

## Short-term hiccups to wane away; maintain BUY

ElH's performance witnessed a speed-breaker in the last quarter of FY19. Revenues remained flat YoY at ₹ 430.9 crore (vs. I-direct estimate of ₹ 475.8 crore) while they corrected 2.9% sequentially. ElH's margins during the quarter were below our expectations though they expanded 142 bps YoY to 24.3% (vs. I-direct estimate of 30.2%) mainly due to no topline growth. EBITDA increased 6.1% YoY to ₹ 104.8 crore. The quarter also saw ₹ 84.75 crore being written-off, being receivables of flight catering business. This led to a sharp reduction in taxes by 81.4% YoY to ₹ 5.9 crore while PAT declined 79.3% YoY to ₹ 11.6 crore (below I-direct estimate of ₹ 81.9 crore).

## Despite short-term setback, growth momentum to stay

Q4FY19 was a challenging quarter for the hospitality industry as a whole led by the grounding of a major airline. This led to a financial setback and also impacted the business growth momentum. As seen in Q4FY19, ElH has taken a hit on its P&L relating to receivables of its airline catering business from a single customer to the tune of ~₹ 85 crore. We believe this would have been further aggravated by lower revenues from that segment. Additionally, due to the grounding of the airline company, air fares had shot up on the back of low supply, which is also hindering passenger movement further impacting the business growth of the hospitality industry. We believe these are major factors behind the flat topline growth of ElH during the quarter. With the turmoil in the airline industry receding gradually, we believe the growth momentum will pick up pace except for a small hiccup anticipated in the forthcoming quarter. We model 8.7% revenue CAGR for ElH in FY19-21E.

## Despite expansion plans, balance sheet to remain healthy

ElH has a slew of hotels lined up for expansion, which are currently at different stages of completion/construction and would become operational over the next two to three years. With respect to funding these expansions, the strong state of its balance sheet would not restrict the company to add debt incase needed. Further, ElH also has a strategic partner, Reliance Industries, with an 18.5% stake in the company. We believe these factors would be growth enablers in the years, going ahead.

## Valuation & Outlook

Industry tailwinds coming into play, settling of dust in the airline industry and higher spending by domestic travellers would continue to keep the growth momentum going for the hospitality industry. Further healthy balance sheet and stable margins would improve return ratios, going ahead. Hence, we remain positive on ElH and maintain **BUY** rating on the company with a revised target price of ₹ 210/share (at 25x FY21E EV/EBITDA).



### Stock Data

Particulars	Amount
Market Capitalization	₹ 10288 crore
Total Debt (FY19)	₹ 531 crore
Cash and Investments (FY19)	₹ 249 crore
EV	₹ 10570 crore
52 week H/L	232/157
Equity capital	114.3
Face value	₹ 2

### Key Highlights

- Industry witnessed strong RevPAR growth of 3.7% in FY19
- Total ₹ 84.75 crore of receivables from a single customer written off during the quarter relating to its flight catering business
- Growth momentum to continue given the industry's positioning
- Maintain BUY with a target price of ₹ 210/share

