

April 28, 2022

Business travel rebounds; FTAs to provide further boost...

About the stock: With room inventory of 20,581 rooms, Indian Hotels is a diversified player in the hotel industry through brands such as Taj, Vivanta, SeleQtions and Ginger brands.

- The company also has a selective presence in the luxury segment in the US, UK, Africa, Sri Lanka, the UAE and Maldives through owned/managed properties
- The company enjoys strong support from its key promoter Tata Sons and is also an important strategic business for Tata Group

Q4FY22 Results: IHCL's operational performance for Q4FY22 remained below estimates, impacted by the omicron wave.

- Consolidated revenues fell 21.5% QoQ to ₹ 872.1 crore (vs. I-direct estimate: ₹ 1050 crore). EBITDA margins also came down 1072 bps QoQ to 18.2%
- However, net profit was down only 2.4% QoQ due to higher other income and exceptional gains
- With equity fund raise of ₹ 4000 crore, the company has now become a debt free company

What should investors do? Along with the improved outlook, the company is also focusing on driving more efficiencies through cost optimisation.

- We remain positive on the company and maintain our **BUY** rating.

Target Price and Valuation: We value company at ₹ 290 i.e. 31x FY24E EV/EBITDA

Key triggers for future price performance:

- Opening doors fully for foreign tourists (FTAs) from March 2022 to provide further fillip to leisure and business hotel room demand from FY23 onwards
- Expect revenue CAGR of 32.2% during FY22-24E. Business to recover fully at pre-Covid levels while EBITDA to surpass pre-Covid levels in FY23E; margins seen at over 24% in FY24E, which has potential to further expand by ~100 bps thereafter
- Improved cash flows, equity infusion and divestment of non-core assets to make the company net debt free in FY23E

Alternate Stock Idea: In our hotel sector coverage we also like EIH.

- It is the premium segment key domestic hotel player. Like Taj, it also has strong hotel brands like Oberoi & Trident. It has a strong balance sheet
- BUY with a target price of ₹ 185/share



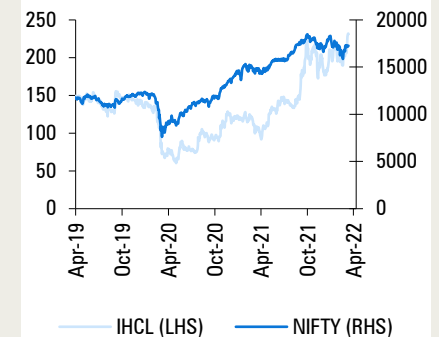
Particulars

Particular	Amount
Market Cap	₹ 34800 crore
Debt (FY22)	₹ 1985 crore
Cash (FY22)	₹ 1188 crore
EV	₹ 35596 crore
52 week H/L	260/111
Equity capital	₹ 142 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	40.75	40.75	41.02	38.19
FII	12.56	13.48	15.19	16.03
DII	27.99	27.07	25.30	28.64
Others	18.70	18.70	18.49	17.14

Price Chart



Key risks

- Any further stringent lockdown on likely fourth/fifth wave could hamper business
- Higher inflation/talent crunch to remain key concern, going ahead

Research Analyst

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Key Financial Summary

	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	4,512	4,463	1,575	3,056	(12.2)	4,496	5,341	32.2
EBITDA	830	968	(362)	405	(21.3)	988	1,293	78.7
EBITDA (%)	18.4	21.7	(23.0)	13.2		22.0	24.2	
Net Profit	287	354	(720)	(248)	PL	491	791	LP
EPS (₹)	2.0	2.2	(6.0)	(1.8)		3.5	5.6	
EV/EBITDA	44.7	38.7	(105.8)	87.9		35.9	26.4	
RoNW	6.6	7.4	(23.3)	(3.7)		6.6	9.8	
RoCE	7.4	7.0	(6.2)	1.3		6.3	9.1	
ROE	6.6	7.4	(23.3)	(3.7)		6.6	9.8	

