

Margins remain upbeat; JV exhibits turnaround

TajGVK reported healthy margin expansion of 787 bps YoY (25.6%) during the quarter despite flattish revenue growth. Revenue growth remained flat mainly due to seasonal slowdown aided by high base of last year that saw revenue growth of over 22%. Revenues came in at ₹ 72.4 crore, flat YoY (below I-direct estimate ₹ 78.7 crore). EBITDA, however, increased 43.5% to ₹ 18.6 crore (above I-direct estimate: ₹ 13.8 crore) with margins expanding 787 bps YoY to 25.6% owing to significantly lower repairs & renovation expenses (₹ 0.87 crore in Q1FY20 vs. ₹ 6.78 crore in Q1FY19) leading to a 22% reduction in other expenses to ₹ 22.5 crore. Net profit surged 50.5% YoY to ₹ 5.9 crore supported by higher operating profit and JV reporting profit of ₹ 0.3 crore against a loss of ₹ 0.6 crore in the previous year.

Industry set to witness healthy traction

The hospitality industry witnessed a long slumber of subdued pricing levels. The recent growth trend of the industry led by healthy increase in occupancy rates eventually flowing into average room rates increasing, are signals of the trend turning around. Additionally, supply that played spoilsport in the past leading to disadvantageous pricing, is expected to slow down in the coming years. New room supply is expected to lag demand growth by ~3-4%. This will convert into growth in both occupancy levels as well as ARRs resulting into healthy RevPAR growth. Also, factoring in the high base of FY19, we model a 7.2% revenue CAGR over FY19-21E.

JV bearing fruit at early stage itself, booster to profit

Started In 2016, Taj Santacruz where TajGVK owns 49% stake, has turned out to be a significant contributor to the bottom-line to TajGVK. For TajGVK, it ended FY18 with a minor loss of ~₹ 60 lakh while in FY19, it turned profitable at the PAT level itself and TajGVK's share in the profits was ₹ 2.9 crore (11% of total PAT). In coming years, with higher occupancies and rates we expect the JV to contribute 15% of the PAT with ~11% share of the room portfolio. Hence, with the profitability expected to improve, we expect PAT to grow at 22% CAGR over FY19-21E despite an expected EBITDA growth of 11% CAGR during the same period.

Valuation & Outlook

Led by the explosive growth in its major market of Telangana, we believe occupancy levels would reach or even cross 70% in FY20E. In addition, room demand, going ahead, which is expected to grow at ~7% with supply growth of 3-4%, should also drive the RevPAR higher. We maintain our **BUY** rating on TajGVK considering the above. Hence, we value the company at 16x FY21E EV/EBITDA and arrive at a target price of ₹ 220.



Stock Data

Particular	Amount
Market Cap	₹ 1110 crore
Debt (FY19)	₹ 165 crore
Cash (FY19)	₹ 3 crore
EV	₹ 1272 crore
52 week H/L (₹)	251/140
Equity capital	₹ 12.5
Face value (₹)	2

Key Highlights

- Industry to grow at 7% vs. supply growth of 4% leading to higher occupancies
- Share of profit from JV stands at ₹ 0.3 crore vs. loss of ₹ 0.6 crore in Q1FY19
- Strong growth in its major market to keep occupancy rates buoyant
- Maintain BUY with a target price of ₹ 220

