

Indian Hotels Co

BSE SENSEX	S&P CNX
36,154	10,831
Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USDb)	161.4 / 2.3
52-Week Range (INR)	156 / 110
1, 6, 12 Rel. Per (%)	-4/13/-7
12M Avg Val (INR M)	213
Free float (%)	60.9

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Sales	45.3	49.4	53.9
EBITDA	8.3	10.5	12.9
NP	2.9	3.7	5.0
EPS (INR)	2.4	3.1	4.2
EBITDA Gr. (%)	24.1	26.0	23.1
EPS Gr. (%)	270.2	26.8	36.7
RoE (%)	6.8	8.0	10.2
RoCE (%)	5.7	7.6	9.4
EV/ EBITDA (x)	22.3	17.4	13.9
P/E (x)	55.7	43.9	32.1

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR136 TP: INR189(+39%)
Buy

International subs drive consol. performance

Corporate rate hike likely in 4Q

- **Consol. revenue/EBITDA in line:** IHIN's consol. revenue grew 11% YoY to INR13.2b (our estimate: INR13.1b) in 3QFY19. EBITDA increased 20% YoY to INR3,355m (our estimate: INR3,402m), with the margin expanding 190bp YoY to 25.4% (our estimate: 26.0%). Adj. PAT rose 36% YoY to INR1,208m (our estimate: INR1,393m). For 9MFY19, consol. revenue grew 10.5% YoY to INR32.7b, with margin expansion of 230bp YoY to 16.7% (EBITDA up 28.1% YoY to INR5,454m).
- **Performance driven by international subsidiaries:** Standalone revenue grew 6% YoY to INR8,027m, primarily led by higher ARR. Consequently, EBITDA increased 13% YoY to INR2,607m. Subsidiary (domestic and international) revenue/EBITDA grew 19%/50% YoY to INR5,208m/INR749m, mainly driven by international subsidiaries (US and UK) due to higher occupancy, ARR and currency tailwinds. RevPAR of international subsidiaries increased 9.4% YoY to USD208 (occupancy up 490bp to 72.8%; ARR up 2% YoY to USD286).
- **Valuation view:** IHIN has guided for rate hikes for corporate customers in 4QFY19. Thus, the underlying thesis of favorable demand-supply led growth in the Indian hospitality industry remains intact. We maintain our FY19/20/21 earnings estimates – CAGR (FY18-21) of 10% to INR53.9b in revenue and of 24% to INR12.9b in EBITDA. We value the stock at 20x Dec'20E EV/EBITDA (on a one-year forward EV/EBITDA basis, the stock has traded at a 10-year average of 21.4x). On an SOTP (consol. and JV & associate) basis, we arrive at a TP of INR189, implying an upside of 39%. Maintain Buy.

Consolidated - Quarterly Earning Model

Y/E March	FY18				FY19				FY18	FY19E	FY19 Var	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	9,073	8,517	11,973	11,435	9,797	9,645	13,235	12,578	40,997	45,255	13,110	1
YoY Change (%)	-4.2	-4.0	5.8	8.7	8.0	13.3	10.5	10.0	2.0	10.4	9.5	
Total Expenditure	8,167	7,971	9,168	8,988	8,690	8,653	9,879	9,710	34,293	36,933	9,708	
EBITDA	906	546	2,805	2,447	1,107	992	3,355	2,868	6,704	8,322	3,402	-1
Margins (%)	10.0	6.4	23.4	21.4	11.3	10.3	25.4	22.8	16.4	18.4	26.0	
Depreciation	714	705	742	852	785	812	833	900	3,012	3,330	850	
Interest	695	716	760	520	469	467	491	490	2,690	1,917	470	
Other Income	88	125	199	206	150	166	145	220	617	682	180	
PBT before EO expense	-415	-750	1,502	1,281	3	-120	2,177	1,698	1,618	3,756	2,262	-4
Extra-Ord expense	-157	-24	-187	144	39	453	-410	0	-225	82	0	
PBT	-258	-725	1,690	1,137	-36	-573	2,587	1,698	1,843	3,675	2,262	14
Tax	39	-214	819	568	-98	-193	990	764	1,211	1,464	1,097	
Rate (%)	-15.0	29.6	48.4	49.9	267.1	33.6	38.3	45.0	65.7	39.8	48.5	
Minority Interest & Profit/Loss of Asso. Cos.	22	111	-208	-187	-92	-329	-22	-168	-261	-611	-228	
Reported PAT	-319	-622	1,079	756	153	-51	1,618	1,102	894	2,821	1,393	16
Adj PAT	-476	-647	891	900	192	401	1,208	1,102	669	2,903	1,393	-13
YoY Change (%)	NA	NA	6.0	7,463.9	NA	NA	35.5	22.4	281.6	333.9	56.3	
Margins (%)	-5.2	-7.6	7.4	7.9	2.0	4.2	9.1	8.8	1.6	6.4	10.6	

