

Taj GVK Hotels (TAJGVK)

₹ 180

Higher operating cost dents margins...

- TajGVK reported a weak set of Q3FY19 numbers. Revenues stayed below estimates aided by margin contraction. Revenue growth came in at ~4% YoY to ₹ 86.1 crore (below I-direct estimate: ₹ 93.1 crore)
- On the margins front, EBITDA margins contracted 321 bps to 27.1% YoY (vs. I-direct estimate of 29.9%) led by higher other expenses (up 16.4% YoY) to ₹ 30 crore. EBITDA came in at ₹ 23.3 crore, down ~7% YoY (vs. I-direct estimate of ₹ 27.8 crore)
- PAT fell ~4.3% YoY to ~₹ 9.4 crore led by lower operating margins. During Q3, the operating agreement for Taj Club House, Chennai was renewed with IHCL for 10 years with effect from January 2019

Incremental supply growth to slow down in major market...

The occupancy in Telangana region (where Taj GVK has ~ 67% of its total room inventory) declined from 59.0% in 2011 to 51.0% in 2015 mainly due to political uncertainty in Andhra Pradesh and Telangana coupled with a slowdown in economic activity. However, with the resolution of the Telangana issue, the occupancy levels have improved from 51.0% in 2015 to 63.0% in 2018 and ~ 73% for H1FY19. Going forward, we expect occupancy to further improve over 2020 mainly led by new development of commercial spaces, surging investments in industries & healthy MICE activity. Further with a healthy demand and room supplies expected to grow at a slower pace of 4% CAGR in FY18-21E, we expect ARR to improve at 2-3% CAGR over the next few years.

Checking in new geographies to reduce concentration risk

Almost 33% of the company's room portfolio is in Chandigarh and Chennai while the rest 67% is present in Hyderabad, which 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). To reduce the geographical concentration, the company started expanding into newer geographies of Bengaluru and Mumbai. The company was allotted 7.5 acre of land in Bengaluru for the hotel project.

Improving profitability in JV key positive

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. While the JV reported a loss of ₹ 62 lakh for FY18, for the period ended 9MFY19, it posted a profit of ~₹ 10 lakh. We expect the profit to expand further in FY19E to ₹ 2.6 crore, Q4 being the best quarter for the industry. Hence, we believe the JV will be a key contributor to the company's profitability in FY20E.

Structural story remains intact despite cost headwinds; maintain BUY

Occupancy levels in the company's area of operations are expected to increase from 63.0% in FY18 to 70.0% in FY20E led by a rise in spending by domestic travellers and a demand revival in Telangana. In addition, room demand (CAGR of 6.5% in FY18-20E) outpacing supply (CAGR of 4.8% in FY18-20E) is expected to keep occupancy buoyant in coming years. Given this, we maintain our **BUY** rating with a revised target price of ₹ 207/share (i.e. at EV/room of ₹ 1.2 crore/room vs. replacement cost of ₹ 2 crore/room and EV/EBITDA of 15.1x based on FY20E EBITDA).

Rating matrix	
Rating	: Buy
Target	: ₹ 207
Target Period	: 12-15 months
Potential Upside	: 15%

What's Changed?	
Target	Changed from ₹220 to ₹207
EPS FY19E	Changed from ₹4.9 to ₹4.2
EPS FY20E	Changed from ₹5.7 to ₹5.1
Rating	Unchanged

Quarterly Performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	86.1	82.9	3.9	71.7	20.1
EBITDA	23.3	25.1	-7.1	11.6	100.3
EBITDA (%)	27.1	30.3	-321 bps	16.2	1083 bps
PAT	9.4	9.9	-4.3	0.9	972.7

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	269.5	290.9	323.6	351.1
EBITDA	61.0	74.3	73.3	84.0
Net Profit	4.1	20.4	26.5	31.8
EPS (₹)	0.7	3.3	4.2	5.1

