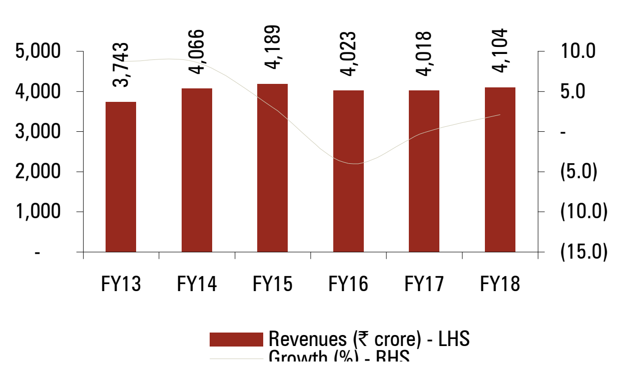
*Source: Company, ICICI Direct Research, *As per Ind-As*

Company Analysis

Largest international player with strong brand value…

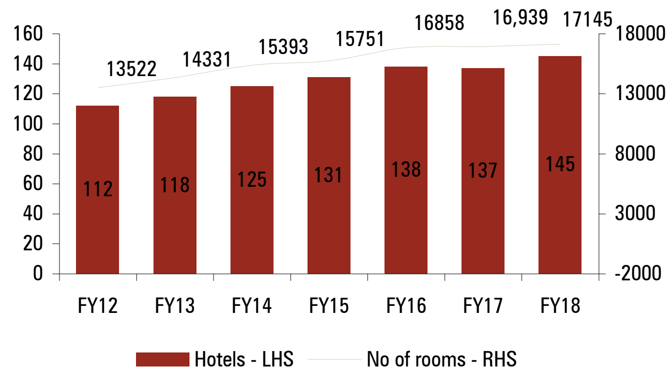
Indian Hotel (IHCL) is one of the largest hotel players in India with a total room portfolio of 17,145 rooms. The company has added nearly ~2800 rooms over the last five years at a CAGR of ~4.0% during the same period. In FY18, consolidated revenues were at ₹ 4,108 crore. In FY18, domestic revenues increased 7.6% YoY while international revenues declined 5.5% YoY mainly due to divestment of Taj Boston and changes in accounting standard.

Exhibit 1: Revenues in FY18 at ₹ 4,104 core



Source: Company, ICICI Direct Research

Exhibit 2: Hotel details

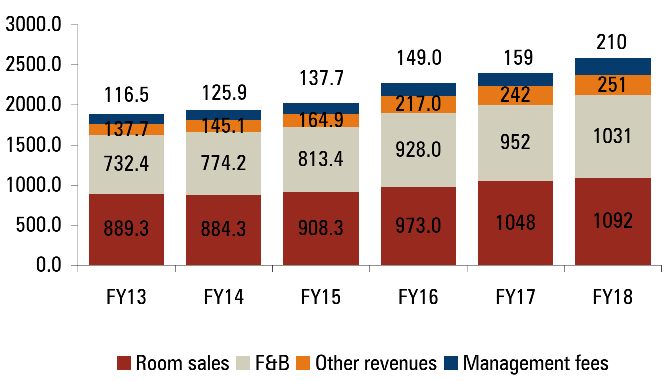


Source: Company, ICICI Direct Research

Domestic segment: F&B income drives growth

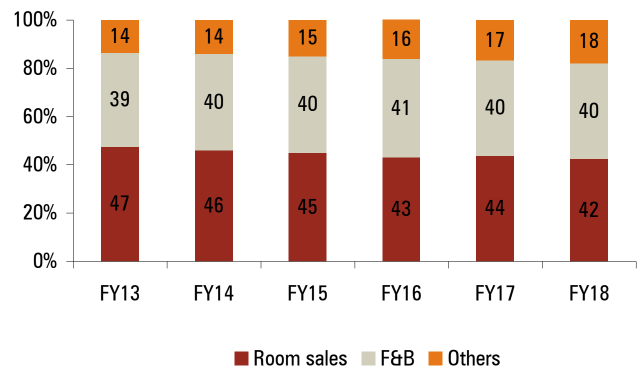
The domestic segment reported revenue CAGR of 6.6% in FY13-18 mainly led by higher operating income (membership fees from spa and & health club) and management fees. While room revenue grew at 4.2% CAGR in FY13-18, operating income reported revenue CAGR of 12.6% during the same period. As a result, the share of operating income to total domestic revenue increased from 14% in FY13 to 18% in FY18. On the other hand, share of room revenue declined to 42% in FY18 from 47%. With the expected recovery in domestic demand, we expect the share of room revenue to increase to 48% by FY20E.

