

Passing through tough times...

With the hotels business almost shut for the entire quarter, IHCL reported a very weak set of Q1FY21 numbers. However, significant fixed cost reduction helped the company to reduce losses for the quarter. IHCL registered a sharp decline of 86% YoY in revenues to ₹ 143.6 crore (vs. I-direct estimate: ₹ 244.8 crore). Average occupancy fell to 20.5% vs. 63.4% last year while ARR also dropped sharply by 47% YoY to ₹ 4848 for the quarter. Out of revenue of ₹ 143.6 crore, ₹ 55 crore of revenue generated through quarantine facilities, stay for medical professionals also had a negative impact on ARR. On the other hand, online F&B initiatives like Qmin & H&H services showed good traction. The company reduced total operating expenditure by 51.6% YoY to ₹ 409 crore to bring down losses. EBITDA loss came in at ₹ 266 crore vs. I-direct estimate of EBITDA loss of ₹ 117 crore. IHCL secured significant lease rental waivers that led to cost saving of ₹ 52 crore for the quarter. Overall, the company reduced fixed costs by ₹ 90 crore while variable expenses declined by ₹ 365 crore (in line with reduction in the revenues). At present, there are ~6000 non-operational rooms in total. Occupancy levels of operational inventories are inching up gradually and are at 37%, at present. At the company level, occupancy levels are upwards of 20%. At 50% occupancy levels, IHCL believes it would get back to EBITDA break-even levels with minimised cost, going forward.

Focus on cost optimisation to reap benefits in long run...

After achieving ~75% target set in Aspire 2020, the focus now shifts to R.E.S.E.T 2020. Under this, the company is planning to maximise revenue potential through initiatives like online F&B business (Qmin), zero tough digital transformation and rationalisation of fixed overheads. These initiatives have added ₹ 77 crore to topline. Also, cost optimisation measures like certain temporary concessions (e.g. employee costs in UK, electricity charges in Maharashtra, re-negotiation of lease, deferring renovations, etc) helped IHCL reduce total costs by 51%. We believe these initiatives bode well for the long term as business returns to normal. Selling non-core assets would continue, which will help contain the increase in debt.

Liquidity concerns now negated

On the liquidity front, IHCL has raised long term debt totalling ₹ 500 crore. Gross debt is now at ₹ 2967 crore with D/E ratio of 0.48x. Deferral of capex, reducing renovations, sale of non-core assets and raising long term debt via LTRO and NCDs, provide comfort on the liquidity front.

Valuation & Outlook

The sector outlook remains weak as the recovery would be slow and back ended. FY21 would most probably be a washout year for the sector. This prolonged recovery could pose a challenge. However, given the company's strong parentage and brand visibility along with meaningful cost optimisation measures initiated during the quarter, these concerns have now softened. We now upgrade the stock from REDUCE to **HOLD** with a target price of ₹ 80/share (i.e. 17x FY22E EV/EBITDA).

Key Financial Summary

	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4,104	4,512	4,463	1,983	3,033	-17.6%
EBITDA	670	830	968	(102)	723	-13.6%
EBITDA (%)	16.3	18.4	21.7	(5.2)	23.8	
Net Profit	101	287	259	(473)	76	-45.9%
EPS (₹)	0.8	2.4	2.7	(4.5)	0.6	
EV/EBITDA	16.9	14.2	12.5	(123.6)	17.0	
RoNW	2.2	6.5	7.3	(14.0)	2.0	
RoCE	5.5	7.4	7.0	(4.3)	4.6	
ROE	2.2	6.5	7.3	(14.0)	2.0	

Source: Company, ICICI Direct Research



Stock Data

Particular	Amount
Market Cap	₹ 9276 crore
Debt (FY20)	₹ 2903 crore
Cash (FY20)	₹ 315 crore
EV	₹ 11864 crore
52 week H/L	164/62
Equity capital	₹ 118.9 crore
Face value	₹ 1

Key Highlights

- Hotel industry at present is in the midst of survival and revival. It would take at least 18-24 months to get back to normalcy at pre-Covid levels
- Over 50% of IHCL's hotels were closed for most of Q1 due to lockdowns
- Achieved 51% cost reduction during the quarter. With the revised cost base, the company will get back to same margin base even with 80% of revenue at pre-Covid levels
- Upgrade from REDUCE to HOLD with target price of ₹ 80 per share