Valuation summary				
	FY17	FY18	FY19E	FY20E
PE (x)	270.7	54.4	41.9	34.9
Target PE (x)	313.5	63.0	48.5	40.4
EV to EBITDA (x)	21.9	17.5	17.8	15.3
Price to book (x)	3.2	3.0	2.9	2.9
RoNW (%)	0.4	5.5	6.9	8.2
RoCE (%)	6.7	9.0	8.4	10.0

Stock data	
Particular	Amount
Market Cap	₹ 1110 crore
Debt (FY18)	₹ 202 crore
Cash (FY18)	₹ 11 crore
EV	₹ 1300 crore
52 week H/L (₹)	264/148
Equity capital	₹ 12.5
Face value (₹)	2

Price performance (%)				
	1M	3M	6M	12M
Indian Hotels	1.3	10.6	11.4	12.3
Taj GVK	0.8	6.4	-25.8	4.2
Hotel Leela	-15.6	-3.7	-18.2	-33.7
EIH	2.8	16.9	18.8	6.3

Research Analyst	
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Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Total Operating Income	86.1	93.1	82.9	3.9	71.7	20.1	While occupancy & ARR continue to remain healthy in south, the company's high base of last year resulted in moderation in revenue growth
Raw Material Expenses	9.6	10.0	9.6	-0.6	8.1	17.6	
Employee Expenses	16.3	18.1	15.8	3.2	16.9	-3.1	
P&F cost	7.0	8.4	6.6	5.6	7.3	-4.1	
Other Expenses	30.0	28.9	25.7	16.4	27.8	7.7	
EBITDA	23.3	27.8	25.1	-7.1	11.6	100.3	
EBITDA Margin (%)	27.1	29.9	30.3	-321 bps	16.2	1083 bps	Higher other expenses continue to remain a dampener for margin erosion
Interest	5.4	5.4	6.1	-11.4	5.4	-0.7	
Depreciation	4.2	4.3	4.3	-2.8	4.3	-1.4	
PBT	13.7	18.2	14.7	-6.6	2.0	597.5	
Total Tax	5.4	6.1	5.2	2.9	0.7	681.2	
PAT	9.4	12.6	9.9	-4.3	0.9	972.7	
Adjusted PAT	9.4	12.6	9.9	-4.3	0.9	972.7	

Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY19E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	324.9	323.6	-0.4	352.5	351.1	-0.4	The hotel industry and the company's key markets are on a cyclical uptrend, which will boost the topline
EBITDA	79.0	73.3	-7.3	87.5	84.0	-4.0	
EBITDA Margin (%)	24.3	22.6	-167 bps	24.8	23.9	-89 bps	Factoring the spike in cost structure, we revise our guidance downwards
PAT	31.0	26.5	-14.5	35.8	31.8	-11.2	
EPS (₹)	4.9	4.2	-14.5	5.7	5.1	-11.2	

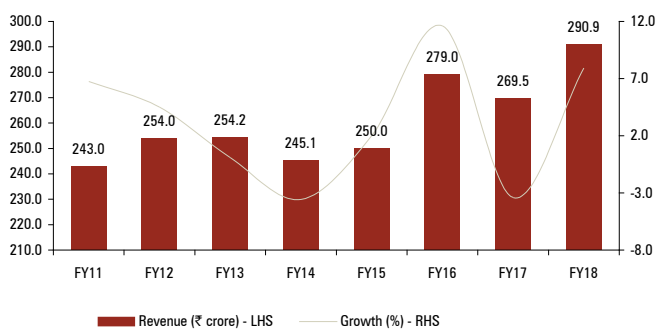
Source: Company, ICICI Direct Research

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 it with better scale and geographic diversity.

Exhibit 1: Annual revenue trend



Source: Company, ICICI Direct 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	279
Total rooms		1361
Total effective rooms		1222

Source: Company, ICICI Direct Research

Telangana region recovering steadily

The occupancy in the Telangana declined from 59.0% in 2011 to 51.0% in 2015 mainly due to political uncertainty in Andhra Pradesh & Telangana, slowdown in economic activity along with a sharp rise in room inventory. However, with the resolution of Telangana issue, occupancy has improved from 51.0% in 2015 to 63.0% in 2018 and ~ 73% for H1FY19. Going forward, we expect occupancy to further improve over 2020 mainly led by new development of commercial spaces, surging investments in industries and robust MICE activity. Further, we expect ARR to improve at a CAGR of 2-3.0% over the next few years mainly led by slowdown in room addition and revival in economic activity.