Exhibit 3: Domestic revenue growth trend



Source: Company, ICICI Direct Research

Exhibit 4: Domestic revenue mix



Source: Company, ICICI Direct Research

Strategic initiatives to boost margins

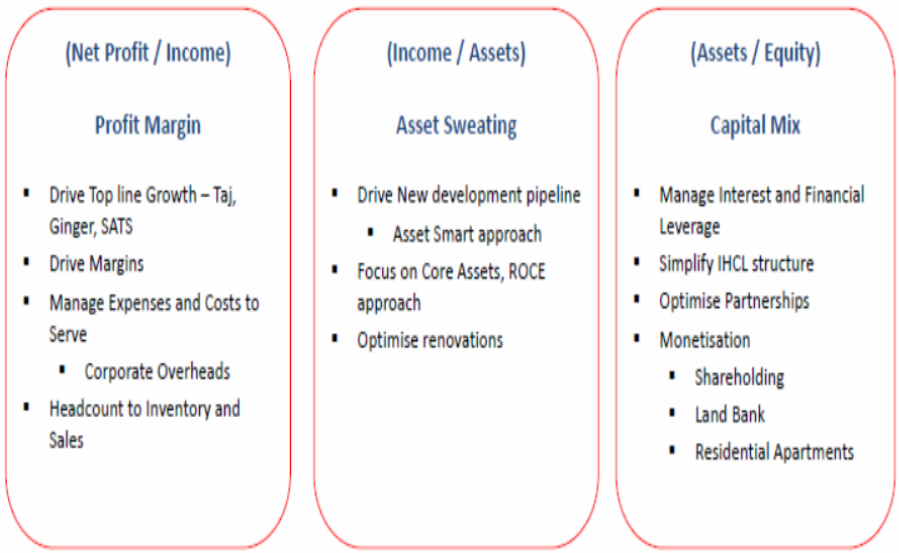
The company has outlined its strategy to boost margins by at least 10% over FY18-22E. The company aims to achieve the same by revenue optimisation, cost rationalisation and debt reduction. Under revenue optimisation the company will focus on RevPAR growth, increase in management fee income and higher income from new inventory that will boost margins by 3-4%. Further, under cost rationalisation, it will aim to optimise payroll, sourcing, corporate overheads and asset contract cost, which will increase margins by 3-4%. Further, an asset light strategy and debt reduction will boost margins by 1.0% each leading to margin expansion of 10% in FY18-22E.

Exhibit 5: Margin expansion strategy

Particulars	Margin Improvement
Revenue	
RevPAR Growth	3 to 4 %
Other Operating Income	
Management Fee Income	
Incremental Income from New Inventory	
Costs	
Operational Payroll	3 to 5%
Procurements (Raw Materials, Stores & Supplies)	
Corporate Overheads	
Admin and General Expenses	
Fuel, Power & Light	
Asset Contract Costs	
EBITDA Margin Improvement	**8.0%**
Depreciation	1.0%
Interest	1.0%
PAT Margin Improvement	10.0%

