

August 7, 2019

International business continues to drive performance

Indian Hotels reported a weak set of Q1FY20 numbers. While domestic network hotels witnessed 4.2% growth YoY, the international business continued its turnaround growing 8.2% YoY. Overall revenues increased 4.1% YoY to ₹ 1020 crore (vs. I-direct estimate of ₹ 1065 crore) during the quarter. EBITDA on a reported basis was at ₹ 173 crore while for a like-to-like comparison, EBITDA was at ~₹ 128 crore (vs. I-direct estimate of ₹ 131 crore). Adjusted EBITDA margins for the quarter came in at 12.5%, improving ~120 bps YoY (broadly in line with I-direct estimate of 12.3%). PAT for the quarter was at ₹ 5.7 crore. However, the same is also not comparable. On a comparable basis, PAT was at ₹ 14 crore for Q1FY20, below I-direct estimates of ₹ 22.9 crore on account of higher tax provisions during the quarter.

Company pursuing asset-light path for growth

During the quarter, Indian Hotels signed a strategic partnership with Singapore's sovereign wealth fund GIC Pte Ltd to jointly invest around ₹ 4,000 crore over three years. This platform would need IHCL to invest 30% of the equity while the JV would own hotels funded by a mix of debt and equity. This would enable Indian Hotels to reap the benefits of owning a property without significantly adding leverage on its balance sheet. It could also provide opportunities to IHCL for monetising its hotel(s) through this JV. Further, the company has already been shifting focus towards management contracts whose share has increased from 32% of rooms under management to ~41% of rooms under management.

EBITDA margins to trend upwards

The company has been making efforts to rationalise its costs and increase the share of management contracts in its total room portfolio. During Q1FY20, raw material costs reduced ~6% YoY. Further, EBITDA margins expanded 570 bps YoY owing to the operational performance as well as Ind-AS adjustments (~300bps). The target EBITDA margin of the company now increases ~250-300 bps from the earlier target of 25% to be achieved by FY22E after factoring in ~300 bps increase in EBITDA margins due to the Ind-AS adjustments. This increased ~250-300bps would be the new normal. Going ahead, we expect margins to improve to ~26% by FY21E (factoring in ~300 bps expansion owing to Ind-AS 116).

Valuation & Outlook

Despite a weak April and May, the company reported ~4% growth supported by a strong June. With the expected tailwind in the sector, IHCL being the leader, should be a key beneficiary of the turnaround. Additionally focus on cost rationalisation and an asset light focus are strong positive for the company. Considering the above, we maintain our positive stance on the company and reiterate **BUY** on IHCL with a target price of ₹ 165.

Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	4,018	4,104	4,512	4,835	5,323	8.6%
EBITDA	610	670	830	1,100	1,373	28.7%
EBITDA (%)	15.2	16.3	18.4	22.7	25.8	
Net Profit	(63)	101	295	298	401	16.6%
EPS (₹)	(0.9)	0.8	2.4	2.5	3.4	
EV/EBITDA	32.5	27.7	22.2	18.5	14.7	
RoNW	(3.7)	2.2	6.7	6.9	8.7	
RoCE	5.3	5.5	8.0	9.0	11.3	
ROE	(3.7)	2.2	6.7	6.9	8.7	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Market Cap	₹ 16769 crore
Debt (FY19)	₹ 1903 crore
Cash (FY19)	₹ 240 crore
EV	₹ 18432 crore
52 week H/L	164/110
Equity capital	₹ 118.9 crore
Face value	₹ 1

Key Highlights

- IHCL has entered into strategic partnership with GIC to set up a JV which would own and operate hotels
- EBITDA growth and margins look optically higher due to Ind-AS 116 adjustments
- Balance sheet gets heavier with increase in assets and debt due to recognition of right to use of assets and lease liability
- Three new hotels opened during the quarter, under management contract
- Maintain BUY with target price of ₹ 165 per share

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Exhibit 1: Variance Analysis

