

Indian Hotels

BSE SENSEX 36,700
S&P CNX 10,863

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Bloomberg	IH IN
Equity Shares (m)	1,189
M.Cap.(INRb)/(USDb)	160.5 / 2.3
52-Week Range (INR)	164 / 110
1, 6, 12 Rel. Per (%)	-3/-4/6
12M Avg Val (INR M)	171
Free float (%)	60.9

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Sales	45.1	49.4	53.9
EBITDA	8.3	12.2	14.5
NP	2.8	3.5	4.9
EPS (INR)	2.4	3.0	4.1
EBITDA Gr. (%)	23.8	46.8	19.4
EPS Gr. (%)	257.4	25.9	38.8
RoE (%)	6.6	7.9	10.2
RoCE (%)	5.9	7.8	8.4
EV/ EBITDA (x)	22.6	16.7	13.7
P/E (x)	57.3	45.5	32.8

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR135 TP: INR178 (+32%)

Buy

Consol. performance largely in line

Notable contribution by subsidiaries

- **Consol. revenue/EBITDA largely in-line...:** Consol. revenue grew by 4% YoY to INR10.2b (our estimate: INR10.3m). Adjusting for Ind-AS 116 impact, like-to-like EBITDA was up 16% YoY at INR1,287m (our estimate: INR1,219m), with the margin expanding 130bp YoY to 12.6% (our estimate: 11.9%). Adj. PAT declined 82% YoY to INR34m (our estimate: INR154m) on account of loss from MI and lower profit from JV/associates (INR45m v/s est. of profit of INR96m) and higher tax (1QFY19 had a tax benefit).
- **...mainly driven by UK/US hotels:** Standalone revenue was up by only 1% YoY to INR5.7b, impacted by a 2.5% decline in RevPAR amid elections. However, like-to-like standalone EBITDA was up 4% YoY to INR881m. This indicates that the consol. performance (like-to-like) was primarily driven by subsidiaries (consol. less standalone), where revenue/EBITDA grew 8%/59% YoY to INR4.5b/INR406m. The performance of the US/UK subsidiaries was particularly impressive (RevPAR up 30% YoY in the UK).
- **Key concall highlights:** (i) IHIN signed seven hotels under management contracts in 1QFY20 (1,267 keys). (ii) ARR growth in the renovated Ginger property in Goa was at 30% YoY.
- **Valuation and view:** Factoring in the impact of Ind-AS 116 into our model, we raise our FY20/21 EBITDA estimate by 18%/14%, but cut the PBT estimate by 3%/4%. We value the stock at 17x FY21E EV/EBITDA. On an SOTP basis, we arrive at a TP of INR178 (upside of 32%). Maintain **Buy**.

Consolidated - Quarterly Earning Model

Y/E March	FY19				FY20				(INR Million)		FY20 Var	1QE (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY19	FY20		
Gross Sales	9,797	9,645	13,235	12,443	10,200	10,706	14,690	13,812	45,120	49,409	10,287	-1
YoY Change (%)	8.0	13.3	10.5	8.8	4.1	11.0	11.0	11.0	10.1	9.5	5.0	
Total Expenditure	8,690	8,653	9,879	9,600	8,466	8,897	10,063	9,806	36,823	37,232	9,068	
EBITDA	1,107	992	3,355	2,843	1,734	1,809	4,627	4,005	8,297	12,177	1,219	42
Margins (%)	11.3	10.3	25.4	22.8	17.0	16.9	31.5	29.0	18.4	24.6	11.9	
Depreciation	785	812	833	849	1,004	1,030	1,050	1,065	3,279	4,149	810	
Interest	469	467	491	474	847	845	870	850	1,901	3,412	465	
Other Income	150	166	145	372	371	175	152	175	834	873	158	
PBT before EO expense	3	-120	2,177	1,893	255	109	2,860	2,265	3,951	5,489	102	
Extra-Ord expense	39	453	-410	-148	-23	0	0	0	-66	-23	0	
PBT	-36	-573	2,587	2,040	277	109	2,860	2,265	4,017	5,512	102	
Tax	-98	-193	990	871	176	38	1,087	974	1,571	2,275	44	
Rate (%)	NA	33.6	38.3	42.7	63.5	35.0	38.0	43.0	39.1	41.3	43.0	
Minority Interest & P/L of Asso. Cos.	-92	-329	-22	19	45	-359	-11	10	-423	-315	-96	
Reported PAT	153	-51	1,618	1,150	57	430	1,784	1,281	2,869	3,551	154	
Adj PAT	192	401	1,208	1,002	34	430	1,784	1,281	2,803	3,528	154	-78
YoY Change (%)	NA	NA	35.5	11.4	-82.4	NA	47.7	27.8	319.0	25.9		
Margins (%)	2.0	4.2	9.1	8.1	0.3	4.0	12.1	9.3	6.2	7.1		