Source: Company, ICICI Direct Research

Exhibit 6: Driving return on equity

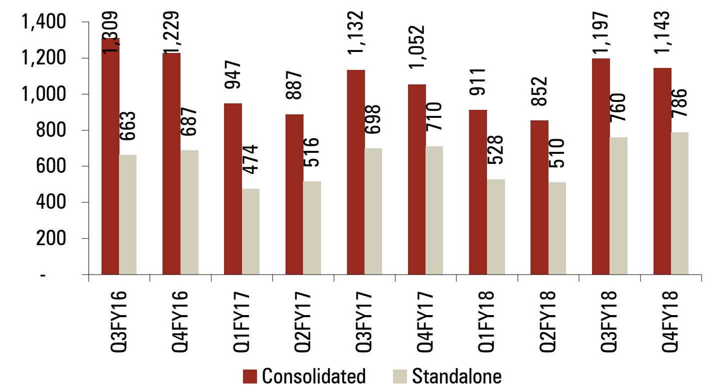


Source: Company, ICICI Direct Research

Expect marginal revenue growth during FY18-20E

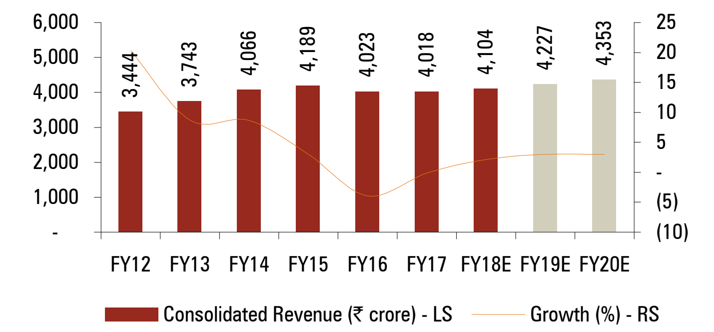
While the domestic segment is expected to continue to perform well, led by an economic revival, we expect growth to moderate in the international segment post sale of Taj Boston. Overall, we expect consolidated revenues to grow 3% during our forecast period (FY18-20E).

Exhibit 7: Q4FY18 consolidated revenues grows 8.7% YoY



Source: Company, ICICI Direct Research

Exhibit 8: Expect marginal revenue growth during FY18-20E

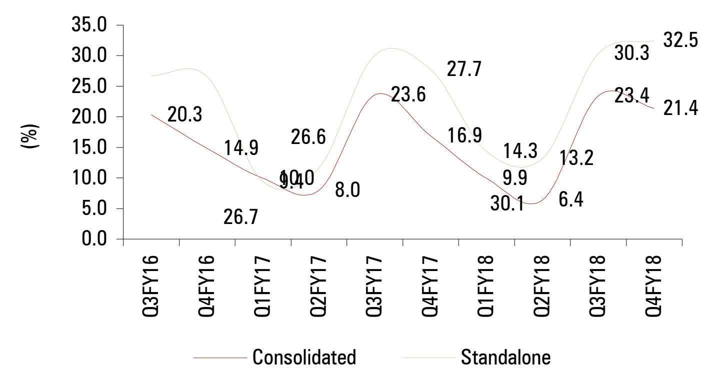


Source: Company, ICICI Direct Research

Margins to improve led by improvement in demand

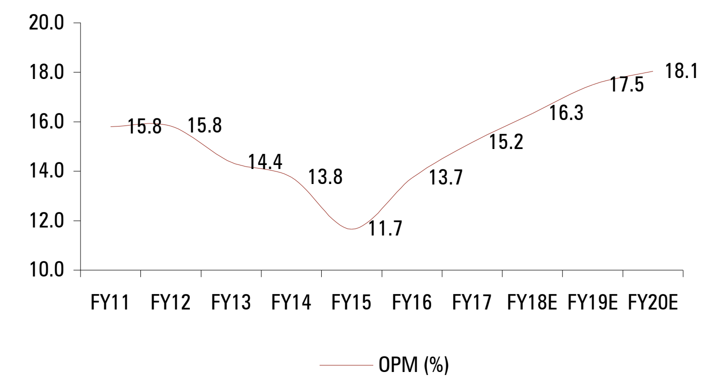
We expect operating leverage benefits to flow in once demand picks up over the next two years. Assuming 3% ARR growth with improved load factors, we expect operating margins to improve 171 bps over the next two years. We believe the performance of subsidiaries overseas along with controlled costs remain key attributes to improve the overall performance of the company, going ahead.