E: MOSL Estimates

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In-line consolidated revenue & EBITDA

Consolidated

- IHIN reported overall revenue of INR13,235m (est. INR13,110m) in 3QFY19, marking YoY growth of 11%.
- **EBITDA** grew by 20% YoY to INR3,355m (est. INR3,402m).
- **EBITDA margin** expanded 190bp YoY to 25.4% (est. 26.0%). Food & beverages cost declined by 33bp YoY to 9.0%, employee cost increased 14bp YoY to 29.1% and other expenses decreased 173bp YoY to 36.6%.
- **Adj. PAT** grew 36% YoY to INR1,208m (est. INR1,393m), mainly on account of a decrease in interest cost (INR491m vs INR760m in 3QFY18) and a lower tax rate (38.3% v/s 48.4% in 3QFY18).
- In 9MFY19, revenue grew 10.5% YoY to INR32.7b, with margin expansion of 230bp YoY to 16.7%. Adjusted PAT stood at INR1,801m v/s a loss of INR231m in 9MFY18.

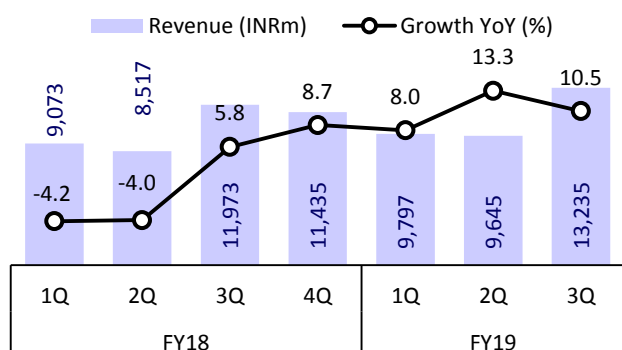
Standalone

- Standalone revenue grew 6% YoY to INR8,027m.
- EBITDA margin expanded 220bp YoY to 32.5%. EBITDA grew 13% YoY to INR2,607m. Adj. PAT increased 30% YoY to INR969m.

Subsidiary (consolidated less standalone)

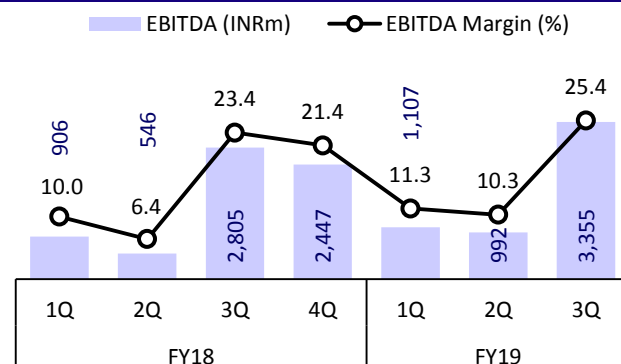
- Subsidiary revenue grew 19% YoY to INR5,208m, while EBITDA increased 50% YoY to INR749m.