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

ARR trend	FY15				FY16				FY17
	Q1	Q2	Q3*	Q4	Q1	Q2	Q3	Q4	Q1
Hyderabad									
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
Chandigarh									
Taj Chandigarh	6300	6600	6950	7300	7000	6900	7600	7300	7100
Chennai									
Taj Mount Road	4200	4300	4400	4500	4300	4300	4300	5000	5000

Source: Company, ICICI Direct Research

Exhibit 4: Occupancy trend

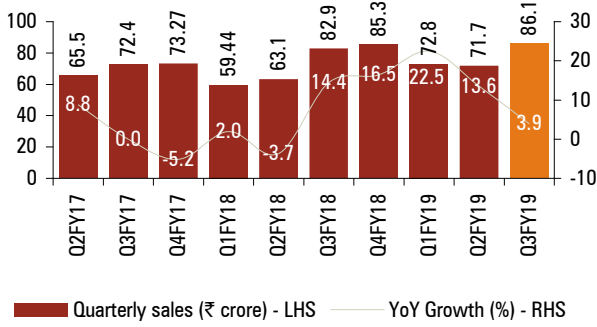
Occupancy	FY15				FY16				FY17
	Q1	Q2	Q3*	Q4	Q1	Q2	Q3	Q4	Q1
Hyderabad									
Taj Krishna	35%	37%	51%	52%	42%	41%	48%	55%	40%
Taj Deccan	56%	59%	61%	62%	61%	66%	69%	69%	56%
Taj Banjara	50%	58%	59%	61%	58%	55%	69%	63%	47%
VBT Begumpet	48%	51%	54%	55%	53%	61%	59%	62%	54%
Chandigarh									
Taj Chandigarh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

Source: Company, ICICI Direct Research

Expect revenue CAGR of 9.9% in FY18-20E

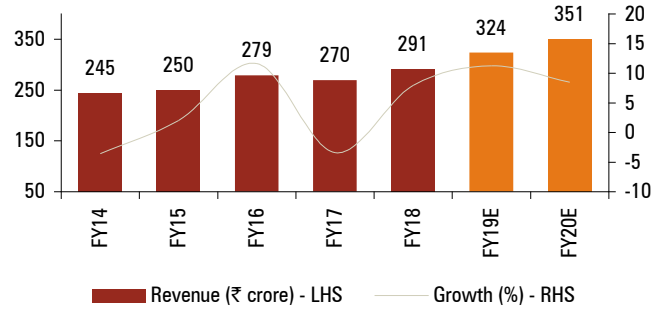
Given the expected recovery in demand from Hyderabad (led by improvement in the macro environment), we expect revenue growth to improve over the next two years. Taking this into account, we expect revenue CAGR of 10.6% during FY18-20E.

