Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotel Company Limited

Sequentially improved Q3; recovery run to continue

Consumer Discretionary	Sharekhan code: INDHOTEL	Result Update

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 123**	
Price Target: **Rs. 155**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

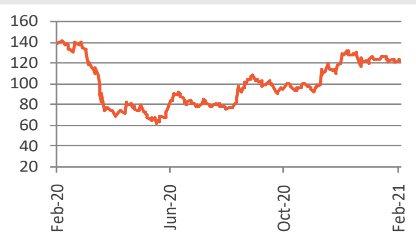
Company details

Market cap:	Rs. 14,628 cr
52-week high/low:	Rs. 143/62
NSE volume: (No of shares)	35.0 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	70.5 cr

Shareholding (%)

Promoters	40.8
FII	13.1
DII	28.5
Others	17.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.8	27.6	59.1	-12.8
Relative to Sensex	-5.1	2.7	23.0	-38.8

Sharekhan Research, Bloomberg

Summary

- Indian hotel Company Limited's (IHCL's) Q3FY2021 performance improved q-o-q as revenues rose to Rs. 559.9 crore from Rs. 256.7 crore in Q2FY2021.
- Standalone occupancy ratio improved to 47.4% in Q3FY2021 from 32.3% in Q2FY2021 and 20.5% in Q1FY2021; average room rentals (ARR) rose by 53% to Rs. 8,300 versus Q2.
- Prudent asset management helped fixed costs decline by Rs. 64 crore and corporate overheads to decrease by 28% to Rs. 67crore in 9MFY2021.
- Hotel industry set for a strong revival in FY2022/23 as foreign tourist arrivals regain momentum. As IHCL has a strong room inventory and stable balance sheet among peers, we recommend a Buy with a PT of Rs. 155.

IHCL revenues improved q-o-q in Q3FY021 as revenues improved to Rs. 559.9 crore from Rs. 256.7 crore in Q2FY2021. Standalone occupancy ratio (OR) improved to 47.4% in Q3FY2021 from 32.3% in Q2FY2021 with a m-o-m improvement in occupancies (December-54.5%, November -46.7% and October 40.8%). Average room rental (ARR) grew by strong 53% to Rs. 8,300 in Q3FY2021 from Rs. 5,424 in Q2FY2021. Similarly, RevPar (revenue per available room) improved to Rs. 3,936 in Q3 from Rs. 1751 in Q2. Total operating costs fell by 47% in 9MFY21 (raw material cost fell 52%, Corporate overheads 28%, while manpower cost dropped 38%). The company's RESET initiative is giving desired results with new initiatives (including Qmin and Hospitality@Home 2.0) contributing Rs. 205 crore, while also helping reduce rental costs by Rs. 64 crore. Corporate overheads decreased by Rs. 67 crore in 9MFY2021. Around 86% of domestic properties are currently operating at EBIDTA positive levels. With the domestic economy gradually opening up and scare of the virus receding, the management expects occupancy ratio to gradually improve in the coming quarters. Q4FY2021 is expected to be much better than Q3 as occupancies in January and February stood close to December levels of 50-55%. We expect FY2022 to see stark revival in performance as the vaccine's arrival provides hope of faster recovery in the domestic tourism due to higher pent-up demand. The improvement in occupancies and the company's cost-saving measures would result in better profitability in FY2022 and the years ahead.

Key positives

- RevPAR stood at Rs. 3,424 well ahead of industry RevPAR of Rs. 2,159.
- Staff to room ratio reduce to 1.14x in December from 1.53x in April 2020 on account better manpower management.
- Revenues of Ginger brand recovered to 57% of FY2020 levels; occupancies improved to over 60% in December.

Key negatives

- 9MFY2021 was a washout as domestic hotels were operational at limited capacity for most part of the period (international properties were largely closed due to second round of the lockdown).

Our Call

Recommend Buy with a PT of Rs. 155: IHCL has seen a gradual recovery in occupancies and ARRs in the past few months (reach 50% in December-January). However, we expect a stark improvement in business fundamentals in FY2022/FY2023 with a strong improvement in the global tourism industry post the launch of the COVID-19 vaccine. Thus, we expect a strong double-digit revenue growth and consolidated OPM reaching ~21% in FY2023 (in-line with FY2020 levels), driven by a considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading ~21x its FY2023E EV/EBIDTA. We maintain a Buy recommendation on the stock with a unchanged PT of Rs. 155.