Exhibit 9: Quarterly trend in margins



Source: Company, ICICI Direct Research

Exhibit 10: Annual trend in margins



Source: Company, ICICI Direct Research

Outlook and valuations

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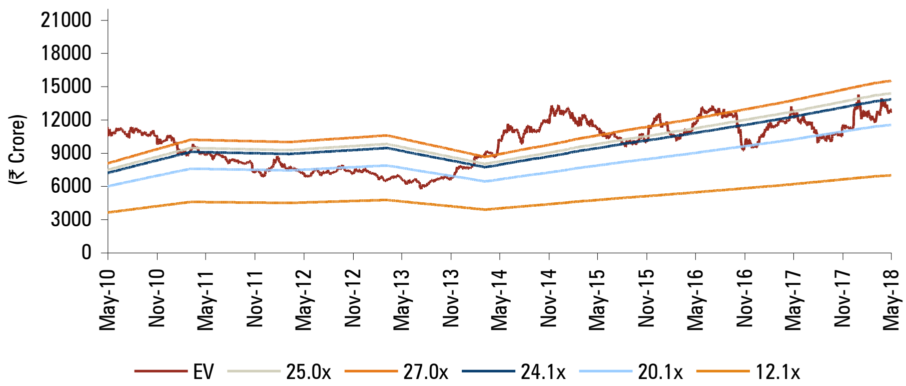
Exhibit 11: One year forward EV/EBITDA



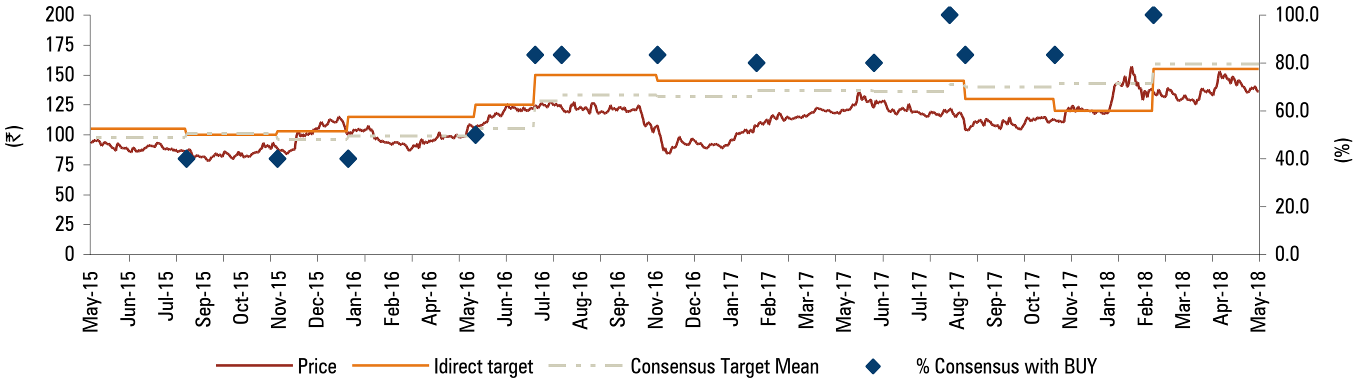
Source: Company, ICICI Direct Research

Exhibit 12: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	EV/Sales (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	4018.2	-4.1	-0.6	NA	5.0	32.6	-2.5	4.7
FY18	4103.6	2.1	0.8	NA	4.6	27.9	2.4	5.0
FY19E	4226.7	3.0	1.2	43.5	4.4	25.4	3.4	5.7
FY20E	4353.5	3.0	1.6	27.7	4.3	24.0	4.2	6.0

Source: Company, ICICI Direct Research

Historical recommendation vs. Consensus estimates



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
11-Sep-08	Indian Hotels plans to have 50 gateway properties in three years
12-Jun-09	Claridges Hotel Pvt Ltd sells a minority stake in Elel Hotels And Investments Ltd to Indian Hotels
17-Jul-12	Plans to seek bigger stake in Orient Express Hotel
17-Sep-12	OEH board rejects buyout offer from Indian Hotels
16-Mar-11	Indian Hotels Co Ltd sells a minority stake in Roots Corp Ltd to Omega TC Holdings
25-May-11	The company acquires PIEM Hotels Ltd for ₹ 51 crore
18-Apr-12	Viceroy Hotels Ltd sells Chennai hotel project to Indian Hotel Co Ltd
20-Sep-13	IHCL drops bid for Orient Express
27-Mar-14	Announces it will raise ₹ 1000 crore via debenture rights issue
21-May-15	Announces delisting of GDR
19-Oct-15	Amalgamation of Lands End Properties Pvt Ltd (LEPPL)
14-Jul-16	Sells US property Taj Boston, for ~₹ 839 crore (US$125 million)
04-Oct-17	Comes out with a rights issue of ₹ 1,500 crore