Exhibit 5: Q3FY19 revenue increases 3.9% YoY



Source: Company, ICICI Direct Research

Exhibit 6: Expect revenue CAGR of 9.9% during FY18-20E

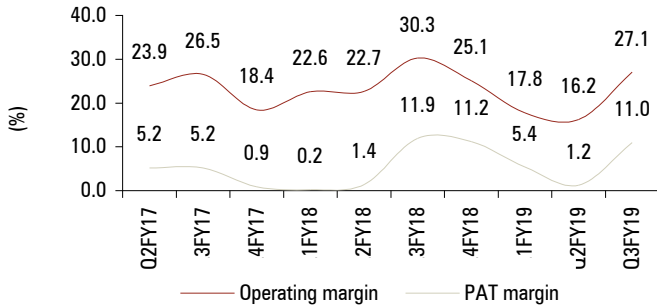


Source: Company, ICICI Direct Research

Margins to improve over FY18-20E

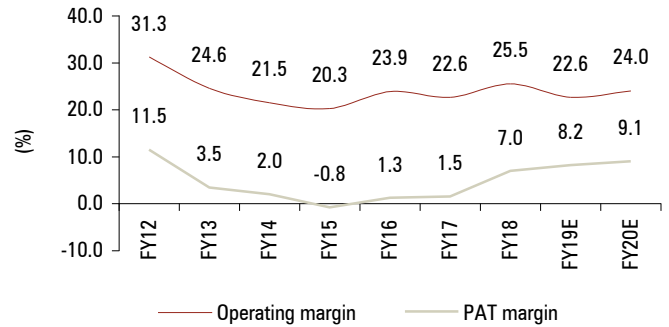
While revenue growth remained flattish due to a slowdown in Hyderabad, an increase in fixed overheads coupled with addition of new properties led to a sharp contraction in margins (i.e. down from 47% in FY08 to 20.3% in FY15). With the demand recovery in the Telangana region, cost control initiatives and improving profit in JV, we expect margins to improve and stabilise at to 24% by FY20E.

Exhibit 7: Quarterly trend in margins



Source: Company, ICICI Direct Research, *Q3FY17 are standalone numbers

Exhibit 8: Annual trend in margins



Source: Company, ICICI Direct Research

Outlook and valuations

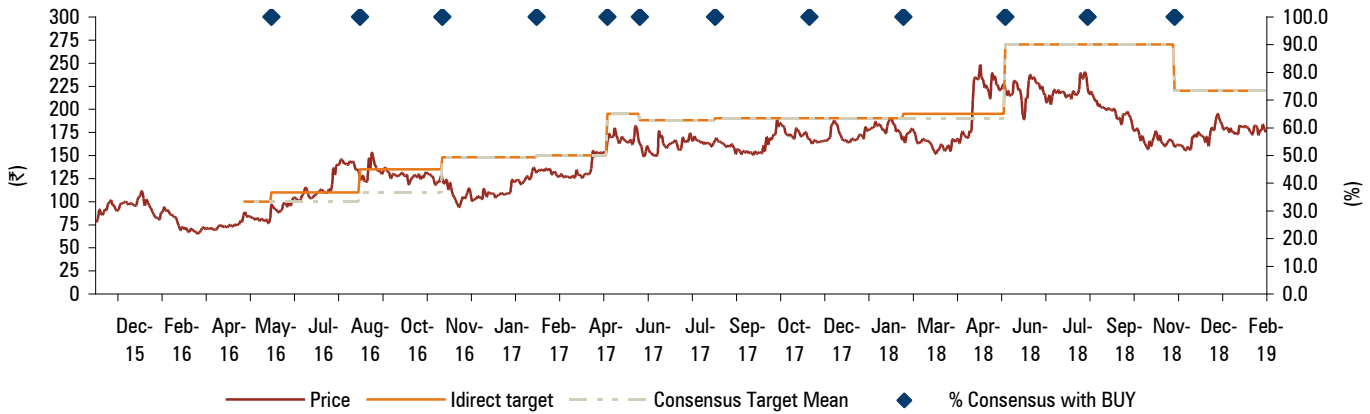
Occupancy levels in the company's area of operations are expected to increase from 63.0% in FY18 to 70.0% in FY20E led by a rise in spending by domestic travellers and a demand revival in Telangana. In addition, room demand (CAGR of 6.5% in FY18-20E) outpacing supply (CAGR of 4.8% in FY18-20E) is expected to keep occupancy buoyant in coming years. Given this, we maintain our **BUY** rating with a revised target price of ₹ 207/share ((i.e. at EV/room of ₹ 1.2 crore/room vs. replacement cost of ₹ 2 crore/room and EV/EBITDA of 15.1x based on FY20E EBITDA).