Source: Company, ICICI Direct Research

Key performance highlights

- Consolidated revenues declined 21.5% QoQ to ₹ 872.1 crore (vs. I-direct estimate: ₹ 1050 crore). EBITDA margins also came down 1072 bps QoQ to 18.2%. However, net profit was down only 2.4% QoQ to ₹ 74.2 crore (I-direct estimate: ₹ 79.6 crore) due to higher other income (up 265% QoQ to ₹ 82.8 crore and exceptional gains (₹ 16.4 crore)
- Average occupancy was at 58.4% (vs. 66.6% last quarter, 28.4% in Q1). Average room rates were at ₹ 10569/room (down 7% QoQ)
- Omicron hit the business during January 2022 with occupancies at leisure destinations coming down to 44% in January 2022. It recovered sharply to 64% in March 2022. Occupancies at non-leisure also improved sharply from 41% in January 2022 to 73% in March 2022.
- For the full year, average occupancy improved by 1310 bps to 52.5% i.e. at 81% of pre-Covid levels while ARR was up 32% YoY to ₹ 9717/room (i.e. 94% of pre-Covid). This led to RevPAR growth of 76% YoY to ₹ 5103/room (76% of pre-Covid levels)
- The company earned management fees of ₹ 231 crore for FY22 vs. ₹ 136 crore in FY21 and ₹ 213 crore in FY20. The revenue from chambers also improved sharply to ₹ 85 crore vs. ₹ 49 crore last year and ₹ 63 crore in FY20
- The company reported EBITDA margin of 13.2% vs. -23.0% in FY21 and 21.7% in FY20. Fixed overheads per hotel has reduced to ₹ 18.9 crore in FY22 from ₹ 24.4 crore during pre-Covid levels. The cash loss of Pierre also came down from ₹ 164 crore in FY21 to ₹ 56 crore in FY22
- In terms of balance sheet, the company raised net proceeds of ₹ 3943 crore via rights issue and QIP of which ₹ 3247 crore will be used for debt repayment and balance to fund the growth for expansion of Ginger hotels and Sea Rock expansion. With this fund raise, the company has now become a debt free company
- As per the current trend, April 2022 revenues at business destinations like Mumbai, Delhi and Bengaluru has already crossed 118%, 121% and 102% of pre-Covid revenue levels, respectively. The same is expected to get further boost from foreign tourists as the door is now open fully for foreign tourist arrivals. With more focus on asset light business and improved business outlook, we expect growth trajectory to continue, going forward

Exhibit 1: Quarterly financial performance

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Q4FY19	As % of Pre-covid level
Total Operating Income	872.1	1,050.0	615.0	41.8	1,111.2	-21.5	1,244.3	70.1
Other Income	82.8	27.4	11.5	623.1	22.7	264.8	37.2	
Raw Material Expenses	69.0	92.0	56.9	21.4	97.4	-29.1	107.7	
Employee Expenses	310.2	308.5	208.0	49.2	312.6	-0.8	378.7	
Other Expenses	333.9	323.6	278.9	19.7	379.5	-12.0	473.6	
Total Expenditure	713.1	724.0	543.7	31.2	789.5	-9.7	960.0	74.3
EBITDA	159.0	298.5	71.3	122.9	321.8	-50.6	284.3	55.9
EBITDA Margin (%)	18.2	28.4	11.6	NA	29.0	NA	22.8	
Interest	79.2	109.7	106.1	-25.4	124.9	-36.6	47.4	
Depreciation	101.9	106.8	104.3	-2.3	99.9	2.0	84.9	
PBT	77.1	109.4	-102.3	PL	109.4	PL	204.0	
Exceptional	-16.4	0.0	-25.4	-35.5	10.2	-259.8	-14.8	
Less: Tax	-2.6	28.8	-12.4	-78.7	23.2	-111.4	87.1	
PAT	74.2	79.6	-91.3	-181.3	76.0	-2.4	115.0	64.5