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-Mar-18	38.0	452.0	79.0
2	Life Insurance Corporation of India	31-Mar-18	6.6	78.2	-22.5
3	Reliance Nippon Life Asset Management Limited	31-Mar-18	5.8	69.3	17.8
4	Dorabji Tata Trust	31-Dec-17	4.2	50.2	0.0
5	HDFC Asset Management Co., Ltd.	31-Mar-18	3.8	45.7	0.5
6	Franklin Advisers, Inc.	31-Mar-18	3.3	39.4	-1.6
7	Norges Bank Investment Management (NBIM)	30-Jun-17	2.6	31.0	-0.1
8	ICICI Prudential Asset Management Co. Ltd.	30-Apr-18	1.7	19.7	0.0
9	Lady Tata Memorial Trust	31-Dec-17	1.5	17.7	0.0
10	ICICI Prudential Life Insurance Company Ltd.	31-Mar-18	1.5	17.6	-10.7

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	38.65	38.65	38.65	39.09	39.09
FII	15.11	15.59	15.80	15.41	7.04
DII	24.83	25.26	24.99	24.86	33.61
Others	21.41	20.50	20.56	20.64	20.26

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Tata Group of Companies	156.86	78.97	Life Insurance Corporation of India	-44.68	-22.49
Reliance Nippon Life Asset Management Limited	35.36	17.80	ICICI Prudential Life Insurance Company Ltd.	-21.18	-10.66
UTI Asset Management Co. Ltd.	4.32	2.18	General Insurance Corporation of India	-5.20	-2.62
Caisse de Depot et Placement du Quebec	3.38	1.83	Franklin Advisers, Inc.	-3.15	-1.58
Canara Robeco Asset Management Company Ltd.	1.38	0.70	Jupiter Asset Management Ltd.	-3.35	-1.54

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	4,018.2	4,103.6	4,226.7	4,353.5
Growth (%)	-4.1	2.1	3.0	3.0
Raw Material Expenses	364.0	376.4	388.9	400.5
Employee Expenses	1,364.7	1,346.6	1,386.3	1,414.9
Power & Fuel Exp	197.1	0.0	0.0	0.0
Other Exp	1,482.9	1,710.1	1,711.8	1,752.3
Total Operating Exp	3,408.6	3,433.2	3,487.0	3,567.7
EBITDA	609.6	670.4	739.7	785.8
Growth (%)	10.4	10.0	10.3	6.2
Depreciation	299.4	301.2	311.8	330.7
Interest	323.8	269.0	252.4	249.8
Other Income	54.9	61.7	67.6	69.7
PBT	41.4	161.8	243.0	274.9
Others/Minority Int	65.9	20.5	44.6	46.4
Total Tax	113.7	121.1	133.7	123.7
PAT	-63.2	100.9	144.8	184.9
Growth (%)	LP	NA	43.5	27.7
EPS (₹)	-0.6	0.8	1.2	1.6

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	-63.2	100.9	144.8	184.9
Add: Depreciation	299.4	301.2	311.8	330.7
(Inc)/dec in Current Assets	-39.5	-127.7	-28.5	-37.3
Inc/(dec) in CL and Provisions	-715.6	-206.5	42.7	45.4
CF from operating activities	-518.9	67.8	470.7	523.7
(Inc)/dec in Investments	79.8	-239.7	0.0	0.0
(Inc)/dec in Fixed Assets	696.1	-612.8	-500.0	-500.0
Others	265.7	201.4	4.6	6.4
CF from investing activities	1,041.6	-651.1	-495.4	-493.6
Issue/(Buy back) of Equity	0.0	20.0	0.0	0.0
Inc/(dec) in loan funds	-458.9	-956.0	0.0	-25.0
Dividend paid & dividend tax	-48.7	-47.7	-71.7	-71.7
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	49.3	1,590.3	0.0	0.0
CF from financing activities	-458.3	606.5	-71.7	-96.7
Net Cash flow	64.5	23.3	-96.3	-66.7
Opening Cash	182.6	247.1	270.3	174.0
Closing Cash	247.1	270.3	174.0	107.3