	Q1FY20E	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Total Operating Income	1,020.0	1,065.9	979.7	4.1	1,244.3	-18.0	International room revenues increased 8% YoY while domestic room revenues grew 4%. F&B segment grew ~2% YoY
Other Income	37.1	16.0	15.0	146.9	37.2	-0.5	
Raw Material Expenses	84.9	98.1	90.1	-5.8	107.7	-21.1	Cost control measures enabled reduction in RM costs
Employee Expenses	370.6	389.1	358.8	3.3	378.7	-2.1	
Other Expenses	391.0	447.7	420.1	-6.9	473.6	-17.4	Reduction in other expenses driven by lease expenditure reclassified in Q1FY20, however no reclassification made in earlier quarters
EBITDA	173.4	131.1	110.7	56.7	284.3	-39.0	
EBITDA Margin (%)	17.0	12.3	11.3	570 bps	22.8	-584 bps	Efforts towards cost rationalization and IndAS adjustments push EBITDA higher. Adjusted EBITDA stands at ~₹ 128 crore
Interest	84.7	46.0	46.9	80.4	47.4	78.7	
Depreciation	100.4	80.2	78.5	27.9	84.9	18.2	
PBT	27.7	20.9	-3.6	-868.4	204.0	-86.4	
Exceptional	-2.3	0.0	3.9	-158.6	-14.8	-84.5	
Less: Tax	17.6	7.5	-9.8	-280.7	87.1	-79.8	
PAT	5.7	22.9	15.3	-62.9	115.0	-95.1	On a like-to-like basis, PAT de-grew ~8% to ₹ 14 crore

Source: Company, ICICI Direct Research

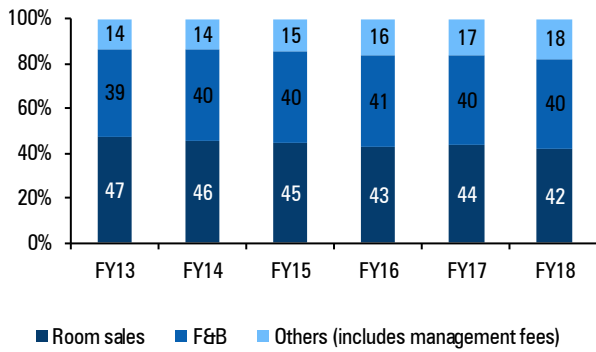
Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4,976.7	4,834.9	-2.8	5,479.4	5,323.2	-2.9	Addition of new keys and sustained demand to continue growth momentum
EBITDA	995.3	1,099.7	10.5	1,178.1	1,373.4	16.6	
EBITDA Margin (%)	20.0	22.7	275 bps	21.5	25.8	430 bps	EBITDA expansion led by higher share of management contract revenues, operational efficiencies and IndAS adjustments
PAT	326.8	297.8	-8.9	418.6	401.1	-4.2	PAT revised downwards due to higher depreciation and finance costs owing to IndAS adjustments
EPS (₹)	2.7	2.5	-8.9	3.5	3.4	-4.2	