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Largely in-line consol. revenue/like-to-like EBITDA**Consolidated**

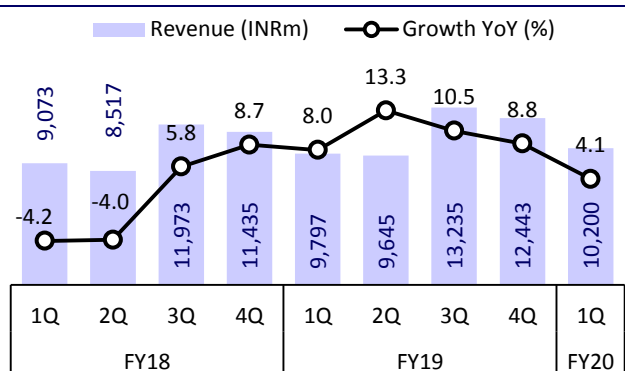
- Revenue grew by 4% YoY to INR10.2b (est. of INR10.3m).
- Reported EBITDA increased 57% YoY to INR1,734m (est. of INR1,219m). However, adjusting for Ind-AS 116 impact, like-to-like EBITDA was up 16% YoY to INR1,287m.
- Like-to-like EBITDA margin expanded 130bp YoY to 12.6%.
- Other income stood at INR371m, up 2.5x YoY. Higher other income is on account of sale of residential flats amounting to INR245m.
- Adj. PAT stood at INR34m (est. of INR154m), down 82% YoY, on account of deferred tax benefit in 1QFY19. PAT was below our estimate owing to loss from MI and lower profit from JV/associates (INR45m v/s est. of profit of INR96m).

Standalone

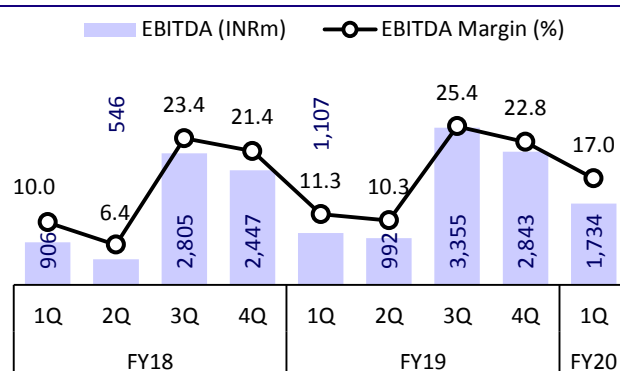
- Standalone revenue grew by 1% YoY to INR5.7b.
- EBITDA increased 29% YoY to INR1,096m. However, like-to-like EBITDA was up 4% YoY to INR881m.
- Like-to-like EBITDA margin expanded 30bp YoY to 15.4%.
- Adj. PAT stood at INR202m, down 41% YoY.

Subsidiary (consolidated less standalone)

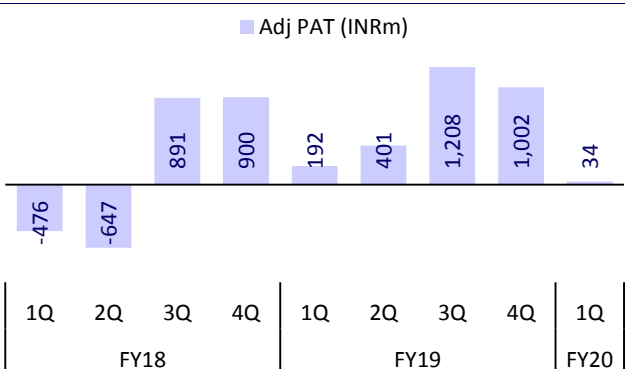
- Subsidiary (consolidated less standalone) sales grew by 8% to INR4.5b. Like-to-like subsidiary EBITDA grew 59% YoY to INR406m.