Exhibit 1: Consolidated revenue trend



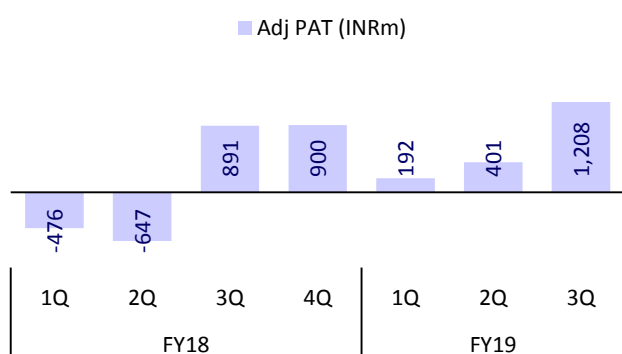
Source: Company, MOSL

Exhibit 2: Consolidated EBITDA trend



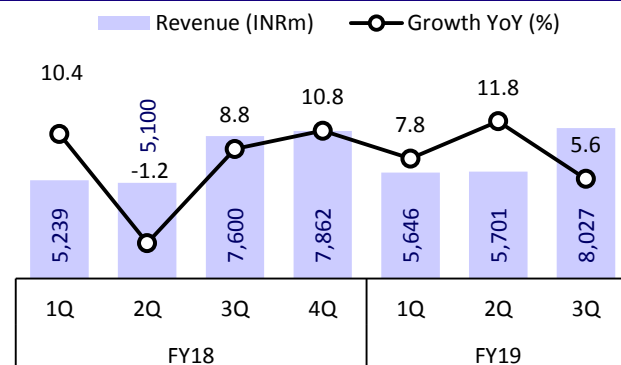
Source: Company, MOSL

Exhibit 3: Consolidated adj. PAT trend



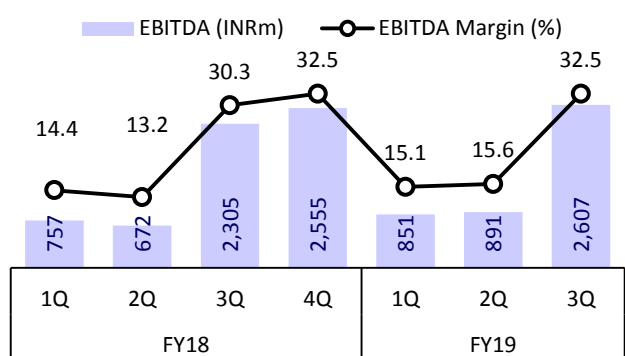
Source: Company, MOSL

Exhibit 4: Standalone revenue trend



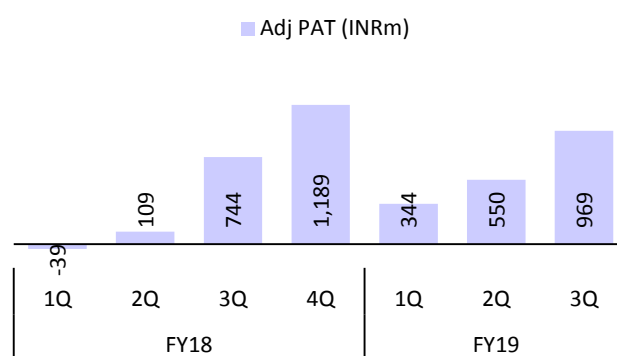
Source: Company, MOSL

Exhibit 5: Standalone EBITDA trend



Source: Company, MOSL

Exhibit 6: Standalone adj. PAT trend



Source: Company, MOSL

Domestic business likely to witness corporate rate hike in 4QFY19

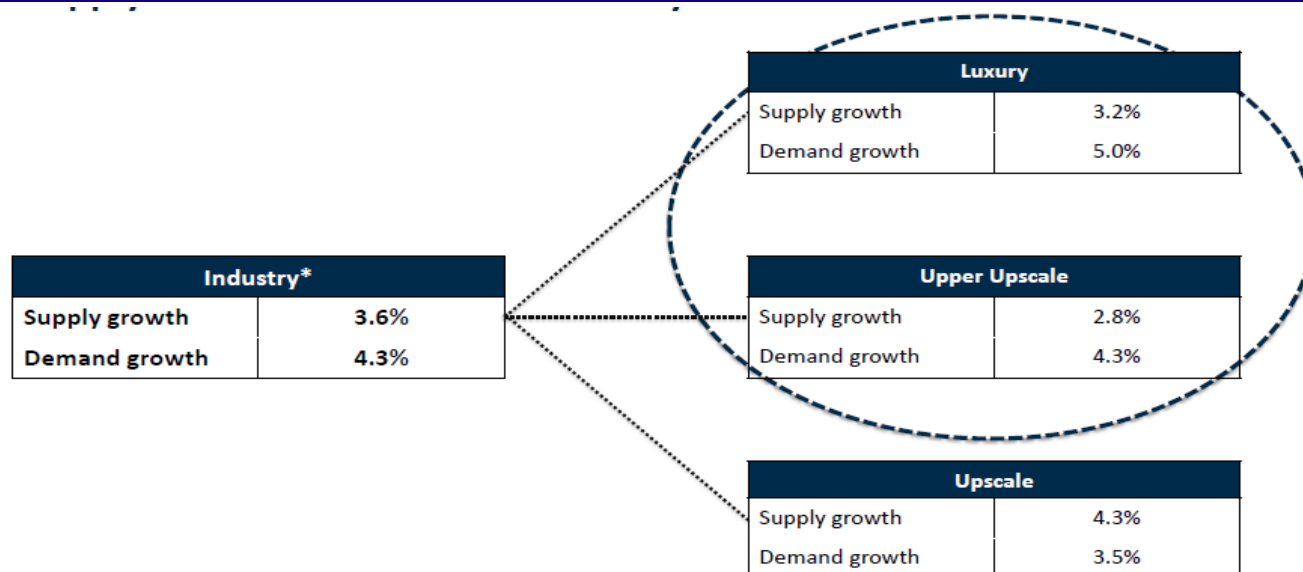
- Industry wide room supply grew by 3.6% in CY18, while room demand grew by 4.3%.