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	270	291	324	345	373	7.2%
EBITDA	61	74	76	87	94	11.0%
EBITDA (%)	22.6	25.5	23.6	25.1	25.3	
PAT	1	20	27	35	41	22.2%
EPS (₹)	0.2	3.3	4.3	5.6	6.5	
EV/EBITDA	21.9	17.5	16.7	14.7	13.5	
RoNW (%)	0.4	5.5	6.9	8.9	9.5	
RoCE (%)	6.7	9.0	9.7	11.0	11.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY(%)	Q4FY19	QoQ(%)	Comments
Total Operating Income	72.4	78.7	72.8	-0.6	93.5	-22.6	Occupancy & ARR's continue to remain healthy on absolute terms. However, high base of last year (22% YoY) has led to flat revenue growth during the quarter
Raw Material Expenses	7.6	8.7	7.9	-3.7	9.2	-17.3	
Employee Expenses	16.4	17.3	15.7	4.0	16.4	-0.1	
P&F cost	7.3	7.9	7.4	-1.2	6.6	9.8	
Other Expenses	22.6	31.1	28.9	-21.8	32.8	-31.2	Other expenses declined sharply due to lower renovation expenses of ₹0.9 crore as against ₹6.8 crore (one-offs) incurred last year
EBITDA	18.6	13.8	12.9	43.5	28.5	-34.9	
EBITDA Margin (%)	25.6	17.5	17.8	787 bps	30.5	-485 bps	
Interest	6.0	5.1	5.7	5.8	5.2	16.1	
Depreciation	4.2	4.3	4.3	-1.9	4.0	5.3	
PBT	8.4	4.4	3.0	178.4	19.4	-56.8	
Total Tax	2.8	1.0	-1.5	-282.9	9.3	-70.0	
PAT	5.9	2.1	3.9	50.5	12.7	-53.4	
Adjusted PAT	5.9	2.1	3.9	50.5	12.7	-53.4	Strong operating performance along with turnaround of JV drive PAT higher

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	351.1	345.0	-1.7	381.5	372.6	-2.3	Hotel industry and the company's key markets are on a cyclical uptrend, which will boost the topline
EBITDA	84.5	86.7	2.6	93.4	94.1	0.8	
EBITDA Margin (%)	24.1	25.1	106 bps	24.5	25.3	78 bps	Healthy RevPAR and cost efficiency to lead to margin expansion
PAT	35.3	35.2	-0.1	40.1	40.6	1.2	
EPS (₹)	5.6	5.6	-0.1	6.4	6.5	1.2	

Source: Company, ICICI Direct Research

Annual Report Highlights

- **Performance**- Revenue growth was led by double digit growth in the F&B and Banquet incomes. Room revenues formed ~44% of the revenues, next 44% of revenues was contributed by the F&B segment and the balance came from banquets and other income.
- Room revenues witnessed an 8.5% growth YoY contributed by growth in **Occupancy** as well as **ARRs**. Occupancy rates (OR) expanded 300 bps YoY to 66% and **RevPAR** experienced growth of 8.9% to ~₹ 3570. F&B income increased 9.5% YoY aided by growth in banqueting income. This is due to buoyant demand where the company's hotels are located.
- While **revenues** improved to ₹ 324 crore in FY19, **total expenses** increased 14.4% to ₹ 247 crore. Renovation expenses incurred during the year stood at ₹ 19.5 crore.
- During FY19, the company **reduced its debt** by ₹ 30.7 crore and its finance costs were lower by ₹ 3.4 crore at ₹ 21.6 crore
- The NGT ban order which hindered the construction plans of company's **Bangalore hotel**, has been set aside by the Supreme Court. Thus the company would now go ahead with the construction of a 250 room luxury hotel. The company is planning to submit the drawings to government authorities.
- **Renovation** - Taj Deccan and Taj Krishna are undergoing renovations and/or refurbishments. In FY20E, renovation for two floors of Taj Krishna would be undertaken while for Taj Deccan, 72 rooms would go under renovation during the year