Key Risks

Any slow recovery in inbound and outbound tourism industry would act as a key risk to earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,512	4,463	1,545	3,124	4,240
OPM (%)	18.4	21.7	-27.7	18.5	21.0
Adjusted PAT	240	318	-813	-74	181
Adjusted EPS (Rs.)	2.5	2.8	-7.0	-0.4	1.9
P/E (x)	49.4	40.2	-	-	64.8
P/B (x)	2.8	2.9	3.5	3.6	3.4
EV/EBIDTA (x)	20.9	19.4	-	32.5	21.4
RoNW (%)	4.8	6.2	-17.4	-1.8	4.3
RoCE (%)	6.8	7.2	-7.3	2.7	6.4

Source: Company; Sharekhan estimates

Q3FY2021 – Recovered to 40% of pre-COVID levels: IHCL saw a sequential improvement in Q3FY021 as revenues improved to Rs. 559.9 crore from Rs. 256.7 crore in Q2FY2021. Standalone occupancy ratio (OR) improved to 47.4% in Q3FY2021 from 32.3% in Q2FY2021 with a m-o-m improvement in occupancies (December- 54.5%, November -46.7% and October 40.8%). Average room rentals (ARRs) grew by strong 53% to Rs. 8,300 in Q3FY2021 from Rs. 5,424 in Q2FY2021. Similarly, RevPAR (revenue per available room) improved to Rs. 3,936 in Q3 from Rs. 1,751 in Q2. Operating loss shrunk to Rs. 16.7 crore in Q3FY2021 from Rs. 150.3 crore in Q2FY2021.

Key highlights of conference call

- **Ginger brand gaining good momentum:** The Ginger brand (economy hotel chain by IHCL) has seen a strong improvement in occupancies to 60% in December from 51% in September lows of 13% in April. Occupancies are higher than some mid-scale hotels operating in India. RevPAR index of the brand improved from 0.69x in April and to 1.23x in December 20. With a lot of standalone hotels/budget hotels' operations being affected by liquidity issues, it provides opportunity for Ginger brand to scale up its operations in the near to medium term.
- **Domestic business - Leisure travel reviving; corporate travel yet to bounce back:** Standalone occupancies are improving m-o-m as lot of domestic travellers are opting for short stays in the last few months. Going ahead, the company expects this trend to improve with the opening up of more cities, which would help IHCL's domestic properties achieve better occupancies in the coming quarters. Corporate travel (15% of IHCL's revenues) will see a complete recovery once the vaccine is available in the market. Air-travel growth stood at 40% in September over August providing some hope of corporate travel recovering in the coming quarters.
- **Project RESET doing well:** The company's RESET initiative is giving desired results with new initiatives (including Qmin and Hospitality@Home 2.0) contributing Rs. 205 crore, while also helping reduce rental costs by Rs. 64 crore and corporate overheads decreased by Rs. 67crore in 9MFY2021.

Results (Consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	Y-o-Y (%)	Q2FY21	Q-o-Q (%)
Net Sales	559.9	1372.7	-59.2	256.7	118.1
Total expenditure	576.6	947.0	-39.1	407.0	41.7
Operating profit	-16.7	425.7	-	-150.3	-88.9
Other income	54.7	36.2	51.1	66.9	-18.2
Interest cost	112.1	84.9	32.1	96.8	15.8
Depreciation	102.3	100.8	1.5	102.8	-0.5
PBT	-176.4	276.2	-	-283.1	-37.7
Tax	-36.3	81.3	-	-47.0	-22.6
Adjusted PAT	-140.1	194.9	-	-236.1	-40.7
Share of profit from associates	-15.6	19.4	-	-32.4	-52.0
PAT	-155.7	214.4	-	-268.5	-42.0
Extraordinary item	22.4	-1.2	-	16.4	36.8
Reported PAT	-133.2	213.2	-	-252.1	-47.2
OPM (%)	-	31.0	-	-	-

Source: Company; Sharekhan Research

IHCL Standalone revenue matrix Rs cr

Particulars	Oct	Nov	Dec	Q3	Q2
Occupancy (%)	40.8	46.7	54.6	47.4	32.3
ARR in Rs	7068	8163	9318	8300	5424
RevPAR in Rs	2886	3814	5087	3936	1751
Room Revenue	39	51	70	160	71
F& B Revenue	33	59	69	161	48
Other Revenue	25	38	50	113	96
Total Revenue	97	147	189	434	215

Source: Company; Sharekhan Research

Domestic revenue matrix Rs cr

Particulars	Oct	Nov	Dec	Q3	Q2
Occupancy (%)	37.9	44.2	54.5	45.6	28.2
ARR in Rs	4731	5619	6286	5643	3759
RevPAR in Rs	1794	2484	3424	2573	1061
Room Revenue	90	121	174	384	154
F& B Revenue	73	123	157	353	106
Other Revenue	17	25	37	78	52
Total Revenue	179	269	367	815	312