- However, room supply grew by 3.2% in the luxury and 2.8% in the upper upscale segment, as against growth in room demand of 5% and 4.3% in the respective segments.
- In 9MFY19, room revenue/F&B revenue of the domestic business grew by 6.4%/9.1% to INR15,700m/INR15,340. During the same period, RevPAR increased 6.3% YoY to INR5,407.
- Management remains confident of increasing rates for its corporate customers, which are due in January-March 2019.

Exhibit 7: Domestic business performance

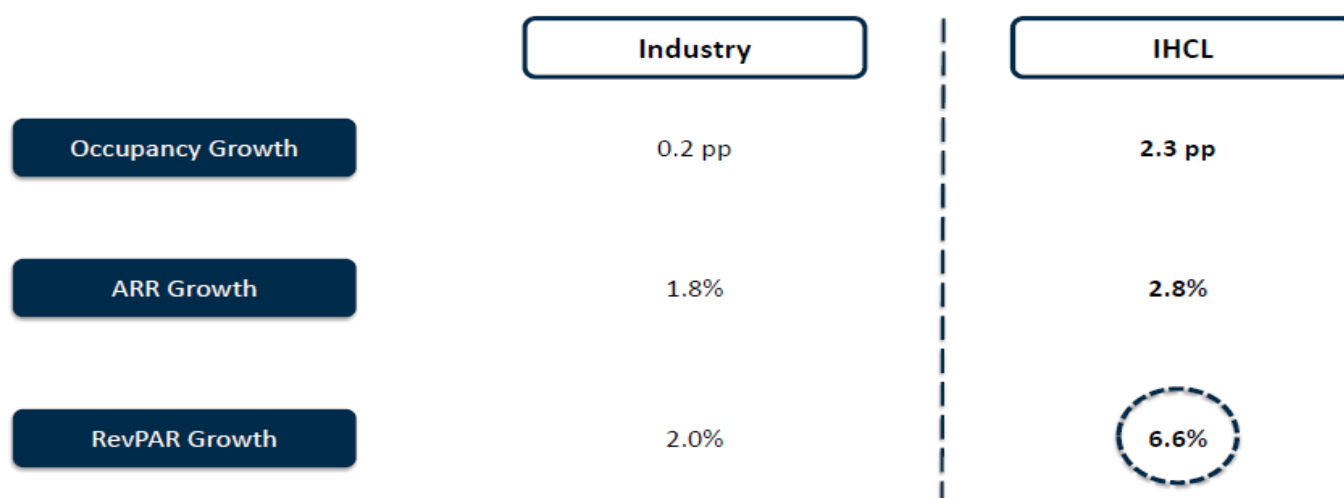
Domestic	9MFY19	9MFY18	Growth %
Room Revenue (INR m)	15,700	14,760	6.4%
RevPAR (INR)	5,407	5,086	6.3%
F&B Revenue (INR m)	15,340	14,060	9.1%

