

August 16, 2019

Flight catering business plays spoilsport!

EIH reported a weak set of results mainly on account of the weak performance of the flight catering business. Revenues declined 13.5% YoY to ₹ 290 crore (vs. I-direct estimates of ~₹ 350 crore). This drop in revenues was on the back of flight catering business losing ~50% business with the grounding of Jet Airways. Flight catering revenues came in at ₹ 38 crore (down 49% YoY) while revenues from rooms and F&B segment were at ₹ 252 crore vs. ₹ 257 crore YoY. Combined (domestic and managed hotels) RevPAR increased 0.6% YoY to ₹ 6310 and occupancy improved 86 bps to 63.47%. For domestic owned hotels, RevPAR declined 1.8% YoY to ₹ 6506 while occupancy rates were down 50 bps YoY. EBITDA (adjusted) was at ~₹ 4 crore, down 72% YoY (vs. I-direct estimate of ₹ 14.6 crore). This was led by flight catering business reporting an EBITDA loss of ₹ 3.67 crore vs. profit of ₹ 12.35 crore a year ago. Owing to reduction in operating profit during the quarter, the company reported a net loss of ₹ 7.1 crore (vs. I-direct estimates of ₹ 11.9 crore profit).

Growth to make comeback from FY21E

While the hospitality industry faced a challenge during the quarter, both due to elections and also passenger traffic reduction, EIH specifically was affected more as the company lost ~50% of revenues in its flight catering business. This was led by the grounding of Jet Airways which contributed to ~50% of this business segment. We thus believe, FY20E would be a challenging year with lower revenues coming in from the flight catering segment. Hotels performance during the quarter has been stable with occupancy and RevPARs of domestic owned and managed hotels improving by 86bps and 0.64% YoY to 63.47% and ₹ 6310 respectively. Due to lower contribution by the flight catering segment, revenues are expected to decline marginally in FY20E and recover from FY21E. Thus the topline is expected to grow at a CAGR of 6.3% over FY19-21E.

New properties to be added soon; balance sheet to remain firm

EIH has five hotels lined up to be opened (ownership and management contract basis), which are at different stage of completion/construction and would be operational over the next two to three years. Considering the strong state of its balance sheet with a standalone debt currently standing at ₹ 430 crore and strong cash flows from existing properties, funding the capex should not be an issue for the company. Leverage is expected to reduce with Debt/EBITDA improving from 1.3x in FY19 to 0.8x in FY21E.

Valuation & Outlook

While EIH has certain company specific issues to deal with, industry tailwinds for the hotels business would provide the necessary cushion. Further healthy balance sheet, stable margins and opening up of new properties lead us to maintain a positive outlook despite the recent setbacks. We continue to maintain **BUY** on EIH valuing it at 25x FY21E EV/EBITDA arriving at a slightly reduced target price of ₹ 200 per share.

Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1529	1599	1811	1809	2046	6.3%
EBITDA	261	299	406	373	461	6.6%
EBITDA (%)	17.1	18.7	22.4	20.6	22.5	
PAT	128	179	193	163	217	6.1%
EPS (₹)	2.2	3.1	3.4	2.8	3.8	
EV/EBITDA	35.4	31.2	22.9	24.9	20.2	
D/E	0.1	0.2	0.2	0.1	0.1	
RoNW (%)	4.6	6.2	6.4	5.3	6.8	
RoCE (%)	6.5	8.2	9.2	8.4	10.5	

Source: Company, ICICI Direct Research



Stock Data

Particulars	Amount
Market Capitalization	₹ 9030 crore
Total Debt (FY19)	₹ 531 crore
Cash and Investments (FY19)	₹ 249 crore
EV	₹ 9313 crore
52 week H/L	214/137
Equity capital	114.3
Face value	₹ 2

Key Highlights

- Q1FY20 performance affected due to loss of revenues in the flight catering business
- Five properties to be opened over next few years
- Growth to get back into pace from FY21E
- Maintain BUY with target price of ₹ 200