Research Analyst

Rashesh Shah
rashes.shah@icicisecurities.com

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	143.6	244.8	1,020.0	-85.9	1,063.0	-86.5	Occupancies down to 20.5% vs. 63.4% last year. ARRr also contracted 47% YoY to ₹ 4848/room
Other Income	31.7	4.9	37.1	-14.4	38.0	-16.6	
Raw Material Expenses	9.2	19.8	84.9	-89.2	83.7	-89.0	
Employee Expenses	239.8	185.3	370.6	-35.3	368.5	-34.9	
Other Expenses	160.7	156.4	391.0	-58.9	402.9	-60.1	
EBITDA	-266.0	-116.7	173.4	-253.4	207.9	-227.9	Achieved 51% cost reduction, helping to reduce losses
EBITDA Margin (%)	-185.2	-47.7	17.0	NA	19.6	NA	
Interest	87.9	80.5	84.7	3.8	84.8	3.7	
Depreciation	100.1	85.9	100.4	-0.2	103.1	-2.9	
PBT	-336.2	-278.3	27.7	PL	98.2	PL	
Exceptional	-86.1	0.0	-2.3	3,658.5	-40.1	114.6	Represents gain on fair value post acquisition of 100% stake in Taj Cape Town hotel
Less: Tax	-69.3	-77.9	17.6	-493.2	31.4	-320.9	
PAT	-279.9	-186.9	5.7	-5,028.3	74.3	-476.7	
	409.6		846.6	-51.6	855.1	-52.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	2,227.8	1,982.6	-11.0	3,029.9	3,033.3	0.1	We further reduce our estimates for FY21E taking into account the current business environment and management commentary
EBITDA	198.3	-102.3	-151.6	675.8	722.8	7.0	
EBITDA Margin (%)	8.9	-5.2	-1406 bps	22.3	23.8	152 bps	
PAT	-251.4	-472.7	88.0	131.1	76.0	-42.0	
EPS (₹)	-2.1	-4.0	88.0	1.1	0.6	-42.0	