Source: Company, MOSL

Exhibit 8: Supply & demand scenario – January to December 2018



Source: STR Global, Company, MOSL

Exhibit 9: IHIN has outperformed competition in CY18

Source: STR Global, Company, MOSL

Exhibit 10: New hotel signings (9MFY19)

Taj		Seleqtions		Vivanta		Ginger	
Location	Rooms	Location	Rooms	Location	Rooms	Location	Rooms
Pawna Dam, Lonavla	145	Connaught Hotel, New Delhi	85	Katra	80	Vizag	56
Makkah	340	Cidade de Goa	207	Vadodara Expansion	60	Jhansi	76
Taj Bangalore Expansion	220			Heathrow Airport	108	Noida	119
Deira Water Front, Dubai	200			Jhamel, Kathmandu	111	Bharuch	55
Udaipur Expansion	80			Bhubaneswar	137	Margao	47
Taj Lucknow	185					Nashik	56
Taj Alwar	170					Srinagar	64
Taj at Cidade de Goa	299						

Source: Company, MOSL

USA and UK drive international business growth

- In 3QFY19, RevPAR grew at 9.4% YoY to USD208 and occupancy improved by 490bp to 72.8%. ARR grew by 2% YoY to USD286.
- In 9MFY19, room revenue/ F&B revenue of the international business grew by 10.7%/ 12.0% to INR9,600m/ INR6,240 respectively. During the same period, RevPAR witnessed growth of 11% YoY to INR13,331.
- Subsidiary (domestic and international) revenue/ EBITDA grew at 19%/ 50% YoY to INR5,208m/ INR749m respectively mainly driven by international subsidiaries (US and UK) due to improvement in occupancy, ARR and currency benefit.

Exhibit 11: International business performance

International	9MFY19	9MFY18	Growth %
Room Revenue (INRm)	9,600	8,680	10.7%
RevPAR (INR)	13,331	12,013	11.0%
F&B Revenue (INRm)	6,240	5,570	12.0%

Source: Company, MOSL

Exhibit 12: Performance of International Hotels (3QFY19)

City	RevPAR	ARR	Occupancy
USA	↑	↑	↑
London	↑	↑	↑
Dubai	↓	↓	↑
Maldives	↑	↑	↑
Sri Lanka	↓	↓	↓
Africa	↑	↓	↑

Superior turnaround

- RevPAR up **9.4%** to \$ 208
- Occupancy up **4.9 pp** to 72.8%
- ARR up **2.0%** to \$ 286