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	289.6	349.7	335.0	-13.5	430.9	-32.8	Lower revenues from flight catering business led the revenue decline
Other Operating Income	13.4	10.0	8.5	57.2	39.2	-65.9	
Raw Material Expenses	41.3	50.0	48.4	-14.8	58.8	-29.9	
Employee Expenses	101.6	108.4	103.5	-1.9	106.2	-4.3	
Other Exp	125.2	140.2	134.7	-7.0	161.1	-22.2	
EBITDA	21.6	51.1	48.3	-55.4	104.8	-79.4	EBITDA loss of ₹ 3.67 crore in flight catering business vs profit ₹ 12.35 crore
EBITDA Margin (%)	7.4	14.6	14.4	-698 bps	24.3	-1688 bps	
Other Income	0.0	0.0	0.0	NA	0.0	NA	
Interest	12.1	11.2	10.1	19.5	11.4	6.7	
Depreciation	33.6	31.0	30.6	9.6	30.3	10.8	
PBT	-11.3	18.9	16.0	-170.2	17.5	-164.2	
Total Tax	-4.2	6.9	5.8	-171.1	5.9	-170.0	
PAT	-7.1	11.9	10.2	-169.7	11.6	-161.2	Lower operating profits and IndAS adjustments push profits lower
EPS	-0.1	0.2	0.2	-169.7	0.2	-161.2	

Source: Company, ICICI Direct Research

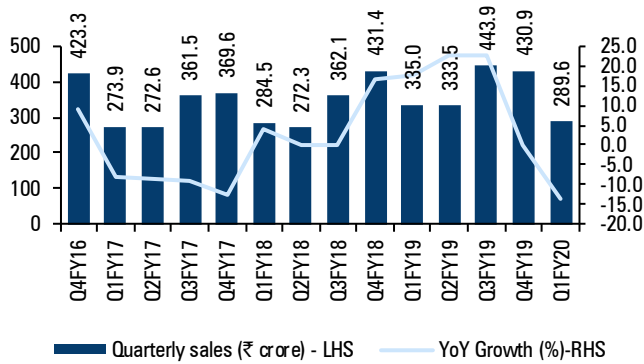
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,964.7	1,809.2	-7.9	2,141.6	2,045.8	-4.5	Revenues expected to grow at 6.3% CAGR over FY19-21E
EBITDA	442.1	372.7	-15.7	484.1	461.3	-4.7	
EBITDA Margin (%)	22.5	20.6	-190 bps	22.6	22.5	-6 bps	Margins to decline due to lower revenues and profits from the flight catering business
PAT	211.0	162.9	-22.8	235.0	217.4	-7.5	
EPS (₹)	3.7	2.8	-22.8	4.1	3.8	-7.5	

Source: Company, ICICI Direct Research

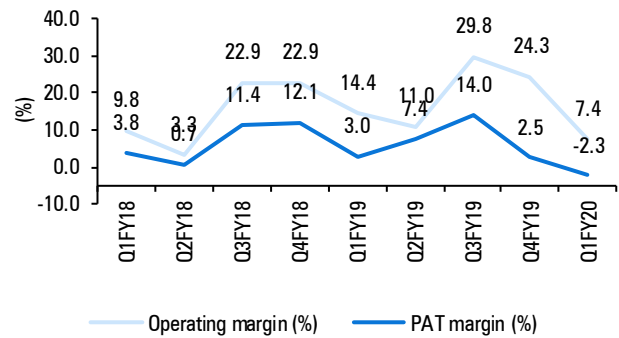
Financial Story in Charts

Exhibit 3: Revenues remain decline 13.5% YoY in Q1FY20



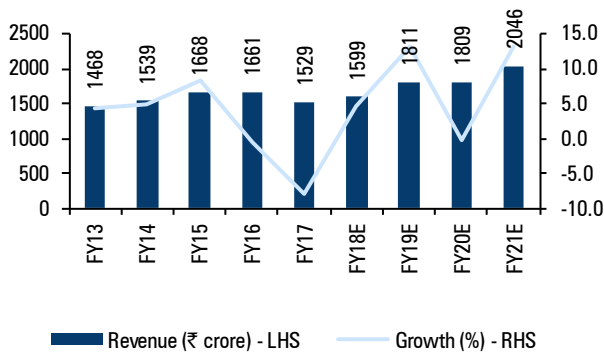
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA margins decline 700 bps YoY in Q1FY20