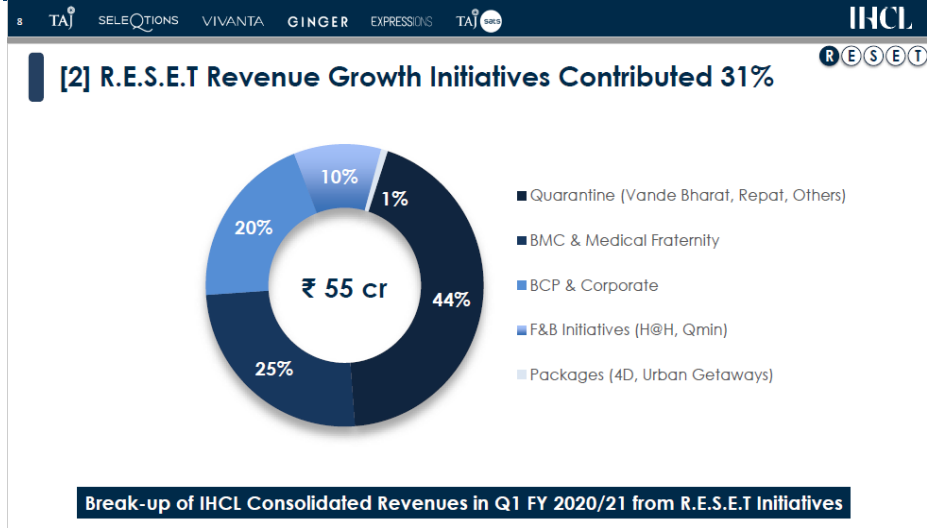
Source: Company, ICICI Direct Research

Key conference call takeaways for Q1FY21

- The hotel industry, at present, is in the midst of survival and revival. It would take at least 18-24 months to get back to normalcy at pre-Covid levels. Some green shoots are visible now and the sector is now entering the revival phase albeit at low level. Towards mid to end of October, it may start seeing an improvement in activity. Wedding season demand booking for October-March is witnessing a good pick-up
- There are total ~5-6000 non-operational rooms at present. Occupancy of operational inventories are at 37%. Occupancy levels at Ginger Hotels are at ~40%. Rest of the portfolios are operating at upwards of 20% on a total basis. At the company level, occupancy levels are at 25%. At 50% occupancy levels, the company will get back to EBITDA break-even levels
- Strong revenge demand was being witnessed in leisure destinations like Jaipur, Coorg and some other destinations but it slowed down due to stringent quarantine rules and other issues
- A full resumption of air travel will drive room demand in the business segment. Strong players will emerge stronger in this crisis. While demand CAGR is expected at 3.3% for the next three years, room supply growth is expected to lag behind demand (at 2.4% CAGR during the same period). This would help drive room rates upwards once normalcy resumes
- On the international business front, hotels in the UK opened from the first week of July. The region is witnessing a pick-up in demand while business is slowly making a comeback there. Hotels in the US would likely open by the end of September
- The online food business has the potential to generate ~10% of revenue with higher contribution to the bottomline
- During these challenging times, the company has been able to reset its cost base. IHCL achieved 51% cost reduction during the quarter. With the revised cost base, the company will get back to same margin base even with 80% of revenue at pre-Covid levels
- The company completed the agreement to acquire a 100% stake in ELEL, making the company 100% owner of leasehold of Sea Rock, Mumbai till 2069. IHCL plans to build its next iconic hotels at this location with the strategy to bring a partner for building the hotel while IHCL would manage the property. The construction work would likely commence in the next 12-18 months
- On the debt front, the company raised ₹ 500 crore of long term debt in Q1FY21. Total debt was at ₹ 2238 crore with average weighted average cost of 7.9%. Monetisation of some properties remains a key focus area now to reduce debt in future. The same will materialise by the end of the year
- IHCL is not looking at any opportunity to acquire any distressed assets. In the next few weeks, with the opening up of the market, demand will start to get momentum as humans are social in nature

Financial story in charts

Exhibit 3: Alternative revenue verticals contribute 31% to topline



Source: Company, ICICI Direct Research

Exhibit 4: Occupancy levels improving though gradually

Growth in occupancies on total inventory – good uplift in Ginger brand

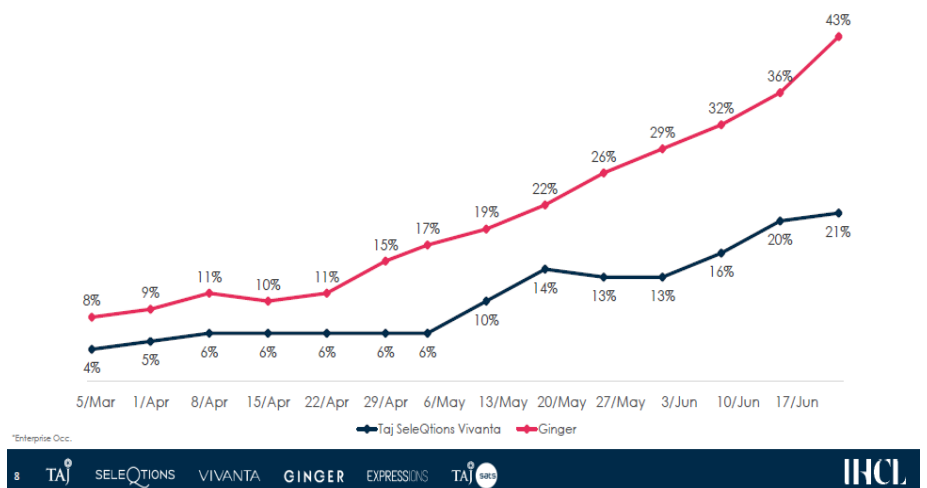
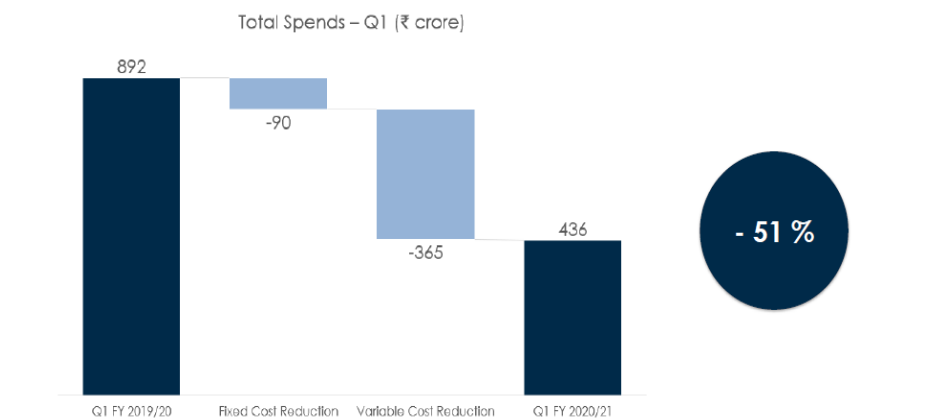