Source: Company, MOSL

Analyst meet takeaways

- In 9MFY19, IHIN signed contracts with 20 new hotels with 2,750 keys across its brands (Taj, Vivanta, Ginger and Seleqtions). Room additions are mainly through management contracts.
- In Taj Mansingh Delhi, the company intends to increase the area allocation toward rooms which would drive overall profitability. 2-3 floors will be renovated at a time in the hotel.
- Standalone occupancy during the quarter stood at 66-67%, whereas city hotels operated at 72% occupancy.
- Taj Santacruz operates at more than 70% occupancy level and has the highest RevPAR amongst the other two hotels in Mumbai (Taj Lands End and Taj Mahal Palace).
- Over the next 3-6 months, management intends to add 2-3 hotels in the north-eastern part of India.
- IHIN is likely to launch a hotel by January 2020 under management contract in Goa.
- St James - 9MFY19 occupancy stood at 77% and ARR at USD346. Pierre US - 9MFY19 occupancy stood at 84% and ARR at USD700.
- Response to its redesigned Ginger property in Goa (launched in December 2018) is encouraging. Post redesigning, there has been significant improvement in the ARR of the hotel. IHIN plans to redesign 75% of its own Ginger properties in next 18-36 months.
- IHIN's plan to add hotel in Mumbai (under Ginger brand) is on track.
- Consolidated/ standalone gross debt as on 31st December 2018 was INR22,890m/INR17,760m. Consolidated/standalone net debt as on 31st December 2018 was INR19,990m/INR16,130m. Consolidated/standalone net debt to equity as on 31st December 2018 stood at 0.47x/0.37x.
- Management guided to decrease its net debt/EBITDA from 2.33x (as on 31st December, 2018) to 2.0x.

- Employee cost in the quarter increased due to wage revision and retirement benefits.
- Capex for standalone business will be INR2.25-2.5b and consolidated will be INR3.5b.

Valuation & View

IHIN has guided for rate hikes for corporate customers in 4QFY19. Thus, the underlying thesis of favorable demand-supply led growth in the Indian hospitality industry remains intact. We maintain our FY19/20/21 earnings estimates – CAGR (FY18-21) of 10% to INR53.9b in revenue and of 24% to INR12.9b in EBITDA. We value the stock at 20x Dec'20E EV/EBITDA (on a one-year forward EV/EBITDA basis, the stock has traded at a 10-year average of 21.4x). On an SOTP (consol. and JV & associate) basis, we arrive at a TP of INR189, implying an upside of 39%. Maintain **Buy**.

Exhibit 13: Valuation Methodology

Particulars	Methodology	Metrics	Dec 2020	Multiple (x)	Value (INR m)	Value/ share (INR)
IHIN- ex JV/ Associate						
EV	EV/EBITDA (x)	EBITDA	12,068	20.0	241,363	203
Less: Net Debt					-12,720	(11)
Less: Minority Interest					-7,774	(7)
Sub Total					220,869	186
JV/ Associate						
Taj GVK (IHIN's share - 25.5%)	20% discount to MCAP	Attributable Mcap	2,825	0.8	2,260	1.9
Oriental Hotel (IHIN's share - 35.7%)	20% discount to MCAP	Attributable Mcap	2,560	0.8	2,048	1.7
Sub Total					4,308	3.6
Target Price					225,178	189
CMP						136
Upside (%)						39%