Exhibit 1: Consolidated revenue trend

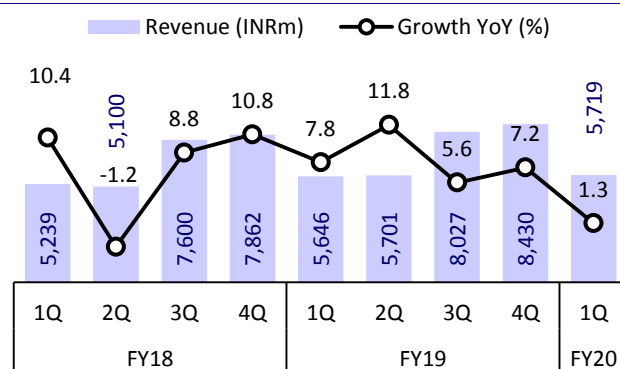
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend

Source: Company, MOFSL

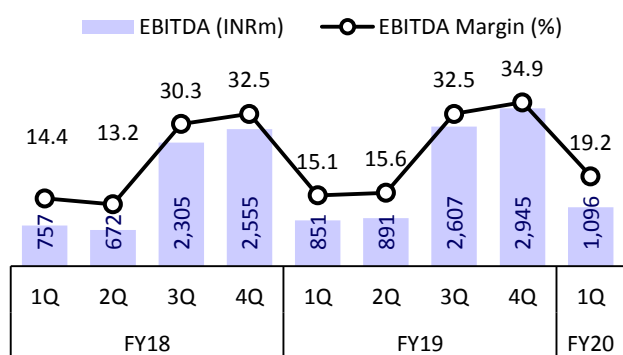
Exhibit 3: Consolidated adj. PAT trend

Source: Company, MOFSL

Exhibit 4: Standalone revenue trend

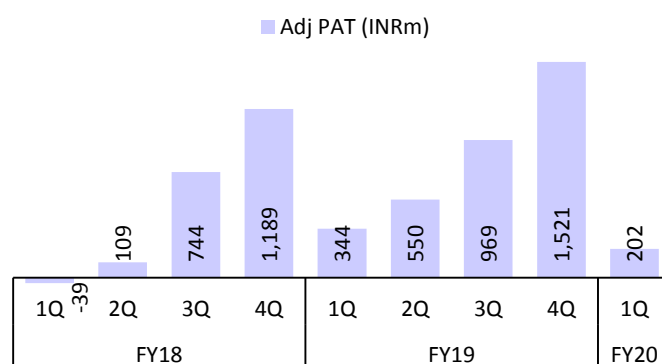
Source: Company, MOFSL

Exhibit 5: Standalone EBITDA trend



Source: Company, MOFSL

Exhibit 6: Standalone adj. PAT trend



Source: Company, MOFSL

RevPAR declined 2.5% YoY for domestic network hotels

- In 1QFY20, supply grew by 3.2%, whereas demand was up 3%. All-India hotels performance in 1QFY20: occupancy - 62.2% (-0.2% YoY), ARR – INR5,394 (+2.2% YoY) and RevPAR – INR3,353 (+2% YoY).
- Growth was led by Chandigarh, Hyderabad, Kochi, Gurgaon, Jaipur, Bengaluru and Mumbai. Lagging markets: Chennai, New Delhi, Ahmedabad, Kolkata, Pune and Goa.
- In 1QFY20, room /F&B revenue of the domestic network hotels grew by 4.2%/1.6% to INR4,830m/INR4,640m. During the same period, RevPAR declined 2.5% YoY to INR4,726.