Exhibit 5: Company delivering well on cost front

[5] Over 51% Reduction in Q1 Total Expenditure



Source: Company, ICICI Direct Research

Exhibit 6: ARR and occupancy trends across domestic segment

Q1 2020/21 – IHCL Standalone Revenue Metrics

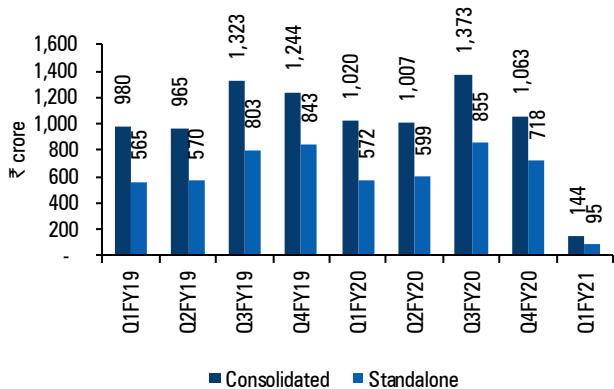
Particulars	April		May		June		Q1	
	CY	LY	CY	LY	CY	LY	CY	LY
Occupancy %	9.2	66.4	18.8	60.7	33.4	63.2	20.5	63.4
ARR in ₹	7,656	9,811	4,890	8,849	4,048	8,726	4,848	9,141
RevPAR in ₹	705	6,515	921	5,370	1,352	5,516	992	5,795

Room Rev (₹/ crores)	9	85	13	73	18	72	40	230
F & B Rev (₹/ crores)	3	88	6	71	11	76	20	234



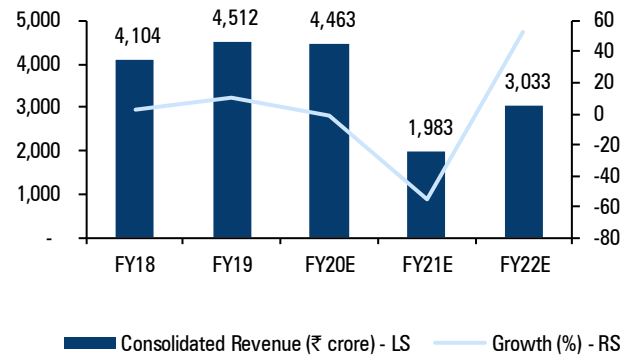
Source: Company, ICICI Direct Research

Exhibit 7: Severe impact of lockdown during Q1FY21 leading to 86% drop in revenues