Source: Company; Sharekhan Research

IHCL debt Position Rs cr

Debt Position	Standalone		Consolidated	
	31st Dec	30th Sep	31st Dec	30th Sep
Gross Debt	2595	2499	3588	3462
Liquidity	420	389	509	520
Net Debt	2175	2110	3079	2942
Weighted cost of debt (%)	7.8	7.8	6.6	6.7
Net debt to equity (x)	0.52	0.5	0.71	0.68

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - FY2021 will be disrupted; strong recovery expected in H2FY2022

The Indian hospitality industry is gearing up for the next league of growth with domestic leisure travel emerging as a key pillar of growth in the near term. Our interaction with industry experts suggests that Staycation, weekend drive, and weddings/social gatherings would help in sustained improvement in occupancies of hotel companies in the coming months. Industry occupancy improved from lows of 10% in April 2020 to 26% in September 2020 and 50% in December2020. Indian leisure travel will get a boost from outbound travellers opting for holidaying in domestic destinations rather than travelling to international countries on holidays. Further, business travel is expected to come back on track at a gradual pace (likely in H2FY2022 post the launch of the vaccine). On the supply front, financial constraints would delay most hotel projects by a year or two, while some of the standalone hotels are likely to close their operations in the domestic market. However, the risk of rising COVID-19 cases in domestic and international markets will continue to put its toll on occupancies and business performance of hotel companies.

■ Company outlook - Q4 to better than Q3; strong recovery expected in FY2022

With the domestic economy gradually opening up and scare of COVID-19 receding, the management expects occupancy ratio to gradually improve in the coming quarters. Q4FY2021 is expected to be much better than Q3 as occupancies in January and February stood close to December levels of 50-55%. We expect FY2022 to see a stark revival in performance as arrival of vaccine provides hope of faster recovery in the domestic tourism due to higher pent-up demand. The improvement in occupancies and the company's cost-saving measures would result in better profitability in FY2022 and years ahead.

■ Valuation - Recommend Buy with target price of Rs. 155

IHCL has seen a gradual recovery in occupancies and ARRs in the past few months (reach 50% in December-January). However, we expect a stark improvement in business fundamentals in FY2022/FY2023 with a strong improvement in the global tourism industry post the launch of the COVID-19 vaccine. Thus, we expect a strong double-digit revenue growth and consolidated OPM reaching ~21% in FY2023 (in-line with FY2020 levels), driven by a considerable recovery in occupancies and ARRs of its domestic and international properties. The stock is currently trading ~21x its FY2023E EV/EBIDTA. We maintain a Buy recommendation on the stock with a unchanged PT of Rs. 155.

About company

IHCL and its subsidiaries bring together a group of brands and businesses that offer a fusion of warm Indian hospitality and world-class service. Incorporated by the founder of the Tata Group, Jamshedji Tata, the company opened its first hotel - Taj Mahal Palace, in Bombay in 1903, and currently has 200 hotels (158 operational) globally in its portfolio with 25,168 keys across 62 locations around the globe, including presence in India, North America, UK, Africa, Middle East, Malaysia, Sri Lanka, Maldives, Bhutan, and Nepal.

Investment theme

The hotel industry's business fundamentals have improved in recent times with room demand outpacing room supply. IHCL is one of the top players in the domestic hotel space with strong room inventory. Management has aspiration to expand its margins by 8% by FY2023 and the company is posting decent margin expansion for the past few quarters. The significant impact on tourism and setback to the industry due to COVID-19 will result in FY2021 remaining subdued for IHCL. However, pent-up demand and international properties improvement in performance by posting positive RevPAR growth will help IHCL post faster recovery in FY2022. This will also help cashflows to improve and balance sheet to strengthen in the coming years.

Key Risks

- In the backdrop of the economic slowdown, room supply is going ahead of room demand, which will affect overall business fundamentals of the hotel industry and performance of hotel companies.
- Any disruption in the performance of international properties will affect the consolidated performance of IHCL in the coming years.

Additional Data

Key management personnel

N Chandrasekaran	Chairman
PuneetChhatwal	CEO &Managing Director
GiridharSanjeevi	Chief Financial Officer
Beejal Desai	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Reliance Capital Trustee Co Ltd	6.1
2	HDFC Asset Management Co Ltd	6.0
3	SBI Funds Management Pvt Ltd	4.3
4	Franklin Resources Inc	3.6
5	ICICI Prudential Life Insurance Co	2.8
6	ICICI Prudential Asset Management	2.7
7	Government Pension Fund - Global	2.7
8	Norges Bank	2.3
9	Life Insurance Corp of India	1.8
10	HDFC Life Insurance Co Ltd	1.5

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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