Source: MOSL

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Total Income from Operations	40,662	41,886	40,230	40,206	41,036	45,255	49,395	53,892
Change (%)	8.6	3.0	-4.0	-0.1	2.1	10.3	9.1	9.1
Food and beverages consumed	4,271	4,431	3,669	3,640	3,764	4,070	4,149	4,365
Employees Cost	13,722	14,625	14,233	13,647	13,466	14,619	15,598	16,667
Power & Fuel Cost	3,112	3,204	2,754	2,586	2,591	2,761	2,914	3,018
License Fees	2,082	2,096	2,408	2,502	2,544	2,806	3,013	3,252
Other Expenses	11,881	12,645	11,644	11,736	11,967	12,677	13,238	13,689
Total Expenditure	35,066	37,001	34,709	34,110	34,332	36,933	38,912	40,990
% of Sales	86.2	88.3	86.3	84.8	83.7	81.6	78.8	76.1
EBITDA	5,596	4,886	5,521	6,096	6,704	8,322	10,482	12,902
Margin (%)	13.8	11.7	13.7	15.2	16.3	18.4	21.2	23.9
Depreciation	3,081	2,913	2,848	2,994	3,012	3,330	3,504	3,682
EBIT	2,515	1,973	2,673	3,102	3,692	4,992	6,979	9,220
Int. and Finance Charges	1,685	1,756	3,756	3,238	2,690	1,917	1,856	1,793
Other Income	598	987	997	549	617	682	744	812
PBT bef. EO Exp.	1,427	1,204	-86	413	1,618	3,756	5,866	8,239
EO Items	-5,548	-3,529	-827	-108	225	-82	0	0
PBT after EO Exp.	-4,121	-2,325	-913	306	1,843	3,675	5,866	8,239
Total Tax	1,110	1,146	906	1,137	1,211	1,464	2,640	3,708
Tax Rate (%)	-26.9	-49.3	-99.3	372.2	65.7	39.8	45.0	45.0
Minority Interest	307	310	493	-200	-376	-611	-455	-501
Reported PAT	-5,538	-3,781	-2,312	-632	1,009	2,821	3,682	5,032
Adjusted PAT	10	-252	-1,485	-524	784	2,903	3,682	5,032
Change (%)	N/A	-2,572.5	NA	NA	NA	270.2	26.8	36.7
Margin (%)	0.0	-0.6	-3.7	-1.3	1.9	6.4	7.5	9.3

Consolidated - Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	808	808	989	989	1,189	1,189	1,189	1,189
Total Reserves	25,557	21,465	24,813	24,188	40,622	43,007	46,109	50,415
Net Worth	26,365	22,272	25,803	25,177	41,811	44,197	47,298	51,605
Minority Interest	7,359	7,378	7,429	7,378	7,774	7,774	7,774	7,774
Total Loans	42,514	50,741	45,260	33,830	24,270	22,914	22,364	21,364
Deferred Tax Liabilities	1,615	2,516	2,382	2,820	3,563	3,563	3,563	3,563
Capital Employed	77,852	82,908	80,874	69,206	77,418	78,448	80,999	84,306
Gross Block	83,531	86,887	64,751	57,923	63,356	66,682	70,147	73,640
Less: Accum. Deprn.	27,232	28,727	2,661	5,506	7,385	10,715	14,218	17,900
Net Fixed Assets	56,299	58,160	62,090	52,417	55,971	55,967	55,929	55,740
Goodwill on Consolidation	5,849	4,832	5,527	5,737	5,655	5,655	5,655	5,655
Capital WIP	5,542	3,057	2,900	2,227	1,970	2,144	2,179	2,186
Total Investments	14,272	15,869	15,152	12,437	15,965	15,965	17,965	19,965
Curr. Assets, Loans&Adv.	13,177	16,951	12,305	13,173	14,184	16,141	18,145	20,656
Inventory	1,021	1,030	802	804	857	911	959	1,123
Account Receivables	2,805	3,029	2,420	2,721	3,286	3,623	3,955	4,429
Cash and Bank Balance	1,836	5,035	1,825	2,471	2,703	3,461	4,339	4,864
Loans and Advances	7,516	7,857	7,258	7,177	7,338	8,146	8,891	10,239
Curr. Liability & Prov.	17,287	15,961	17,099	16,785	16,328	17,425	18,873	19,896
Account Payables	3,668	3,645	3,240	3,370	3,513	3,845	4,051	4,267
Other Current Liabilities	11,424	10,711	11,846	11,305	10,349	10,861	11,855	12,934
Provisions	2,195	1,605	2,013	2,110	2,465	2,719	2,967	2,695
Net Current Assets	-4,110	990	-4,794	-3,612	-2,143	-1,284	-729	760
Appl. of Funds	77,852	82,908	80,874	69,206	77,418	78,448	80,999	84,306