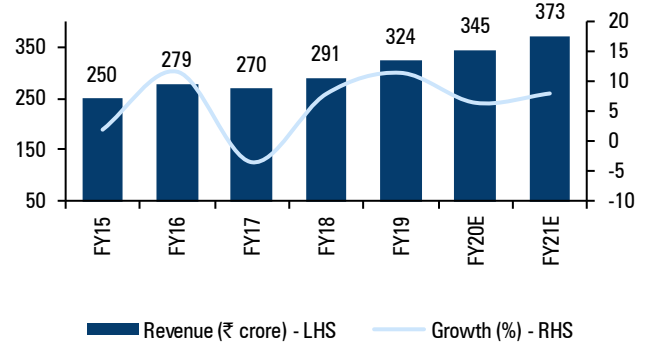
Financial Story in Charts

Exhibit 3: Room portfolio

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

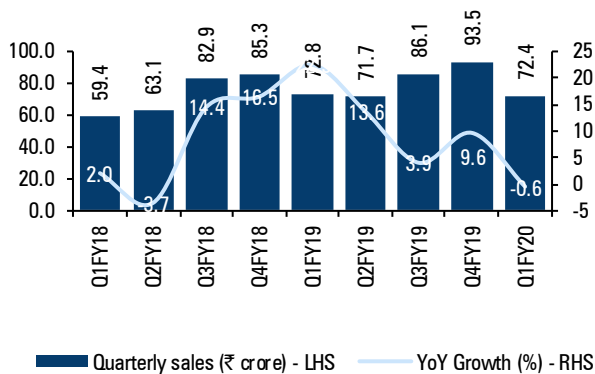
Source: Company, ICICI Direct Research

Exhibit 4: Revenues to grow at 7.2% CAGR over FY19-21E



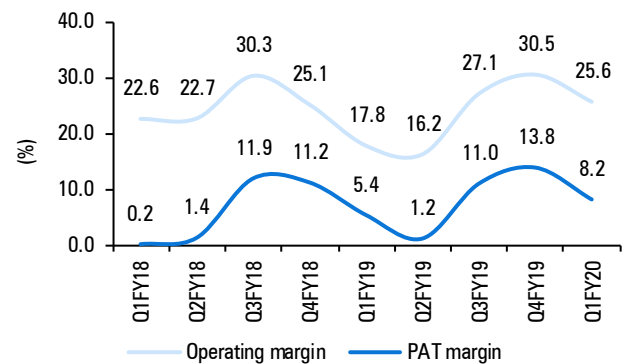
Source: Company, ICICI Direct Research

Exhibit 5: Revenues broadly remain flat YoY



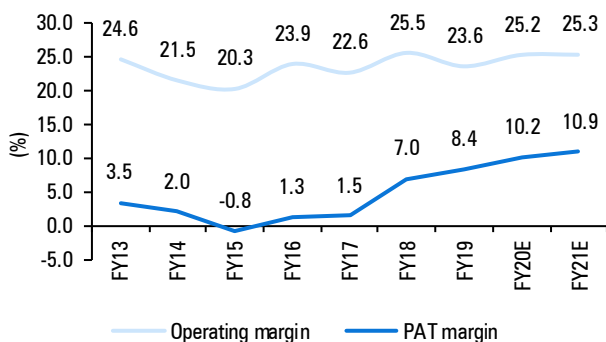
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins improve ~787bps YoY