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### Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1529	1599	1811	1965	2142	8.7%
EBITDA	261	299	406	442	484	9.2%
EBITDA (%)	17.1	18.7	22.4	22.5	22.6	
PAT	128	179	193	211	235	10.4%
EPS (₹)	2.2	3.1	3.4	3.7	4.1	
EV/EBITDA	46.8	41.1	30.3	27.7	25.2	
D/E	0.1	0.2	0.2	0.2	0.1	
RoNW (%)	4.6	6.2	6.4	6.8	7.2	
RoCE (%)	6.5	8.2	9.2	10.3	11.1	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Operating Income	430.9	475.8	431.4	-0.1	443.9	-2.9	We believe lower revenues from flight catering business impacted revenue growth
Other Operating Income	39.2	24.0	31.2	25.5	13.1	199.8	
Raw Material Expenses	58.8	0.0	59.1	-0.5	55.4	6.1	
Employee Expenses	106.2	0.0	108.9	-2.5	102.4	3.8	
Other Exp	161.1	0.0	164.6	-2.1	153.7	4.8	
EBITDA	104.8	143.7	98.8	6.1	132.4	-20.9	
EBITDA Margin (%)	24.3	30.2	22.9	142 bps	29.8	-551 bps	Lower other expense and employee expenses helped in EBITDA expansion
Other Income	0.0	0.0	0.0	NA	0.0	NA	
Interest	11.4	12.0	11.6	-2.1	12.9	-12.2	
Depreciation	30.3	32.0	30.4	-0.3	31.1	-2.5	
PBT	17.5	123.7	88.0	-80.1	101.5	-82.7	
Total Tax	5.9	41.8	31.9	-81.4	37.6	-84.2	
PAT	11.6	81.9	56.1	-79.3	63.9	-81.8	PAT significantly lower on account of a ₹ 84.75 crore receivables write-off
EPS	0.2	1.4	1.0	-79.3	1.1	-81.8	

Source: Company, ICICI Direct Research

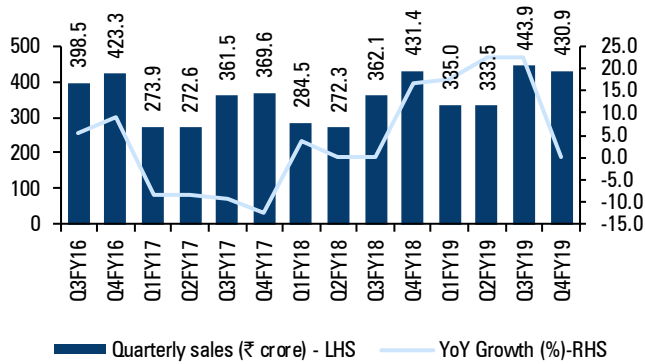
**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY20E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,141.2	1,964.7	-8.2	NA	2,141.6	NA	Revenues expected to grow at 8.7% CAGR over the next two years
EBITDA	471.0	442.1	-6.1	NA	484.1	NA	
EBITDA Margin (%)	22.0	22.5	50 bps	NA	22.6	NA	Margins to remain broadly stable
PAT	255.2	211.0	-17.3	NA	235.0	NA	
EPS (₹)	4.5	3.7	-17.3	NA	4.1	NA	