Source: Company, ICICI Direct Research

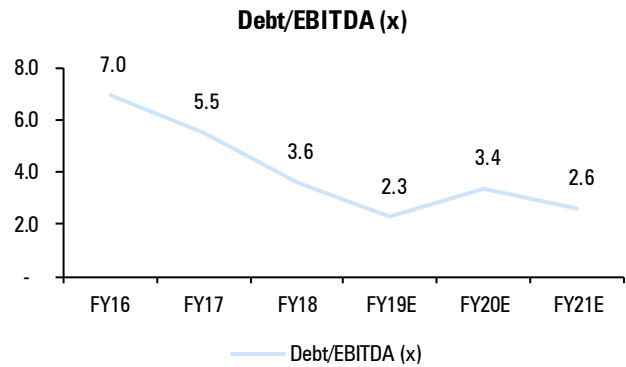
Financial story in charts

Exhibit 3: Increasing thrust on non-room revenues



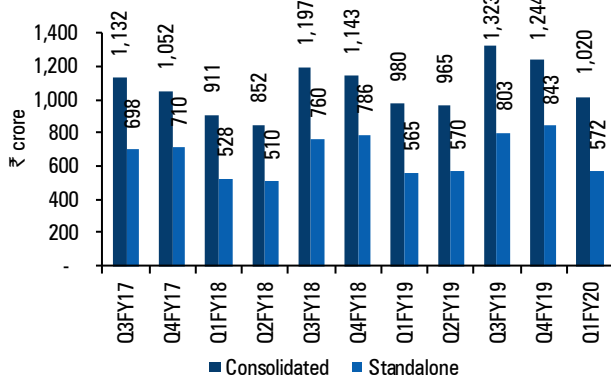
Source: Company, ICICI Direct Research

Exhibit 4: Ind-AS 116 optically dampens leverage levels



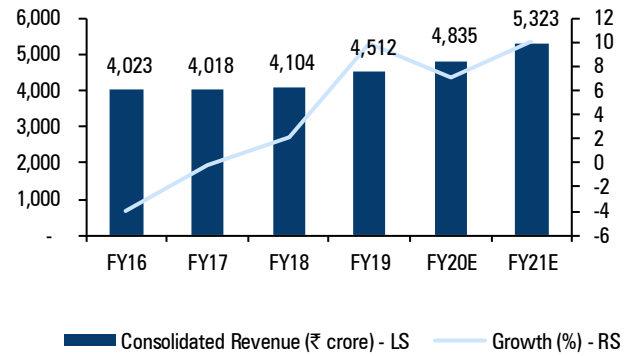
Source: Company, ICICI Direct Research

Exhibit 5: International segment supports revenue growth



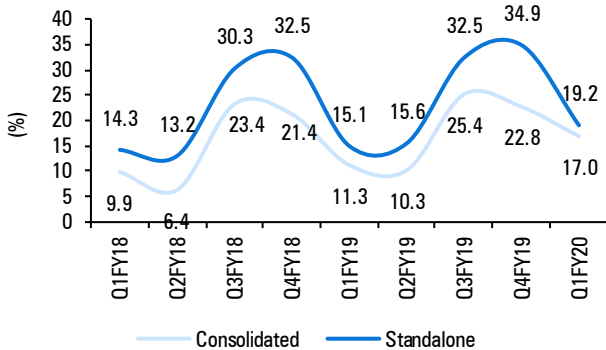
Source: Company, ICICI Direct Research

Exhibit 6: Revenues to grow at 8.6% CAGR over FY16-21E



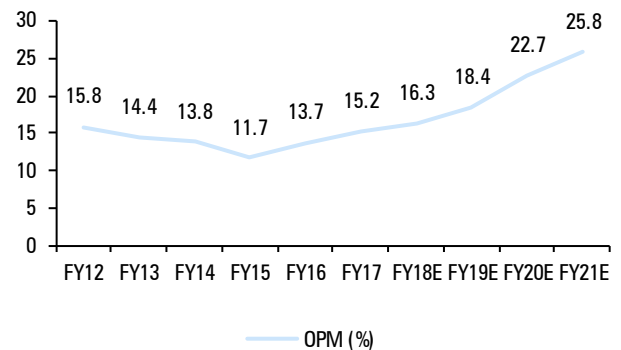
Source: Company, ICICI Direct Research

Exhibit 7: Consolidated margins expand 570 bps YoY



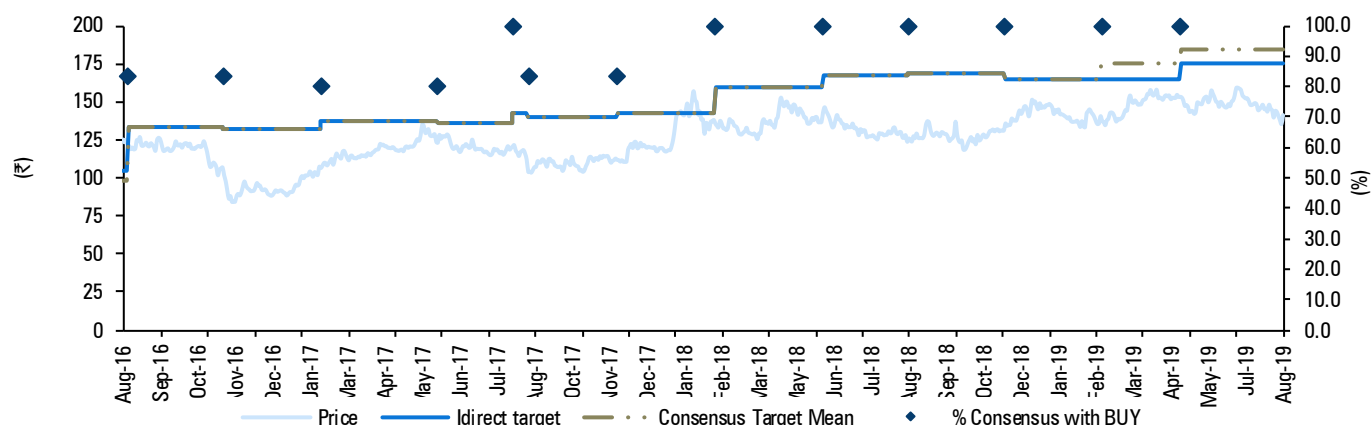
Source: Company, ICICI Direct Research

Exhibit 8: Better operational performance to improve margins



Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	30-Jun-19	38.9%	462.7	0.0
2	Reliance Nippon Life Asset Management Limited	30-Jun-19	8.8%	104.8	0.5
3	HDFC Asset Management Co., Ltd.	30-Jun-19	5.8%	68.4	2.2
4	ICICI Prudential Life Insurance Company Ltd.	30-Jun-19	5.3%	62.6	-27.9
5	Norges Bank Investment Management (NBIM)	31-Dec-18	3.6%	42.3	11.2
6	Franklin Templeton Asset Management (India) Pvt. Ltd.	30-Jun-19	2.8%	33.7	14.4
7	ICICI Prudential Asset Management Co. Ltd.	30-Jun-19	2.5%	29.4	-0.1
8	SBI Funds Management Pvt. Ltd.	30-Jun-19	2.1%	25.3	0.0
9	Life Insurance Corporation of India	30-Jun-19	1.8%	21.2	-5.4
10	HDFC Life Insurance Company Limited	30-Jun-19	1.5%	18.3	-15.7

Source: Company, Thomson Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys				Sells			
Investor name	Value (\$mn)	Shares	Investor name	Value (\$mn)	Shares		
Franklin Templeton Asset Management (India) Pvt. l	32.96	14.42	ICICI Prudential Life Insurance Company Ltd.	-63.72	-27.88		
HDFC Asset Management Co., Ltd.	5.13	2.24	HDFC Life Insurance Company Limited	-35.88	-15.70		
Axis Asset Management Company Limited	2.75	1.21	Life Insurance Corporation of India	-12.33	-5.40		