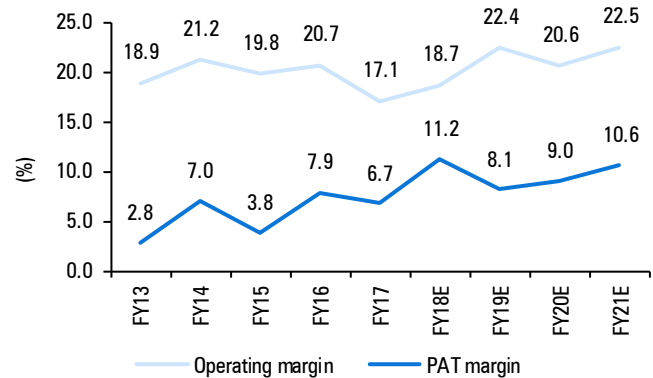
Source: Company, ICICI Direct Research

Exhibit 5: Revenues to grow at 6.3% CAGR over FY19-21E



Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margins to rebound in FY21E



Source: Company, ICICI Direct Research

Exhibit 7: EIH Group portfolio

Balanced Portfolio

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	Business	Leisure	
Luxury	<ul style="list-style-type: none"> The Oberoi Mumbai (287) The Oberoi New Delhi (220) The Oberoi Grand, Kolkata (209) The Oberoi, Bangalore (160) Trident, Gurgaon (136)* Trident, Nariman Point (555) Trident, Bandra Kurla (436) The Oberoi, Gurgaon (202)* 	<ul style="list-style-type: none"> The Oberoi Amarvilas (102)* The Oberoi Udaivilas (87) The Oberoi Rajvilas (71)* The Oberoi Vanyavilas (25) The Oberoi Sukhvilas (60)* The Oberoi Cecil (75)* Wildflower Hall (85)* The Oberoi M.V.Vrinda(8) 	
	Great Value for Money	<ul style="list-style-type: none"> Trident, Chennai (167)* Trident, Bhubaneswar (62)* Maidens Hotel (54) Trident Hyderabad (323)* 	<ul style="list-style-type: none"> Trident, Agra (137)* Trident, Udaipur (143)* Trident, Jaipur (134)* Trident, Cochin (85)*

Figures in brackets are number of rooms

- Significant presence in major tourist & business destinations with high room inventory
 - Business Destinations - Mumbai, NCR, Kolkata, Bangalore, Chennai, Hyderabad
 - Leisure Destinations - Agra, Jaipur, Udaipur, Kerala and Shimla
- Assets irreplaceable in terms of location, ambience and experience
- Geographic spread helps
 - achieve synergies in occupancy by cross selling our properties
 - mitigate effect of seasonality by efficiently utilizing personnel by re-deploying them between hotels

* Properties managed by EIH limited

Source: Company, ICICI Direct Research

Exhibit 8: Market leader in most micro markets where EIH has presence

Market Leader
FY 2018-19



Hotel-wise STR ranking suggests Oberoi & Trident branded hotels continue to be the leaders across India with 7 hotels ranked # 1 and 6 hotels ranked # 2 out of total 18 hotels in India

Oberoi Branded Hotels	STR Rank	Trident Branded Hotels	STR Rank
The Oberoi, Mumbai	3	Trident, Nariman Point	2
The Oberoi, Bengaluru	1	Trident, Bandra Kurla	2
The Oberoi Grand, Kolkata	1	Trident, Gurgaon	1
The Oberoi, Gurgaon	1	Trident, Chennai	6
The Oberoi, Rajvillas	1	Trident, Hyderabad	2
The Oberoi, Udaivilas	2	Trident, Agra	3
The Oberoi, New Delhi	1	Trident, Jaipur	2
The Oberoi, Cecil	2	Trident, Udaipur	1
The Oberoi, Sukhvilas	3	Trident, Cochin	5

* STR date in respect of The Oberoi Amarvilas, The Oberoi Vanyavilas, Wild Flower Hall, The Oberoi MV Vrinda, Trident Bhubaneswar and Maidens Hotel is not available.

International Oberoi Branded Hotels	STR Rank
The Oberoi, Bali	7 of 11
The Oberoi, Mauritius	3 of 6
The Oberoi, Sahl Hasheesh	1 of 6

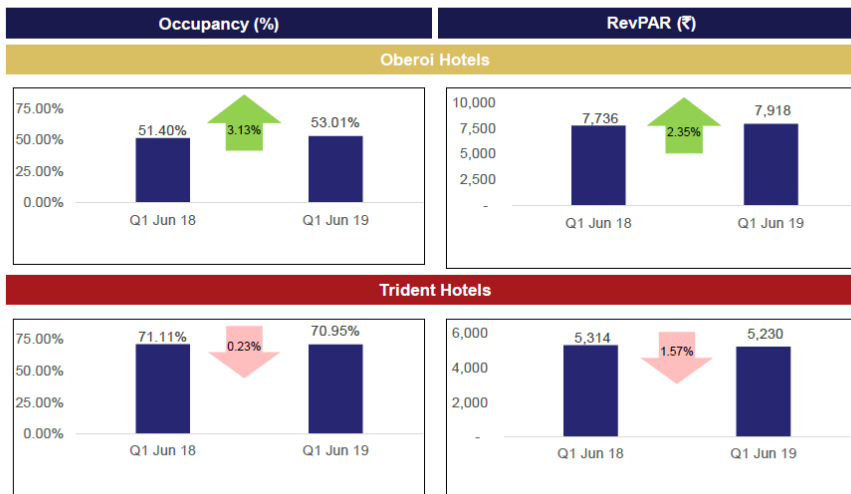
* STR data in respect of other International properties is not available.