Source: Company, ICICI Direct Research

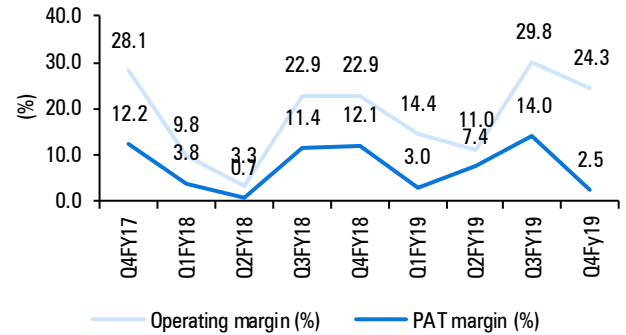
## Financial Story in Charts

**Exhibit 3: Revenues remain flat YoY for Q4FY19**



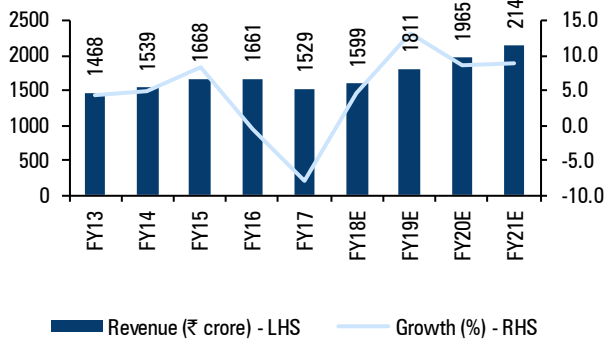
Source: Company, ICICI Direct Research

**Exhibit 4: EBITDA margins improve ~142 bps YoY in Q4FY19**



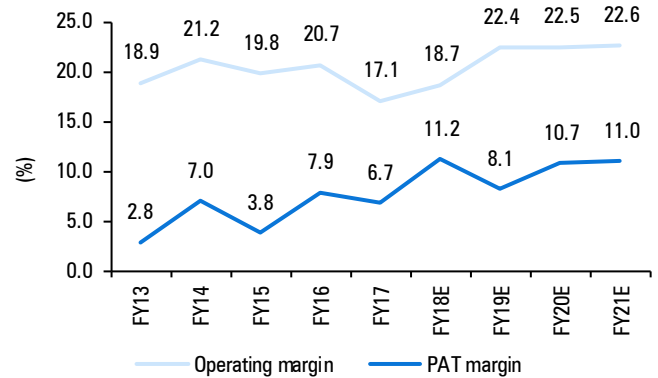
Source: Company, ICICI Direct Research

**Exhibit 5: Revenues to grow at 8.7% CAGR over FY19-21E**



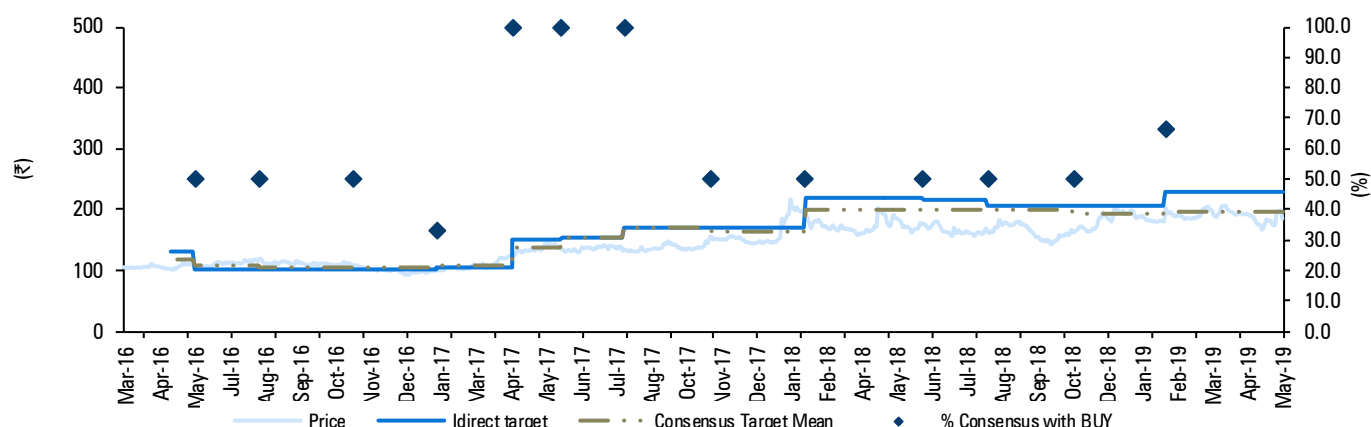
Source: Company, ICICI Direct Research

**Exhibit 6: EBITDA margins to remain stable over FY19-21E**



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Oberoi Group	31-Mar-19	30%	169.3	0.0
2	Reliance Industries Ltd	31-Mar-19	19%	105.9	0.0
3	ITC Ltd	31-Mar-19	15%	85.6	0.0
4	Reliance Nippon Life Asset Management Ltd	30-Apr-19	4%	22.7	0.2
5	L&T Investment Management Limited	31-Mar-19	3%	14.7	1.7
6	Life Insurance Corporation of India	31-Mar-19	2%	13.3	-1.8
7	Sundaram Asset Management Company Ltd	30-Apr-19	2%	10.7	0.1
8	Mukherji (Shib Sanker)	31-Mar-19	2%	9.1	0.0
9	Madhok (Deepak)	31-Mar-19	2%	9.0	0.0
10	General Insurance Corporation of India	31-Mar-19	2%	8.8	-1.2