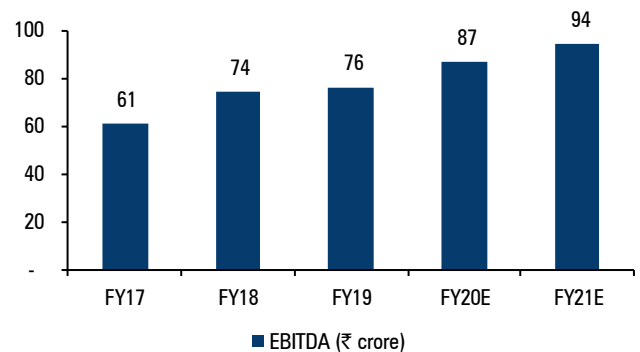
Source: Company, ICICI Direct Research

Exhibit 7: Profitability to improve with JV turning profitable



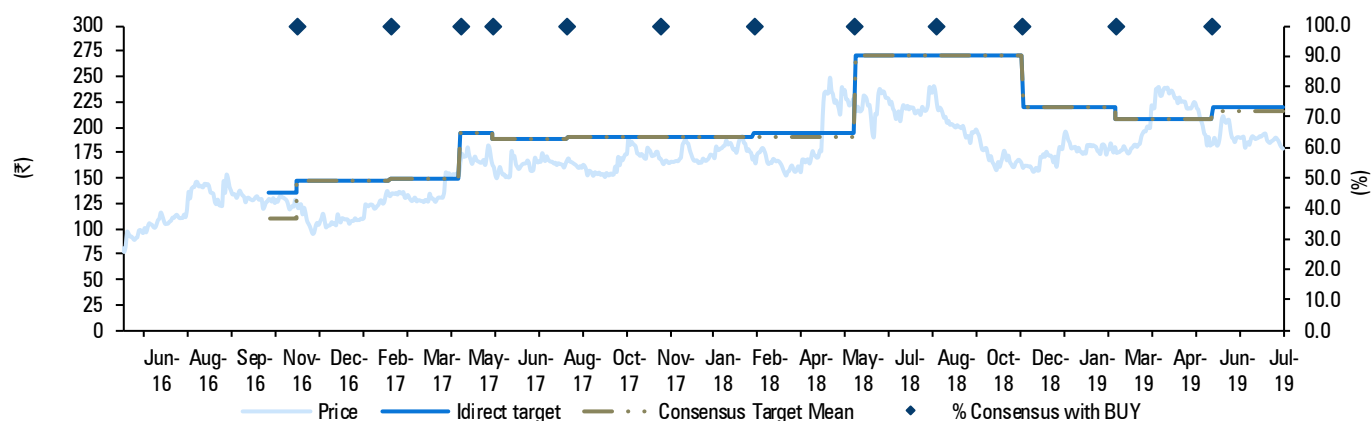
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA to grow at double digit CAGR of 11% in FY19-21E



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 10: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Bhupal (Shalini)	30-Jun-19	37%	23.45
2	Tata Group of Companies	30-Jun-19	26%	16.00
3	Reddy (Indira Krishna G)	30-Jun-19	12%	7.57
4	Sundaram Asset Management Company Limited	30-Jun-19	5%	2.84
5	HDFC Asset Management Co., Ltd.	30-Jun-19	3%	1.81
6	Damani Estates & Finance Pvt. Ltd.	30-Jun-19	2%	1.49
7	IDFC Asset Management Company Private Ltd	30-Jun-19	2%	1.21
8	L&T Investment Management Limited	30-Jun-19	1%	0.63
9	Taurus Asset Management Co. Ltd.	30-Jun-19	0%	0.24
10	J.P. Morgan Asset Management (Hong Kong) Ltd.	28-Feb-18	0%	0.00

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value (mn)	Shares (mn)	Investor name	Value (mn)	Shares (mn)
Taurus Asset Management Co. Ltd.	0.08	0.03			

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	74.99	74.99	74.99	74.99	74.99
FII	1.25	1.25	1.22	0.90	0.90
DII	10.14	10.05	10.10	11.20	11.34
Others	13.62	13.71	13.69	12.91	12.77

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 13: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	290.9	324.1	345.0	372.6
Growth (%)	7.9	11.4	6.5	8.0
Raw Material Expenses	31.6	34.8	37.6	37.3
Employee Expenses	62.5	65.3	69.9	74.5
Power & Fuel Exp	27.8	28.2	32.1	37.3
Other Exp	94.8	119.4	118.6	129.5
Total Operating Expenditure	290.9	324.1	345.0	372.6
EBITDA	74.3	76.4	86.7	94.1
Growth (%)	21.7	2.9	13.5	8.6
Depreciation	17.3	16.7	18.5	20.2
Interest	25.0	21.6	21.3	20.5
Other Income	0.0	0.0	0.0	0.0
PBT	32.0	38.1	46.9	53.5
Others	0.6	-2.9	-4.1	-5.0
Total Tax	11.0	13.8	15.7	17.9
PAT	20.4	27.2	35.2	40.6
Growth (%)	397.3	33.2	29.8	15.1
EPS (₹)	3.3	4.3	5.6	6.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	12.5	12.5	12.5	12.5
Reserve and Surplus	356.6	378.4	382.3	415.3
Total Shareholders funds	369.2	390.9	394.9	427.9
Total Debt	201.6	165.0	165.0	165.0
Deferred Tax Liability	59.7	60.7	60.7	60.7
Total Liabilities	630.5	616.6	620.5	653.5
Assets				
Gross Block	701.7	706.0	798.3	830.1
Less: Acc Depreciation	275.2	291.9	310.4	330.5
Net Block	426.6	414.1	488.0	499.5
Capital WIP	81.4	92.3	35.0	25.0
Total Fixed Assets	508	506	523	525
Investments	98.7	101.6	81.6	101.6
Inventory	8.6	7.5	11.4	9.0
Debtors	19.3	18.7	20.8	22.5
Loans and Advances	66.7	54.9	55.5	71.1
Other Current Assets	20.5	18.7	22.7	22.0
Cash	14.6	0.4	2.8	6.8
Total Current Assets	129.8	100.1	113.2	131.5
Creditors	98.3	85.5	90.7	97.0
Provisions	7.7	7.7	8.1	8.7
Total Current Liabilities	106.0	93.2	98.9	105.7
Net Current Assets	23.8	6.9	14.4	25.8
Deferred tax Assets	0.0	0.0	0.0	0.0
Application of Funds	630.5	616.6	620.5	653.5