Source: ICICI Direct Research, Company

Exhibit 9: Trident's presence is skewed towards business districts

Operational Statistics – Q1

Brand Wise ~ Domestic + International – Owned / Managed



1. Includes managed properties.

2. The results of this quarter are not indicative of full year's performance due to seasonal nature of the hotel industry.

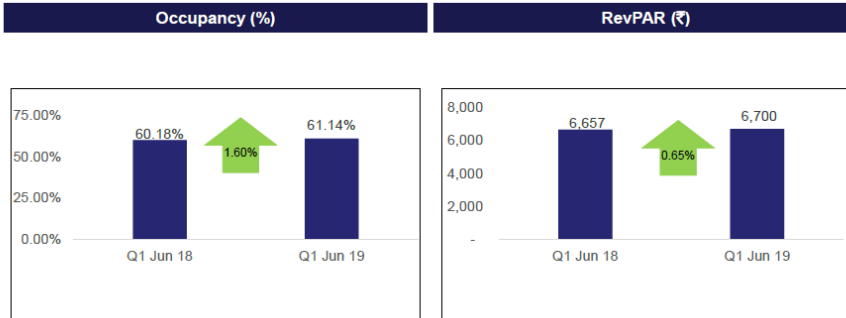
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Source: Company, ICICI Direct Research

Exhibit 10: Operational performance (domestic and international combined)

Operational Statistics – Q1
Domestic + International – Owned / Managed

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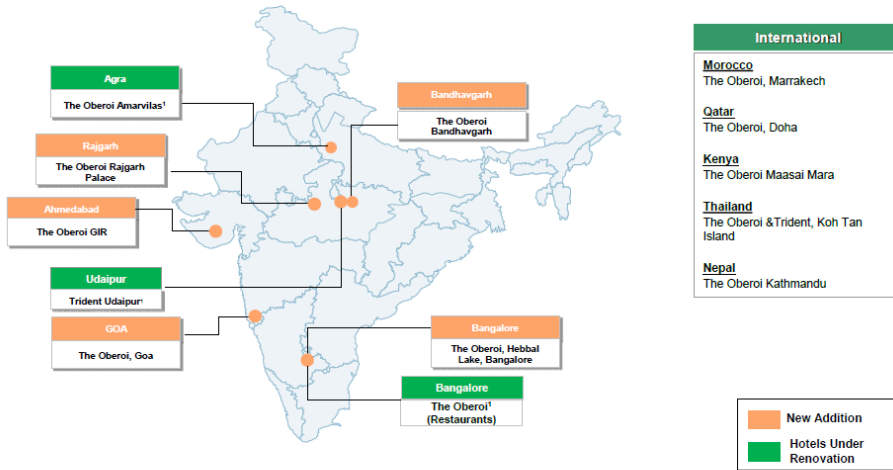
- Note:
- Includes managed properties.
 - The results of this quarter are not indicative of full year's performance due to seasonal nature of the hotel industry.