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 9: Recent Activity

Buy			Sell		
Investor name	Value(mn)	Shares(mn)	Investor name	Value(mn)	Shares(mn)
L&T Investment Management Limited	4.99	1.68	Life Insurance Corporation of India	-5.49	-1.84
Reliance Nippon Life Asset Management Limited	0.56	0.21	The New India Assurance Co. Ltd.	-4.00	-1.34
Sundaram Asset Management Company Limited	0.38	0.14	General Insurance Corporation of India	-3.57	-1.20
IDFC Asset Management Company Private Limited	0.21	0.08	Fidelity Management & Research Company	-1.09	-0.38
The Vanguard Group, Inc.	0.19	0.07	Franklin Templeton Asset Management (India) Pvt. Ltd.	-0.30	-0.11

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	35.25	35.25	35.25	35.25	35.25
FII	4.08	4.14	4.11	3.69	3.99
DII	15.39	15.29	15.40	15.44	15.11
Others	45.28	45.32	45.24	45.62	45.65

Source: Company, ICICI Direct Research, Thomson Reuters

## Financial summary

Exhibit 11: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Total operating Income</b>	<b>1,598.8</b>	<b>1,810.8</b>	<b>1,964.7</b>	<b>2,141.6</b>
Growth (%)	4.6	13.3	8.5	9.0
Raw Material Expenses	226	244	265	278
Employee Expenses	461	481	511	567
Other Exp	613	680	747	812
Total Operating Expenditure	1,299.9	1,404.9	1,522.7	1,657.5
<b>EBITDA</b>	<b>298.9</b>	<b>405.9</b>	<b>442.1</b>	<b>484.1</b>
Growth (%)	14.5	35.8	8.9	9.5
Depreciation	117.3	132.6	127.9	126.8
Interest	23.1	50.4	50.5	53.9
Other Income	106.0	68.8	75.7	75.0
PBT	264.5	291.7	339.3	378.4
Others	-0.3	62.5	7.8	9.1
Total Tax	85.5	82.0	120.5	134.3
<b>PAT</b>	<b>179.2</b>	<b>147.3</b>	<b>211.0</b>	<b>235.0</b>
Growth (%)	73.8	-17.8	43.3	11.3
<b>EPS (₹)</b>	<b>3.1</b>	<b>2.6</b>	<b>3.7</b>	<b>4.1</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>				
Equity Capital	114.3	114.3	114.3	0.0
Reserve and Surplus	2,768.4	2,878.8	2,988.9	0.0
Total Shareholders funds	2,882.7	2,993.1	3,103.2	0.0
Total Debt	455.9	531.0	481.0	0.0
Deferred Tax Liability	113.5	98.5	98.5	0.0
Minority Interest / Others	70.2	88.5	108.9	108.9
<b>Total Liabilities</b>	<b>3,522.3</b>	<b>3,711.1</b>	<b>3,791.5</b>	<b>108.9</b>
<b>Assets</b>				
Gross Block	3,740.6	3,812.5	4,066.1	0.0
Less: Acc Depreciation	1,509.9	1,642.5	1,770.4	0.0
Net Block	2,230.6	2,170.0	2,295.6	0.0
Capital WIP	147.6	78.6	75.0	0.0
Total Fixed Assets	2,378.2	2,248.6	2,370.6	0.0
Goodwill on consolidation	308.3	339.9	339.9	0.0
Investments	457.0	579.8	579.8	579.8
Inventory	51.1	59.8	61.9	70.7
Debtors	223.8	248.0	258.4	293.4
Loans and Advances	306.4	367.6	379.0	391.9
Other Current Assets	81.6	70.9	94.6	85.8
Cash	174.7	248.7	227.2	213.8
Total Current Assets	837.5	995.0	1,021.1	1,055.6
Creditors	339.5	306.0	323.0	352.0
Provisions	127.7	146.2	197.0	214.7