Source: Company, ICICI Direct Research

Exhibit 14: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	20.4	27.2	35.2	40.6
Add: Depreciation	17.3	16.7	18.5	20.2
(Inc)/dec in Current Assets	-7.6	15.4	-10.7	-14.2
Inc/(dec) in CL and Provisions	18.1	-12.8	5.7	6.8
CF from operating activities	48.2	46.5	48.7	53.3
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-8.2	-16.8	-35.0	-21.8
Others	0.6	-2.9	20.0	-20.0
CF from investing activities	-3.9	-18.7	-15.0	-41.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-30.4	-36.1	0.0	0.0
Dividend paid & dividend tax	0.2	-0.5	0.0	0.0
Inc/(dec) in Sec. premium	-4.5	-4.5	-7.6	-7.6
Others	0.0	0.0	0.0	0.0
CF from financing activities	-32.9	-42.1	-31.3	-7.6
Net Cash flow	11.5	-14.3	2.4	4.0
Opening Cash	3.2	14.6	0.4	2.8
Closing Cash	14.6	0.4	2.8	6.8

Source: Company, ICICI Direct Research

Exhibit 16: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	3.3	4.3	5.6	6.5
Cash EPS	6.0	7.0	8.6	9.7
BV	58.9	62.3	63.0	68.2
DPS	0.6	0.6	0.0	0.0
Cash Per Share	2.3	0.1	0.4	1.1
Operating Ratios (%)				
EBITDA Margin	25.5	23.6	25.1	25.3
PBT / Total Operating income	11.0	11.8	13.6	14.4
PAT Margin	7.0	8.4	10.2	10.9
Inventory days	11.1	9.1	10.0	10.0
Debtor days	24.3	21.0	22.0	22.0
Creditor days	123.3	96.3	96.0	95.0
Return Ratios (%)				
RoE	5.5	6.9	8.9	9.5
RoCE	9.0	9.7	11.0	11.3
RoIC	10.7	11.4	11.7	11.9
Valuation Ratios (x)				
P/E	54.4	40.9	31.5	27.4
EV / EBITDA	17.5	16.7	14.7	13.5
EV / Net Sales	4.5	3.9	3.7	3.4
Market Cap / Sales	3.8	3.4	3.2	3.0
Price to Book Value	3.0	2.8	2.8	2.6
Solvency Ratios				
Debt/EBITDA	2.7	2.2	1.9	1.8
Debt / Equity	0.5	0.4	0.4	0.4
Current Ratio	1.2	1.1	1.1	1.2
Quick Ratio	1.1	1.1	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct Coverage Universe (Hospitality)

Sector/Company	CMP		M Cap (₹ Cr)	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E
Indian Hotel (INDHOT)	144	175	BUY	17126	2.5	2.9	3.5	57	50	41	23	20	16	7.1	8.2	10.8	7.0	7.4	8.4
EIH (EIH)	164	210	BUY	9373	3.1	2.6	3.7	52	64	44	32	24	22	8.2	9.2	10.3	6.2	6.4	6.8
TajGVK Hotels(TAJGVK)	177	220	BUY	1110	3.3	0.0	5.6	54	41	31	17	17	15	9.0	9.7	11.0	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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