Source: Company, ICICI Direct Research

Exhibit 11: Future plans

Planned Addition/ Renovation

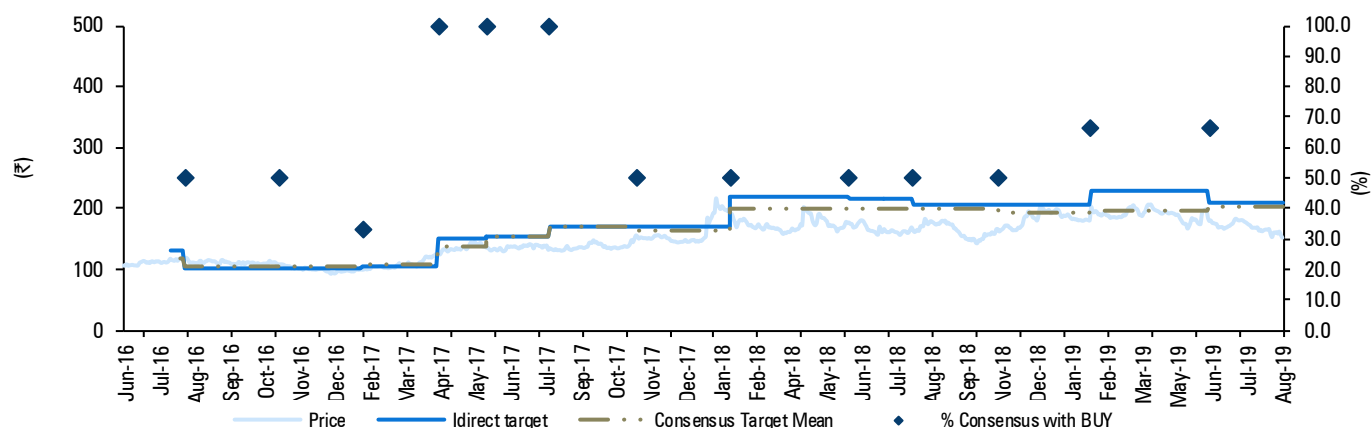
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¹Existing properties under renovation

Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 13: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Oberoi Group	30-Jun-19	26%	151.2	-18.1
2	Reliance Industries Ltd	31-Mar-19	19%	105.9	0.0
3	Reliance Industrial Investments & Holdings, Lt	30-Jun-19	19%	105.9	105.9
4	ITC Ltd	30-Jun-19	15%	85.6	0.0
5	Reliance Nippon Life Asset Management Limi	30-Jun-19	4%	21.7	0.1
6	Oberoi Building & Investment Pvt. Ltd.	30-Jun-19	3%	18.1	18.1
7	L&T Investment Management Limited	31-Mar-19	3%	14.7	1.7
8	Sundaram Asset Management Company Limi	31-Jul-19	2%	10.8	0.0
9	Life Insurance Corporation of India	30-Jun-19	2%	9.9	-3.4
10	Mukherji (Shib Sanker)	30-Jun-19	2%	9.1	0.0

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 14: Recent Activity

Buy			Sell		
Investor name	Value(\$mn)	Shares(mn)	Investor name	Value(\$mn)	Shares(mn)
Reliance Industrial Investments & Holdings, Ltd.	281.06	105.91	Oberoi Group	-47.93	-18.06
Oberoi Building & Investment Pvt. Ltd.	47.93	18.06	Life Insurance Corporation of India	-9.09	-3.42
Reliance Nippon Life Insurance Company Limited	18.00	6.78	The New India Assurance Co. Ltd.	-1.33	-0.50
L&T Investment Management Limited	4.99	1.68	JPMorgan Asset Management U.K. Limited	-0.71	-0.26
ICICI Prudential Asset Management Co. Ltd.	1.20	0.50	J.P. Morgan Asset Management (Hong Kong) Ltd.	-0.11	-0.04

Source: Company, ICICI Direct Research, Thomson Reuters

Exhibit 15: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	35.25	35.25	35.25	35.25	35.25
FII	4.14	4.11	3.69	3.99	4.25
DII	15.29	15.40	15.44	15.11	14.55
Others	45.32	45.24	45.62	45.65	45.95

Source: Company, ICICI Direct Research, Thomson Reuters

Financial summary

Exhibit 16: Profit and Loss Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating income	1,598.8	1,810.8	1,809.2	2,045.8
Growth (%)	4.6	13.3	-0.1	13.1
Raw Material Expenses	226	244	235	265
Employee Expenses	461	481	505	535
Other Exp	613	680	697	784
Total Operating Expenditure	1,299.9	1,404.9	1,436.5	1,584.5
EBITDA	298.9	405.9	372.7	461.3
Growth (%)	14.5	35.8	-8.2	23.8
Depreciation	117.3	132.6	136.6	137.6
Interest	23.1	50.4	45.3	47.6
Other Income	106.0	68.8	72.2	75.0
PBT	264.5	291.7	263.1	351.1
Others	-0.3	62.5	2.9	3.8
Total Tax	85.5	82.0	97.3	129.9
PAT	179.2	147.3	162.9	217.4
Growth (%)	73.8	-17.8	10.6	33.5
EPS (₹)	3.1	2.6	2.8	3.8