Sophus Capital	1.58	0.69	Franklin Advisers, Inc.	-2.23	-0.97		
L&T Investment Management Limited	1.23	0.54	Tata Asset Management Limited	-1.83	-0.80		

Source: Company, Thomson Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	39.09	39.09	39.09	39.09	39.09
FII	6.28	14.62	14.00	0.00	0.00
DII	34.37	27.19	28.24	41.03	41.11
Others	20.26	19.10	18.67	19.88	19.80

Source: Company, Thomson Reuters, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	4,103.6	4,512.0	4,834.9	5,323.2
Growth (%)	-2.0	10.0	7.2	10.1
Raw Material Expenses	376.4	404.1	390.1	399.2
Employee Expenses	1,346.6	1,470.8	1,563.3	1,660.8
Power & Fuel Exp	0.0	0.0	0.0	0.0
Other Exp	1,710.1	1,807.4	1,781.8	1,889.7
Total Operating Exp	3,433.2	3,682.2	3,735.2	3,949.8
EBITDA	670.4	829.8	1,099.7	1,373.4
Growth (%)	10.0	23.8	32.5	24.9
Depreciation	301.2	327.9	365.1	410.4
Interest	269.0	190.1	357.7	373.4
Other Income	61.7	83.4	82.8	95.8
PBT	161.8	395.2	459.7	685.4
Others/Minority Int	20.5	46.0	33.4	55.8
Total Tax	121.1	157.1	178.3	308.4
PAT	100.9	295.1	297.8	401.1
Growth (%)	LP	192.6	0.9	34.7
EPS (₹)	0.8	2.5	2.5	3.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	100.9	295.1	297.8	401.1
Add: Depreciation	301.2	327.9	365.1	410.4
(Inc)/dec in Current Assets	-127.7	-158.2	-2.6	-77.5
Inc/(dec) in CL and Provisions	-206.5	684.1	-79.1	209.8
CF from operating activities	67.8	1,148.9	581.2	943.9
(Inc)/dec in Investments	-239.7	322.1	0.0	0.0
(Inc)/dec in Fixed Assets	-612.8	-480.1	-2,162.0	-300.0
Others	201.4	-359.5	11.0	-388.7
CF from investing activities	-651.1	-517.5	-2,151.0	-688.7
Issue/(Buy back) of Equity	20.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-956.0	-524.0	1,812.0	-125.0
Dividend paid & dividend tax	-47.7	-71.7	-71.7	-71.7
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	1,590.3	-74.0	-270.0	0.0
CF from financing activities	606.5	-669.7	1,470.3	-196.7
Net Cash flow	23.3	-38.3	-99.5	58.4
Opening Cash	247.1	270.3	232.1	132.6
Closing Cash	270.3	232.1	132.6	191.0