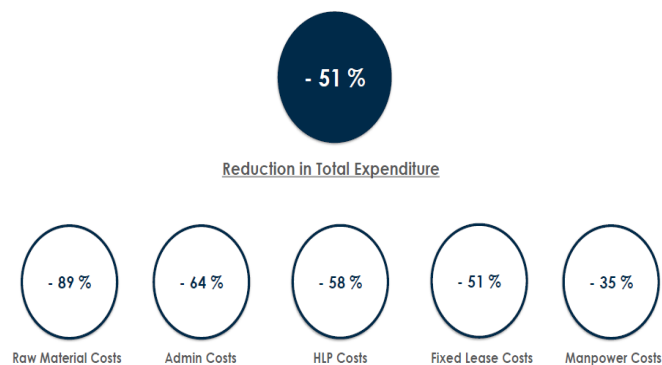
Source: Company, ICICI Direct Research

Exhibit 8: Recovery expected only from FY22E



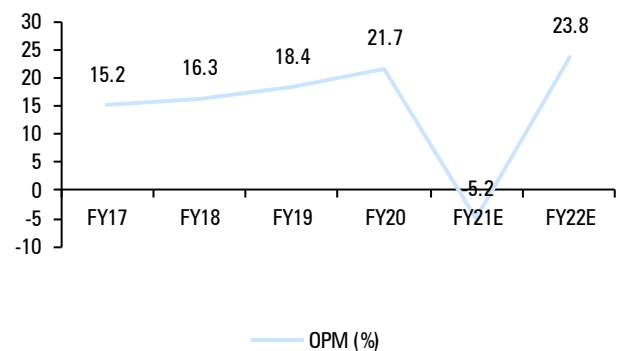
Source: Company, ICICI Direct Research

Exhibit 9: Total expenses reduced by 51% YoY



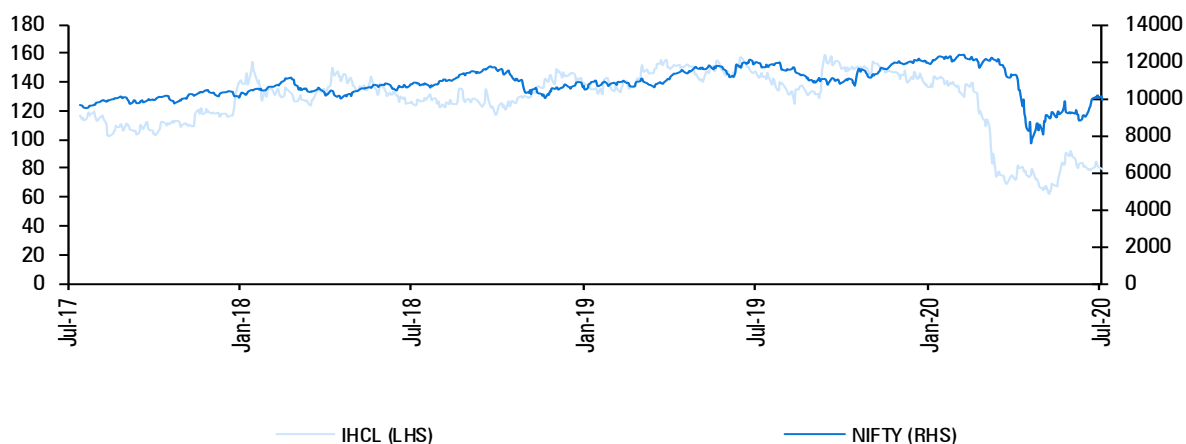
Source: Company, ICICI Direct Research

Exhibit 10: EBITDA margins to cross 23% by FY22E



Source: Company, ICICI Direct Research

Exhibit 11: Three year price performance vs. Nifty



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change
1	Tata Sons Ltd	30-Jun-19	36.4	433.2	0.0
2	Reliance Capital Tru	31-Dec-19	7.6	90.7	7.7
3	Hdfc Asset Managemen	31-Dec-19	6.6	78.5	0.2
4	Franklin Resources	31-Dec-19	3.6	43.1	-1.2
5	Norges Bank	31-Dec-18	3.6	42.4	0.0
6	Icici Prudential Lif	30-Jun-19	2.8	33.3	15.9
7	Government Pension F	30-Jun-19	2.7	31.6	-10.8
8	Icici Prudential Ass	31-Dec-19	2.2	26.7	-0.1
9	Sbi Funds Management	31-Dec-19	2.2	25.5	-0.2
10	Life Insurance Corp	30-Jun-19	1.8	21.2	-22.3

Source: Company, Thomson Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	39.09	39.09	39.09	40.75	40.75
FII	0.00	0.00	11.78	11.61	11.31
DII	41.11	41.11	35.09	33.30	33.60
Others	19.80	19.80	14.04	14.34	14.34

Source: Company, Thomson Reuters, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating income	4,512.0	4,463.1	1,982.6	3,033.3
Growth (%)	10.0	-1.1	-55.6	53.0
Raw Material Expenses	404.1	370.6	158.1	239.6
Employee Expenses	1,470.8	1,494.6	1,048.9	1,069.9
Power & Fuel Exp	0.0	0.0	0.0	0.0
Other Exp	1,807.4	1,630.5	877.9	1,001.0
Total Operating Exp	3,682.2	3,495.6	2,084.9	2,310.5
EBITDA	829.8	967.5	-102.3	722.8
Growth (%)	23.8	16.6	-110.6	-806.3
Depreciation	327.9	404.2	391.8	404.3
Interest	190.1	341.1	351.6	360.3
Other Income	83.4	132.4	68.5	121.3
PBT	395.2	354.6	-777.2	79.5
Others/Minority Int	54.3	-18.7	-178.7	27.2
Total Tax	157.1	44.8	-187.1	26.2
Adjusted PAT	286.9	259.4	-472.7	76.0
Growth (%)	184.4	-9.6	-282.2	-116.1
Adjusted EPS (₹)	2.4	2.2	-4.0	0.6