Exhibit 7: Domestic network hotel performance (88 domestic hotels)

Domestic	1QFY19	1QFY20	Growth %
Room Revenue (INRm)	4,640	4,830	4.2%
RevPAR (INR)	4,848	4,726	-2.5%
F&B Revenue (INRm)	4,560	4,640	1.6%

Source: Company, MOFSL

Strong performance in international business

- In 1QFY20, room revenue/F&B revenue of the international network hotels grew by 8.2%/2.3% to INR2,560m/INR1,860m. During the same period, RevPAR increased by 3.4% YoY to INR3.4%.
- UK business witnessed RevPAR growth of 30%; F&B revenue improved too. The US saw RevPAR growth of 5%; F&B growth of 13%.

Exhibit 8: International network hotels performance (17 international hotels)

International	1QFY19	1QFY20	Growth %
Room Revenue (INRm)	2,370	2,560	8.2%
RevPAR (INR)	11,121	11,501	3.4%
F&B Revenue (INRm)	1,820	1,860	2.3%

Source: Company, MOFSL

Concall takeaways

- IHIN signed seven hotels under management contracts in 1QFY20 across brands with an inventory of 1,267 keys. These include Taj Ahmedabad, Taj Hotel & Convention Centre, Agra, Ginger Amravati, Ginger Dwarka, Vivanta Gorakhpur, SeleQtions Jaipur and Vivanta Noida.
- Standalone room revenue was flat during the quarter; RevPAR declined 2.5% YoY, ARR was down 1.5% YoY and occupancy dropped by 130bp YoY. Food & beverages income grew 1% YoY.
- Demand was weak in April-May owing to elections, but the situation improved in June offsetting the impact of slowdown in the previous months.
- The company opened three hotels at strategic destinations totaling 544 keys – Cidade de Goa, Ginger Dwarka (targeting the pilgrimage tourism) and Taj Hotel & Convention Center, Agra.
- 'Aspiration 2022' target is to expand the EBITDA margin to 25%. However, due to Ind-AS 116, the target would now be shifted to 27-28%.
- The company re-launched its iconic business club, Chambers, with a member base of 2,000+, charging an annual fee of INR0.3m and a sign-up fee of INR2m.
- Cash profit has grown 2x for Pierre.
- The Taj Campton place hotel (San Francisco) hotel is smaller and doing better on account of F&B.
- Over the next three months, IHIN will add at least one hotel under the GIC platform.
- Occupancy during the quarter at St. James hotel stood at 90%; average prices were high. Higher inventory was available in the quarter due to renovations undertaken in the previous year. The World cup and Wimbledon provided a boost to demand.
- Consolidated/standalone gross debt (pre Ind-AS) was at INR23,190m/INR17,910m. Consolidated/standalone net debt (pre Ind-AS) was INR19,750m/INR15,570m. Consolidated/standalone net debt to equity (pre Ind-AS) stood at 0.39x/0.35x. (all as of 30th Jun'19).
- Capex for the quarter stood at INR900m.

Valuation & View

Factoring in the impact of Ind-AS 116 into our model, we raise our FY20/21 EBITDA estimate by 18%/14%, but cut the PBT estimate by 3%/4%. We value the stock at 17x FY21E EV/EBITDA. On an SOTP basis, we arrive at a TP of INR178 (upside of 32%). Maintain **Buy**.

Exhibit 9: Valuation Methodology

Particulars	Methodology	Metrics	FY21E Multiple (x)		Value (INRm)	Value/ share (INR)
IHCL- ex JV/ Associate						
EV	EV/EBITDA (x)	EBITDA	14,534	17.0	247,084	208
Less: Net Debt					-30,532	(26)
Less: Minority Interest					-7,999	(7)
Sub Total					208,553	175
JV/Associate						
Taj GVK (IHCL's share - 25.5%) - JV	20% discount to MCAP	Attributable Mcap	2,479	0.8	1,983	1.7
Oriental Hotel (IHCL's share - 35.7%)-Associate	20% discount to MCAP	Attributable Mcap	2,120	0.8	1,696	1.4
Sub Total					3,679	3.1
Target Price					212,233	178
CMP						135
Upside (%)						32%