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	269.5	-3.4	0.7	14.0	270.7	21.9	0.4	6.7
FY18	290.9	7.9	3.3	397.3	54.4	17.5	5.5	9.0
FY19E	323.6	11.2	4.2	30.0	41.9	17.8	6.9	8.4
FY20E	351.1	8.5	5.1	20.0	34.9	15.3	8.2	10.0

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus estimate



Source: Bloomberg, Company, ICICI Direct 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, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)	Shareholding Pattern					
						(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
1	Bhupal (Shalini)	31-Dec-18	37%	23.45	11.72	Promoter	74.99	74.99	74.99	74.99	74.99
2	Tata Group of Companies	31-Dec-18	26%	16.00	0.00	FII	2.63	1.28	1.25	1.25	1.22
3	Bhupal (Krishna Ram)	30-Sep-18	19%	11.72	0.00	DII	8.12	9.86	10.14	10.05	10.10
4	Reddy (Indira Krishna G)	31-Dec-18	12%	7.57	3.81	Others	14.26	13.87	13.62	13.71	13.69
5	Reddy (Krishna G V)	30-Sep-18	6%	3.81	0.00						
6	Sundaram Asset Management Company Limited	31-Dec-18	3%	1.96	-0.88						
7	Damani Estates & Finance Pvt. Ltd.	31-Dec-18	2%	1.49	0.00						
8	HDFC Asset Management Co., Ltd.	31-Dec-18	2%	1.29	0.00						
9	IDFC Asset Management Company Private Limited	31-Dec-18	2%	1.05	0.00						
10	LOBCO Ltd.	31-Dec-18	1%	0.76	0.00						

Source: Reuters, ICICI Direct Research

Recent Activity

Buys			Sells		
Investor name	Value (mn)	Shares	Investor name	Value (mn)	Shares
Bhupal (Shalini)	29.55	11.72	Sundaram Asset Management Company Limited	-2.22	-0.88
Reddy (Indira Krishna G)	9.59	3.81	Reliance Nippon Life Asset Management Limited	-0.13	-0.04
L&T Investment Management Limited	0.03	0.01			
Taurus Asset Management Co. Ltd.	0.02	0.01			

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Total operating Income	269.5	290.9	323.6	351.1
Growth (%)	-3.4	7.9	11.2	8.5
Raw Material Expenses	31.0	31.6	35.6	35.1
Employee Expenses	60.6	62.5	68.4	75.5
Power & Fuel Exp	28.8	27.8	30.9	35.1
Other Exp	88.1	94.8	115.5	121.4
Total Operating Expenditure	208.5	216.6	250.3	267.1
EBITDA	61.0	74.3	73.3	84.0
Growth (%)	-17.8	21.7	-1.3	14.7
Depreciation	18.1	17.3	18.7	18.7
Interest	29.1	25.0	22.7	25.0
Other Income	-0.2	0.0	0.0	0.0
PBT	13.7	32.0	31.9	40.3
Others	0.0	1.3	-3.6	-5.0
Total Tax	8.3	11.0	9.0	13.5
PAT	4.1	20.4	26.5	31.8
Growth (%)	14.0	397.3	30.0	20.0
EPS (₹)	0.7	3.3	4.2	5.1

Source: ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18	FY18E	FY20E
Liabilities				
Equity Capital	12.5	12.5	12.5	12.5
Reserve and Surplus	339.0	356.6	372.5	376.7
Total Shareholders funds	351.5	369.2	385.0	389.3
Total Debt	231.8	201.6	201.6	201.6
Deferred Tax Liability	56.0	59.7	59.7	59.7
Total Liabilities	639.2	630.5	646.3	650.6
Assets				
Gross Block	698.3	701.7	736.7	815.8
Less: Acc Depreciation	257.9	275.2	293.9	312.6
Net Block	440.4	426.6	442.9	503.2
Capital WIP	76.7	81.4	85.0	0.0
Total Fixed Assets	517	508	528	503
Investments	99.3	98.7	98.7	98.7
Inventory	9.0	8.6	11.1	10.3
Debtors	11.4	19.3	13.3	23.4
Loans and Advances	62.4	66.7	72.5	68.0
Other Current Assets	24.7	20.5	29.8	33.4
Cash	3.2	14.6	8.8	22.6
Total Current Assets	110.8	129.8	135.5	157.6
Creditors	80.8	98.3	107.3	101.0
Provisions	7.1	7.7	8.4	7.9
Total Current Liabilities	87.9	106.0	115.7	108.9
Net Current Assets	22.9	23.8	19.8	48.6
Deferred tax Assets	0.0	0.0	0.0	0.0
Application of Funds	639.2	630.5	646.3	650.6