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	286.9	354.4	-472.7	76.0
Add: Depreciation	327.9	404.2	391.8	404.3
(Inc)/dec in Current Assets	-158.2	-1.5	163.4	-200.5
Inc/(dec) in CL and Provisions	60.8	-87.1	-359.4	309.8
CF from operating activit	517.4	670.0	-276.8	589.7
(Inc)/dec in Investments	322.1	4.7	0.0	0.0
(Inc)/dec in Fixed Assets	116.9	-569.6	-265.0	-195.0
Others	-965.2	-61.8	46.3	-3.7
CF from investing activiti	-526.2	-626.7	-218.7	-198.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	99.3	377.1	500.0	-350.0
Dividend paid & dividend tax	-71.7	-71.7	-59.5	-59.5
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-74.0	-248.3	0.0	0.0
CF from financing activiti	-46.4	57.1	440.5	-409.5
Net Cash flow	-55.3	100.4	-55.0	-18.5
Opening Cash	270.3	215.0	315.5	260.5
Closing Cash	215.0	315.5	260.5	242.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20P	FY21E	FY22E
Equity Capital	118.9	118.9	118.9	118.9
Reserve and Surplus	4,203.3	4,237.8	3,705.6	3,722.2
Total Shareholders funds	4,322.2	4,356.7	3,824.5	3,841.1
Total Debt	2,526.3	2,903.4	3,403.4	3,053.4
Deferred Tax Liability	307.3	110.4	100.4	90.4
Minority Interest / Others	799.9	2,625.5	2,566.8	2,508.1
Total Liabilities	7,955.7	9,995.9	9,895.1	9,493.0
Gross Block	9,117.9	9,559.6	9,998.7	10,183.7
Less: Acc Depreciation	3,884.7	4,288.9	4,680.7	5,085.1
Net Block	5,233.2	5,270.7	5,317.9	5,098.6
Capital WIP	116.2	244.1	70.0	80.0
Total Fixed Assets	5,349.4	5,514.7	5,387.9	5,178.6
Investments	1,335.1	1,426.6	1,376.6	1,376.6
Goodwill on consolidation	1,189.2	1,204.9	1,204.9	1,204.9
Right-of-use-asset				
Inventory	80.4	93.6	91.1	91.8
Debtors	321.4	290.0	244.4	290.9
Loans and Advances	369.2	410.3	462.1	447.9
Cash	215.0	315.5	260.5	242.1
Other current assets	620.4	599.0	431.9	599.4
Total Current Assets	1,606.4	1,708.4	1,490.0	1,672.0
Current liabilities	325.3	389.3	271.6	349.0
Provisions	0.0	0.0	0.0	0.0
Total Current Liabilities	325.3	389.3	271.6	349.0
Net Current Assets	1,281.2	1,319.1	1,218.4	1,323.0
Application of Funds	7,955.7	9,995.9	9,895.1	9,493.0

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	2.4	3.0	-4.0	0.6
Cash EPS	5.2	6.4	-0.7	4.0
BV	36.3	36.6	32.2	32.3
DPS	0.5	0.5	0.5	0.5
Cash Per Share	5.2	6.4	-0.7	4.0
Operating Ratios (%)				
EBITDA Margin	18.4	21.7	-5.2	23.8
PBT / Total Operating income	8.9	8.9	-34.9	2.6
PAT Margin	6.4	7.9	-23.8	2.5
Inventory days	6.7	7.1	17.0	11.0
Debtor days	26.0	23.7	45.0	35.0
Creditor days	26.3	31.8	50.0	42.0
Return Ratios (%)				
RoE	6.6	8.1	-12.4	2.0
RoCE	6.6	7.0	-6.2	4.1
RoIC	6.6	6.0	-5.2	3.5
Valuation Ratios (x)				
P/E	32.3	26.2	0.0	122.0
EV / EBITDA	14.0	12.3	-121.3	16.7
EV / Net Sales	2.6	2.7	6.3	4.0
Market Cap / Sales	2.1	2.1	4.7	3.1
Price to Book Value	2.1	2.1	2.4	2.4
Solvency Ratios				
Debt/EBITDA	3.0	3.0	-33.3	4.2
Debt / Equity	0.6	0.7	0.9	0.8
Current Ratio	1.0	1.2	1.4	1.2
Quick Ratio	0.9	1.0	1.1	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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