Source: MOFSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	40,662	41,886	40,230	40,206	41,036	45,120	49,409	53,877
Change (%)	8.6	3.0	-4.0	-0.1	2.1	10.0	9.5	9.0
Total Expenditure	35,066	37,001	34,709	34,110	34,332	36,823	37,232	39,342
% of Sales	86.2	88.3	86.3	84.8	83.7	81.6	75.4	73.0
EBITDA	5,596	4,886	5,521	6,096	6,704	8,297	12,177	14,534
Margin (%)	13.8	11.7	13.7	15.2	16.3	18.4	24.6	27.0
Depreciation	3,081	2,913	2,848	2,994	3,012	3,279	4,149	4,404
EBIT	2,515	1,973	2,673	3,102	3,692	5,019	8,028	10,130
Int. and Finance Charges	1,685	1,756	3,756	3,238	2,690	1,901	3,412	3,366
Other Income	598	987	997	549	617	834	873	951
PBT bef. EO Exp.	1,427	1,204	-86	413	1,618	3,951	5,489	7,716
EO Items	-5,548	-3,529	-827	-108	225	66	23	0
PBT after EO Exp.	-4,121	-2,325	-913	306	1,843	4,017	5,512	7,716
Total Tax	1,110	1,146	906	1,137	1,211	1,571	2,275	3,318
Tax Rate (%)	-26.9	-49.3	-99.3	372.2	65.7	39.1	41.3	43.0
Minority Interest	307	310	493	-200	-376	-422	-315	-501
Reported PAT	-5,538	-3,781	-2,312	-632	1,009	2,868	3,551	4,899
Adjusted PAT	10	-252	-1,485	-524	784	2,802	3,528	4,899
Change (%)	325.0	NA	NA	NA	NA	257.4	25.9	38.8
Margin (%)	0.0	-0.6	-3.7	-1.3	1.9	6.2	7.1	9.1

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	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	42,291	44,971	48,855
Net Worth	26,365	22,272	25,803	25,177	41,811	43,480	46,161	50,044
Minority Interest	7,359	7,378	7,429	7,378	7,774	7,999	7,999	7,999
Total Loans	42,514	50,741	45,260	33,830	24,270	23,260	40,567	39,567
Deferred Tax Liabilities	1,615	2,516	2,382	2,820	3,563	3,768	3,768	3,768
Capital Employed	77,852	82,908	80,874	69,206	77,418	78,507	98,494	101,378
Gross Block	83,531	86,887	64,751	57,923	63,356	69,051	91,050	94,386
Less: Accum. Deprn.	27,232	28,727	2,661	5,506	7,385	10,663	14,812	19,216
Net Fixed Assets	56,299	58,160	62,090	52,417	55,971	58,388	76,238	75,170
Goodwill on Consolidation	5,849	4,832	5,527	5,737	5,655	5,835	5,835	5,835
Capital WIP	5,542	3,057	2,900	2,227	1,970	1,162	1,982	2,146
Total Investments	14,272	15,869	15,152	12,437	15,965	13,351	15,351	17,351
Curr. Assets, Loans&Adv.	13,177	16,951	12,305	13,173	14,184	17,102	17,793	20,870
Inventory	1,021	1,030	802	804	857	804	813	859
Account Receivables	2,805	3,029	2,420	2,721	3,286	3,214	3,520	4,428
Cash and Bank Balance	1,836	5,035	1,825	2,471	2,703	2,409	1,850	2,922
Loans and Advances	7,516	7,857	7,258	7,177	7,338	10,675	11,611	12,661
Curr. Liability & Prov.	17,287	15,961	17,099	16,785	16,328	17,331	18,706	19,995
Account Payables	3,668	3,645	3,240	3,370	3,513	3,253	3,289	3,475
Other Current Liabilities	11,424	10,711	11,846	11,305	10,349	11,579	12,680	13,826
Provisions	2,195	1,605	2,013	2,110	2,465	2,500	2,737	2,694
Net Current Assets	-4,110	990	-4,794	-3,612	-2,143	-229	-912	875
Appl. of Funds	77,852	82,908	80,874	69,206	77,418	78,507	98,494	101,378