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Equity Capital	98.9	118.9	118.9	118.9
Preference Capital	-	-	-	-
Reserve and Surplus	2,418.8	4,062.2	4,135.2	4,248.4
Total Shareholders funds	2,517.7	4,181.1	4,254.2	4,367.3
Total Debt	3,383.0	2,427.0	2,427.0	2,402.0
Deferred Tax Liability	317.3	517.1	517.1	517.1
Minority Interest / Others	737.8	777.4	782.0	788.3
Total Liabilities	6,955.8	7,902.5	7,980.2	8,074.7
Gross Block	8,515.5	9,154.0	9,800.9	10,300.9
Less: Acc Depreciation	3,255.6	3,556.8	3,868.7	4,199.4
Net Block	5,259.8	5,597.1	5,932.3	6,101.5
Capital WIP	222.7	197.0	50.0	50.0
Total Fixed Assets	5,482.5	5,794.1	5,982.3	6,151.5
Investments	545.1	540.5	540.5	540.5
Goodwill on consolidation	1,163.4	1,205.9	1,205.9	1,205.9
Inventory	80.4	85.7	85.7	90.9
Debtors	272.1	328.6	338.1	348.3
Loans and Advances	362.2	400.2	411.3	415.9
Cash	247.1	270.3	174.0	107.3
Other current assets	390.8	418.7	426.6	444.0
Total Current Assets	1,352.5	1,503.5	1,435.7	1,406.4
Creditors	1,467.5	1,225.5	1,262.2	1,300.1
Provisions	211.0	246.5	252.4	260.0
Total Current Liabilities	1,678.5	1,472.0	1,514.6	1,560.1
Net Current Assets	-326.0	31.5	-78.9	-153.7
Others Assets	-0.1	-0.1	0.0	0.0
Application of Funds	6,955.8	7,902.5	7,980.2	8,074.7

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	-0.6	0.8	1.2	1.6
Cash EPS	2.4	3.4	3.8	4.3
BV	25.4	35.2	35.8	36.7
DPS	0.4	0.3	0.5	0.5
Cash Per Share	2.4	3.4	3.8	4.3
Operating Ratios (%)				
EBITDA Margin	15.2	16.3	17.5	18.1
PBT / Total Operating income	0.8	4.5	5.8	6.3
PAT Margin	-1.6	2.5	3.4	4.2
Inventory days	7.3	7.4	7.4	7.4
Debtor days	24.7	29.2	29.2	29.2
Creditor days	133.3	109.0	109.0	109.0
Return Ratios (%)				
RoE	-2.5	2.4	3.4	4.2
RoCE	4.7	5.0	5.7	6.0
RoIC	4.9	5.2	5.8	6.0
Valuation Ratios (x)				
P/E	NA	NA	116.4	91.2
EV / EBITDA	32.6	27.9	25.4	24.0
EV / Net Sales	5.0	4.6	4.4	4.3
Market Cap / Sales	4.2	4.1	4.0	3.9
Price to Book Value	5.6	4.0	4.0	3.9
Solvency Ratios				
Debt/EBITDA	5.5	3.6	3.3	3.1
Debt / Equity	1.3	0.6	0.6	0.5
Current Ratio	0.8	1.0	0.9	0.9
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Hotels)

Sector/Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS FY18	EPS FY19E	EPS FY20E	P/E (X) FY18	P/E (X) FY19E	P/E (X) FY20E	EV/EBITDA FY18	EV/EBITDA FY19E	EV/EBITDA FY20E	ROCE (%) FY18	ROCE (%) FY19E	ROCE (%) FY20E	RoE (%) FY18	RoE (%) FY19E	RoE (%) FY20E
Indian Hotel (INDHOT)	142	160	BUY	16858	0.8	1.2	1.6	NA	116.4	91.2	27.9	25.4	24.0	5.0	5.7	6.0	2.4	3.4	4.2
EIH (EIH)	171	220	BUY	9774	1.8	3.0	3.1	93.5	56.5	55.8	31.8	22.7	21.5	5.0	8.0	7.9	3.7	5.9	5.8
TajGVK Hotels (TAJGVK)	221	270	BUY	1386	3.3	5.4	7.1	68.0	40.7	31.1	21.2	18.9	16.5	9.0	10.2	11.5	5.5	8.7	10.4

Source: Company, ICICI Direct Research

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