Total Current Liabilities	467.2	452.2	520.0	566.8
Net Current Assets	370.3	542.8	501.1	488.8
Others Assets	8.6	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3,522.3</b>	<b>3,711.1</b>	<b>3,791.5</b>	<b>1,068.6</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	179.2	147.3	211.0	235.0
Add: Depreciation	117.3	132.6	127.9	126.8
(Inc)/dec in Current Assets	168.9	-83.4	-47.6	-47.9
Inc/(dec) in CL and Provisions	189.5	-15.0	67.8	46.8
<b>CF from operating activities</b>	<b>655.0</b>	<b>181.4</b>	<b>359.1</b>	<b>360.6</b>
(Inc)/dec in Investments	23.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-398.9	5.7	-250.0	-250.0
Others	-84.8	-28.3	20.4	0.0
<b>CF from investing activities</b>	<b>-460.6</b>	<b>-22.6</b>	<b>-229.6</b>	<b>-250.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	73.0	75.0	-50.0	-50.0
Dividend paid & dividend tax	-60.5	-60.5	-74.0	-74.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-35.4	23.7	-27.0	0.0
<b>CF from financing activities</b>	<b>-22.9</b>	<b>38.2</b>	<b>-151.0</b>	<b>-124.0</b>
Net Cash flow	21.3	74.1	-21.5	-13.4
Opening Cash	153.3	174.7	248.7	227.2
<b>Closing Cash</b>	<b>174.7</b>	<b>248.7</b>	<b>227.2</b>	<b>213.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
<b>Per share data (₹)</b>				
EPS	3.1	2.6	3.7	4.1
Cash EPS	5.2	4.9	5.9	6.3
BV	50.4	52.4	54.3	57.1
DPS	0.9	0.9	1.1	1.1
Cash Per Share	3.1	4.4	4.0	3.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.7	22.4	22.5	22.6
PBT / Total Operating income	11.2	8.1	10.7	11.0
PAT Margin	11.2	8.1	10.7	11.0
Inventory days	11.5	11.2	11.3	11.3
Debtor days	51.1	50.0	48.0	50.0
Creditor days	77.5	61.7	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	6.2	6.4	6.8	7.2
RoCE	8.2	9.2	10.3	11.1
RoIC	6.3	9.0	10.0	10.8
<b>Valuation Ratios (x)</b>				
P/E	63.5	77.2	53.9	48.4
EV / EBITDA	39.0	28.7	26.3	23.9
EV / Net Sales	7.3	6.4	5.9	5.4
Market Cap / Sales	7.1	6.3	5.8	5.3
Price to Book Value	3.9	3.8	3.7	3.5
<b>Solvency Ratios</b>				
Debt/EBITDA	1.5	1.3	1.1	0.9
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	1.4	1.7	1.5	1.5
Quick Ratio	1.3	1.5	1.4	1.4

Source: Company, ICICI Direct Research

**Exhibit 15: ICICI Direct Coverage Universe (Hospitality)**

Sector/Company	CMP		Rating	M Cap			EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)		
	(₹)	TP (₹)		(₹ Cr)	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E		
Indian Hotel (INDHOT)	157	175	BUY	18672	2.5	2.7	3.5	62	57	45	24	20	17	7.1	9.1	10.8	7.0	7.1	8.5		
EIH (EIH)	180	210	BUY	10288	3.1	2.6	3.7	57	70	49	35	26	24	8.2	9.2	10.3	6.2	6.4	6.8		
TajGVK Hotels(TAJGVK)	206	220	BUY	1292	3.3	0.0	5.6	63	48	37	20	19	17	9.0	9.7	10.6	5.5	6.9	8.9		

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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