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit after Tax	4.1	20.4	26.5	31.8
Add: Depreciation	18.1	17.3	18.7	18.7
(Inc)/dec in Current Assets	60.2	-7.6	-11.5	-8.3
Inc/(dec) in CL and Provisions	2.3	18.1	9.7	-6.8
CF from operating activities	84.8	48.2	43.4	35.4
(Inc)/dec in Investments	-99.3	0.6	0.0	0.0
(Inc)/dec in Fixed Assets	72.5	-8.2	-38.6	5.9
Others	81.7	3.7	0.0	0.0
CF from investing activities	54.8	-3.9	-38.6	5.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-137.7	-30.1	0.0	0.0
Dividend paid & dividend tax	-3.0	-4.5	-6.0	-7.6
Inc/(dec) in Sec. premium	0.6	0.0	0.0	0.0
Others	2.9	1.8	-4.6	-20.0
CF from financing activities	-137.1	-32.9	-10.7	-27.6
Net Cash flow	2.4	11.5	-5.8	13.8
Opening Cash	0.7	0.0	14.6	8.8
Closing Cash	3.2	11.5	8.8	22.6

Source: Company, ICICI Direct Research

Key ratios				₹ Crore
(Year-end March)	FY17	FY18	FY18E	FY20E
Per share data (₹)				
EPS	0.7	3.3	4.2	5.1
Cash EPS	3.5	6.0	7.2	8.1
BV	56.1	58.9	61.4	62.1
DPS	0.4	0.6	0.8	0.0
Cash Per Share	0.5	2.3	1.4	3.6
Operating Ratios (%)				
EBITDA Margin	22.6	25.5	22.6	23.9
PBT / Total Operating income	6.9	11.0	9.9	11.5
PAT Margin	1.5	7.0	8.2	9.1
Inventory days	11.8	11.1	11.1	11.1
Debtor days	15.5	24.3	15.0	24.3
Creditor days	109.5	123.3	121.0	105.0
Return Ratios (%)				
RoE	0.4	5.5	6.9	8.2
RoCE	6.7	9.0	8.4	10.0
RoIC	7.7	10.7	9.9	10.4
Valuation Ratios (x)				
P/E	270.7	54.4	41.9	34.9
EV / EBITDA	21.9	17.5	17.8	15.3
EV / Net Sales	5.0	4.5	4.0	3.7
Market Cap / Sales	4.1	3.8	3.4	3.2
Price to Book Value	3.2	3.0	2.9	2.9
Solvency Ratios				
Debt/EBITDA	3.8	2.7	2.8	2.4
Debt / Equity	0.7	0.5	0.5	0.5
Current Ratio	1.3	1.2	1.2	1.4
Quick Ratio	1.2	1.1	1.1	1.2

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Hotels)

Sector/Company	CMP			M Cap (₹ Cr)	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Indian Hotel (INDHOT)	141	160	BUY	16769	0.8	1.5	1.7	NA	93.7	81.4	27.7	23.6	22.6	5.0	6.4	6.5	2.4	4.2	4.7
EIH (EIH)	195	230	BUY	11145	3.1	4.6	5.0	62.2	42.5	38.8	37.9	24.8	21.3	8.7	12.5	12.8	6.6	9.0	9.2
TajGVK Hotels (TAJGVK)	180	207	BUY	1129	3.3	4.2	5.1	55.4	42.6	35.5	17.7	18.0	15.6	9.0	8.4	10.0	5.5	6.9	8.2

Source: Company, ICICI Direct Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

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