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Basic (INR)								
EPS	0.0	-0.2	-1.2	-0.4	0.7	2.4	3.1	4.2
Cash EPS	2.6	2.2	1.1	2.1	3.2	5.2	6.0	7.3
BV/Share	22.2	18.7	21.7	21.2	35.2	37.2	39.8	43.4
DPS	0.0	0.0	0.0	0.2	0.3	0.3	0.4	0.5
Payout (%)	-1.3	-0.9	0.0	-53.9	41.9	15.4	15.8	14.4
Valuation (x)								
P/E				NA	206.3	55.7	43.9	32.1
Cash P/E				65.5	42.6	26.0	22.5	18.6
P/BV				6.4	3.9	3.7	3.4	3.1
EV/Sales				5.0	4.6	4.1	3.7	3.3
EV/EBITDA				32.7	28.0	22.3	17.4	13.9
Dividend Yield (%)				0.2	0.2	0.2	0.3	0.4
FCF per share				8.0	-0.1	2.7	3.9	4.0
EV/ Adj Rooms (INRm)				20.9	19.0	18.5	17.8	16.9
EBITDA/ Room (INR)				4,107	4,454	5,246	6,233	7,141
Return Ratios (%)								
RoE	0.0	-1.0	-6.2	-2.1	2.3	6.8	8.0	10.2
RoCE	3.0	2.8	3.4	3.8	4.6	5.7	7.6	9.4
RoIC	5.8	5.1	8.9	-14.9	2.3	5.3	6.8	8.9
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	0.6	0.7	0.6	0.7	0.7	0.7
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.6
Inventory (Days)	9	9	7	7	8	7	7	8
Debtor (Days)	25	26	22	25	29	29	29	30
Creditor (Days)	33	32	29	31	31	31	30	29
Leverage Ratio (x)								
Current Ratio	0.8	1.1	0.7	0.8	0.9	0.9	1.0	1.0
Interest Cover Ratio	1.5	1.1	0.7	1.0	1.4	2.6	3.8	5.1
Net Debt/Equity	1.5	1.8	1.6	1.2	0.4	0.4	0.3	0.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
OP/(Loss) before Tax	-4,122	-2,325	-912	306	1,618	3,675	5,866	8,239
Depreciation	3,081	2,913	2,848	2,994	3,012	3,330	3,504	3,682
Interest & Finance Charges	1,453	1,267	3,293	3,015	2,073	1,236	1,113	981
Direct Taxes Paid	-782	-197	-900	-868	-1,425	-1,464	-2,640	-3,708
(Inc)/Dec in WC	668	-206	948	-599	-1,033	-101	323	-964
CF from Operations	298	1,452	5,278	4,848	4,246	6,675	8,165	8,231
Others	5,091	3,496	910	498	675	0	0	0
CF from Operating incl EO	5,389	4,948	6,188	5,345	4,920	6,674	8,165	8,231
(Inc)/Dec in FA	-3,400	-3,111	-3,657	4,193	-5,094	-3,500	-3,500	-3,500
Free Cash Flow	1,990	1,836	2,531	9,538	-174	3,174	4,665	4,731
(Pur)/Sale of Investments	-665	-4,501	5,028	4,425	-1,462	0	-2,000	-2,000
Others	529	954	1,196	496	912	682	744	812
CF from Investments	-3,536	-6,658	2,567	9,114	-5,644	-2,819	-4,756	-4,688
Issue of Shares	0	0	0	0	14,999	0	0	0
Inc/(Dec) in Debt	668	6,865	-9,850	-11,719	-9,498	-1,356	-550	-1,000
Interest Paid	-1,857	-1,774	-1,880	-1,637	-4,089	-1,917	-1,856	-1,793
Dividend Paid	-929	-180	-235	-458	-447	-435	-581	-726
Others	0	0	-1	0	-7	611	455	501
CF from Fin. Activity	-2,119	4,911	-11,966	-13,814	957	-3,098	-2,532	-3,018
Inc/Dec of Cash	-265	3,200	-3,211	645	233	758	878	525
Opening Balance	2,101	1,836	5,036	1,826	2,471	2,704	3,461	4,339
Closing Balance	1,836	5,036	1,825	2,471	2,704	3,461	4,339	4,864

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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