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	118.9	118.9	118.9	118.9
Reserve and Surplus	4,062.2	4,211.6	4,167.6	4,497.0
Total Shareholders funds	4,181.1	4,330.5	4,286.5	4,616.0
Total Debt	2,427.0	1,903.0	3,715.0	3,590.0
Deferred Tax Liability	517.1	307.3	307.3	307.3
Minority Interest / Others	777.4	799.9	810.9	822.2
Total Liabilities	7,902.5	7,340.7	9,119.7	9,335.5
Gross Block	9,154.0	9,075.4	11,303.3	11,603.3
Less: Acc Depreciation	3,556.8	3,850.7	4,215.9	4,626.3
Net Block	5,597.1	5,224.7	7,087.5	6,977.1
Capital WIP	197.0	115.9	50.0	50.0
Total Fixed Assets	5,794.1	5,340.6	7,137.5	7,027.1
Investments	540.5	1,335.1	1,335.1	1,735.1
Goodwill on consolidation	1,205.9	583.5	583.5	583.5
Inventory	85.7	80.4	91.8	97.8
Debtors	328.6	321.4	386.8	425.9
Loans and Advances	400.2	369.2	375.4	423.1
Cash	270.3	232.1	132.6	191.0
Other current assets	418.7	620.4	540.0	524.6
Total Current Assets	1,503.5	1,623.4	1,526.5	1,662.4
Creditors	1,225.5	1,906.1	1,854.5	2,041.8
Provisions	246.5	250.0	222.5	245.0
Total Current Liabilities	1,472.0	2,156.1	2,077.0	2,286.8
Net Current Assets	31.5	-532.7	-550.5	-624.4
Others Assets	-0.1	0.0	0.0	0.0
Application of Funds	7,902.5	7,340.7	9,119.7	9,335.5

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	0.8	2.5	2.5	3.4
Cash EPS	3.4	5.2	5.6	6.8
BV	35.2	36.4	36.0	38.8
DPS	0.3	0.5	0.5	0.5
Cash Per Share	3.4	5.2	5.6	6.8
Operating Ratios (%)				
EBITDA Margin	16.3	18.4	22.7	25.8
PBT / Total Operating income	4.5	8.9	9.6	12.9
PAT Margin	2.5	6.5	6.2	7.5
Inventory days	7.4	6.7	6.5	6.5
Debtor days	29.2	26.0	29.2	29.2
Creditor days	109.0	154.2	140.0	140.0
Return Ratios (%)				
RoE	2.4	6.8	6.9	8.7
RoCE	5.0	7.1	8.3	10.7
RoIC	5.2	7.2	8.2	10.6
Valuation Ratios (x)				
P/E	NA	56.8	56.3	41.8
EV / EBITDA	27.7	22.2	18.5	14.7
EV / Net Sales	4.5	4.1	4.2	3.8
Market Cap / Sales	4.1	3.7	3.5	3.2
Price to Book Value	4.0	3.9	3.9	3.6
Solvency Ratios				
Debt/EBITDA	3.6	2.3	3.4	2.6
Debt / Equity	0.6	0.4	0.9	0.8
Current Ratio	1.0	0.8	0.7	0.7
Quick Ratio	0.8	0.6	0.7	0.6

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (Hotels)

Sector/Company	CMP		M Cap	EPS			P/E (X)			EV/EBITDA			ROCE (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Cr)	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E	FY18	FY19	FY20E		
Indian Hotel (INDHOT)	141	170	BUY	16769	2.5	2.5	3.4	57	56	42	22	18	15	7.1	8.3	10.7	6.8	6.9	8.7
EIH (EIH)	160	210	BUY	9128	3.1	2.6	3.7	51	62	43	31	23	21	8.2	9.2	10.3	6.2	6.4	6.8
TajGVK Hotels(TAJGVK)	162	220	BUY	1016	3.3	0.0	5.6	50	37	29	16	15	14	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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