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Equity Capital	114.3	114.3	114.3	114.3
Reserve and Surplus	2,768.4	2,878.8	2,940.7	3,084.0
Total Shareholders funds	2,882.7	2,993.1	3,055.0	3,198.3
Total Debt	455.9	531.0	431.0	381.0
Deferred Tax Liability	113.5	98.5	98.5	98.5
Minority Interest / Others	70.2	88.5	103.9	103.9
Total Liabilities	3,522.3	3,711.1	3,688.4	3,781.7
Assets				
Gross Block	3,740.6	3,812.5	4,041.1	4,141.1
Less: Acc Depreciation	1,509.9	1,642.5	1,779.1	1,916.7
Net Block	2,230.6	2,170.0	2,261.9	2,224.3
Capital WIP	147.6	78.6	100.0	200.0
Total Fixed Assets	2,378.2	2,248.6	2,361.9	2,424.3
Goodwill on consolidation	308.3	339.9	339.9	339.9
Investments	457.0	579.8	579.8	579.8
Inventory	51.1	59.8	52.2	74.4
Debtors	223.8	248.0	257.7	291.5
Loans and Advances	306.4	367.6	319.9	416.6
Other Current Assets	81.6	70.9	81.5	90.8
Cash	174.7	248.7	174.1	105.8
Total Current Assets	837.5	995.0	885.5	979.1
Creditors	339.5	306.0	297.4	336.3
Provisions	127.7	146.2	181.4	205.1
Total Current Liabilities	467.2	452.2	478.8	541.4
Net Current Assets	370.3	542.8	406.7	437.7
Others Assets	8.6	0.0	0.0	0.0
Application of Funds	3,522.3	3,711.1	3,688.3	3,781.7

Source: Company, ICICI Direct Research

Exhibit 17: Cash Flow Statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	179.2	147.3	162.9	217.4
Add: Depreciation	117.3	132.6	136.6	137.6
(Inc)/dec in Current Assets	168.9	-83.4	34.8	-161.9
Inc/(dec) in CL and Provisions	189.5	-15.0	26.6	62.6
CF from operating activities	655.0	181.4	361.0	255.7
(Inc)/dec in Investments	23.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-398.9	5.7	-250.0	-200.0
Others	-84.8	-28.3	15.4	0.0
CF from investing activities	-460.6	-22.6	-234.6	-200.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	73.0	75.0	-100.0	-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
CF from financing activities	-22.9	38.2	-201.0	-124.0
Net Cash flow	21.3	74.1	-74.6	-68.3
Opening Cash	153.3	174.7	248.7	174.1
Closing Cash	174.7	248.7	174.1	105.8

Source: Company, ICICI Direct Research

Exhibit 19: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	3.1	2.6	2.8	3.8
Cash EPS	5.2	4.9	5.2	6.2
BV	50.4	52.4	53.5	56.0
DPS	0.9	0.9	1.1	1.1
Cash Per Share	3.1	4.4	3.0	1.9
Operating Ratios (%)				
EBITDA Margin	18.7	22.4	20.6	22.5
PBT / Total Operating income	11.2	8.1	9.0	10.6
PAT Margin	11.2	8.1	9.0	10.6
Inventory days	11.5	11.2	11.3	11.3
Debtor days	51.1	50.0	52.0	52.0
Creditor days	77.5	61.7	60.0	60.0
Return Ratios (%)				
RoE	6.2	6.4	5.3	6.8
RoCE	8.2	9.2	8.4	10.5
RoIC	6.3	9.0	7.7	10.3
Valuation Ratios (x)				
P/E	50.4	61.3	55.4	41.5
EV / EBITDA	31.2	22.9	24.9	20.2
EV / Net Sales	5.8	5.1	5.1	4.5
Market Cap / Sales	5.6	5.0	5.0	4.4
Price to Book Value	3.1	3.0	3.0	2.8
Solvency Ratios				
Debt/EBITDA	1.5	1.3	1.2	0.8
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	1.4	1.7	1.5	1.6
Quick Ratio	1.3	1.5	1.4	1.5

Source: Company, ICICI Direct Research

Exhibit 20: 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)	133	165	BUY	15818	2.5	2.5	3.4	54	53	39	21	18	14	7.1	8.3	10.7	6.8	6.9	8.7	
EIH (EIH)	158	200	BUY	9030	3.1	2.6	2.8	50	61	55	31	23	25	8.2	9.2	8.4	6.2	6.4	5.3	
TajGVK Hotels(TAJGVK)	126	220	BUY	790	3.3	0.0	5.6	39	29	22	13	12	11	9.0	9.7	11.0	5.5	6.9	8.9	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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