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)								
EPS	0.0	-0.2	-1.2	-0.4	0.7	2.4	3.0	4.1
Cash EPS	2.6	2.2	1.1	2.1	3.2	5.1	6.5	7.8
BV/Share	22.2	18.7	21.7	21.2	35.2	36.6	38.8	42.1
DPS	0.0	0.0	0.0	0.2	0.3	0.5	0.6	0.7
Payout (%)	-1.3	-0.9	0.0	-53.9	41.9	25.3	24.5	20.7
Valuation (x)								
P/E				NA	204.7	57.3	45.5	32.8
Cash P/E				65.0	42.3	26.4	20.9	17.3
P/BV				6.4	3.8	3.7	3.5	3.2
EV/Sales				4.9	4.5	4.2	4.1	3.7
EV/EBITDA				32.5	27.8	22.6	16.7	13.7
Dividend Yield (%)				0.2	0.2	0.4	0.4	0.5
FCF per share				8.0	-0.1	-0.4	-10.7	5.9
EV/ Adj Rooms (INRm)				20.8	18.9	18.6	20.0	19.0
EBITDA/ Room (INR)				4,107	4,313	5,144	7,150	8,078
Return Ratios (%)								
RoE	0.0	-1.0	-6.2	-2.1	2.3	6.6	7.9	10.2
RoCE	3.0	2.8	3.4	3.8	4.6	5.9	7.8	8.4
RoIC	5.8	5.1	8.9	-14.9	2.3	5.2	6.7	7.3
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	0.6	0.7	0.6	0.7	0.5	0.6
Asset Turnover (x)	0.5	0.5	0.5	0.6	0.5	0.6	0.5	0.5
Inventory (Days)	9	9	7	7	8	7	6	6
Debtor (Days)	25	26	22	25	29	26	26	30
Creditor (Days)	33	32	29	31	31	26	24	24
Leverage Ratio (x)								
Current Ratio	0.8	1.1	0.7	0.8	0.9	1.0	1.0	1.0
Interest Cover Ratio	1.5	1.1	0.7	1.0	1.4	2.6	2.4	3.0
Net Debt/Equity	1.5	1.8	1.6	1.2	0.4	0.4	0.7	0.6

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	-4,122	-2,325	-912	306	1,618	4,017	5,512	7,716
Depreciation	3,081	2,913	2,848	2,994	3,012	3,279	4,149	4,404
Interest & Finance Charges	1,453	1,267	3,293	3,015	2,073	1,068	2,539	2,414
Direct Taxes Paid	-782	-197	-900	-868	-1,425	-1,571	-2,275	-3,318
(Inc)/Dec in WC	668	-206	948	-599	-1,033	-2,208	124	-715
CF from Operations	298	1,452	5,278	4,848	4,246	4,584	10,048	10,501
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	4,584	10,048	10,501
(Inc)/Dec in FA	-3,400	-3,111	-3,657	4,193	-5,094	-5,067	-22,819	-3,500
Free Cash Flow	1,990	1,836	2,531	9,538	-174	-483	-12,771	7,001
(Pur)/Sale of Investments	-665	-4,501	5,028	4,425	-1,462	2,614	-2,000	-2,000
Others	529	954	1,196	496	912	834	873	951
CF from Investments	-3,536	-6,658	2,567	9,114	-5,644	-1,619	-23,947	-4,549
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	-1,010	17,307	-1,000
Interest Paid	-1,857	-1,774	-1,880	-1,637	-4,089	-1,901	-3,412	-3,366
Dividend Paid	-929	-180	-235	-458	-447	-725	-871	-1,016
Others	0	0	-1	0	-7	378	315	501
CF from Fin. Activity	-2,119	4,911	-11,966	-13,814	957	-3,258	13,339	-4,880
Inc/Dec of Cash	-265	3,200	-3,211	645	233	-294	-560	1,072
Opening Balance	2,101	1,836	5,036	1,826	2,471	2,704	2,409	1,850
Closing Balance	1,836	5,036	1,825	2,471	2,704	2,409	1,850	2,922

NOTES

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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