Source: Company, ICICI Direct Research

Financial story in charts

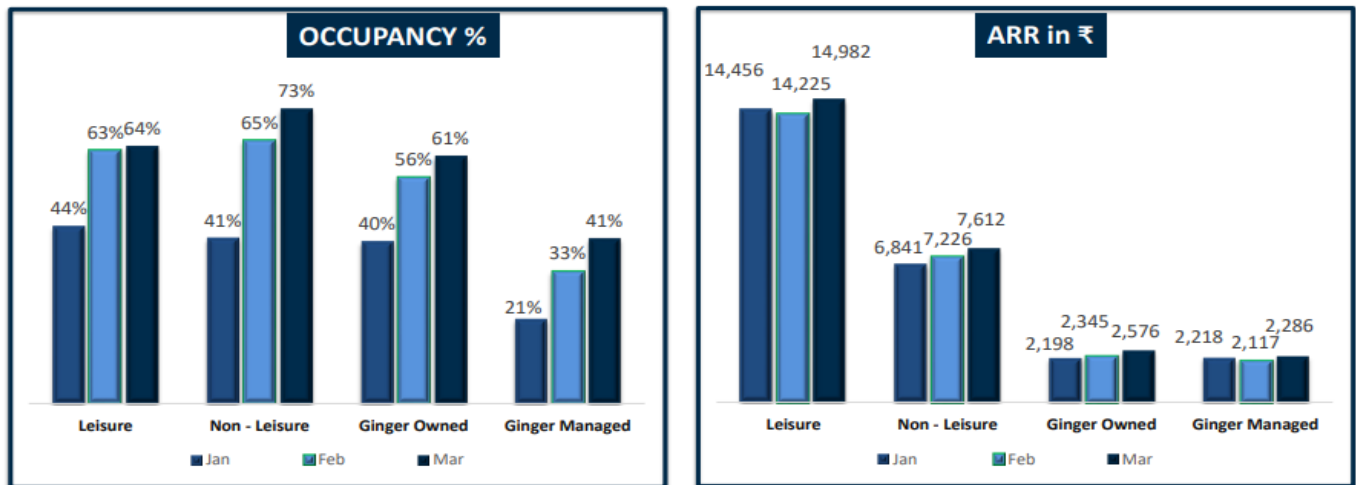
Exhibit 2: ARR & occupancy trend during Q4 in domestic segment

Particulars	Q1	Q2	Q3	Q4	FY	PY
Occupancy %	28.4	56.6	66.6	58.4	52.5	39.4
ARR in ₹	7,024	8,273	11,348	10,569	9,717	7,351
RevPAR in ₹	1,992	4,679	7,559	6,176	5,103	2,895
(₹/ crores)						
Room Revenue	88	199	311	250	848	472
F & B Revenue	65	165	284	200	715	402
Other Revenue*	73	116	176	225	590	370
Total Revenue	226	481	771	675	2,152	1,244

*Incl. Non-Operating Income - ₹ 149 Crores

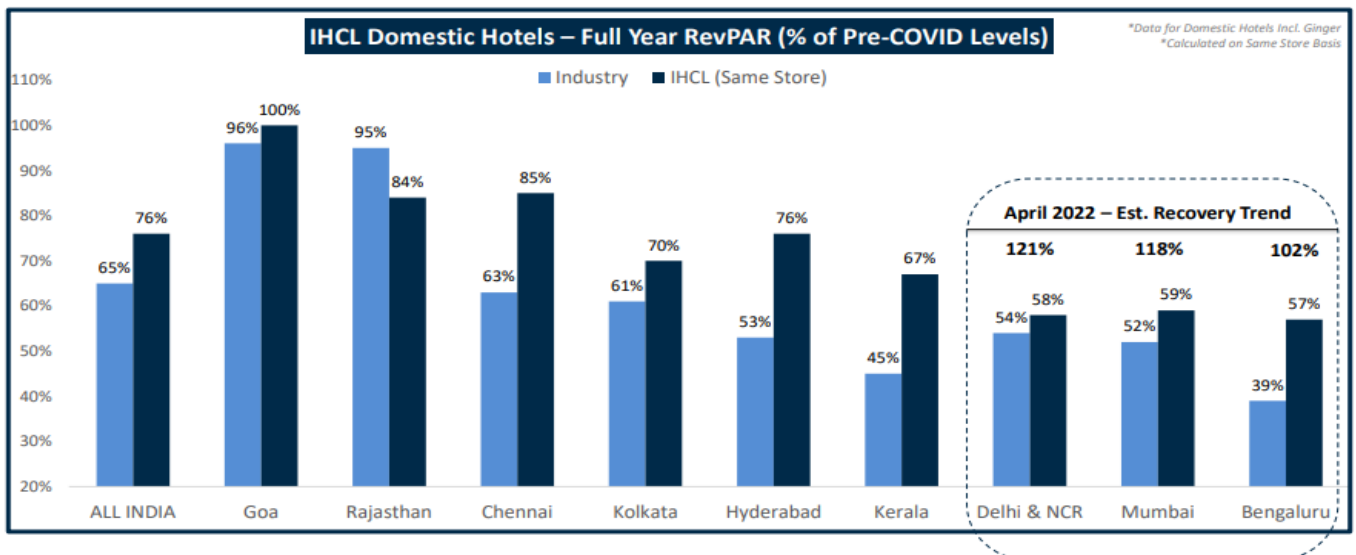
Source: Company, ICICI Direct Research

Exhibit 3: Occupancy of non-leisure also recovers sharply in March 2022



Source: Company, ICICI Direct Research

Exhibit 4: Forward booking trend reflects strong rebound in business hotel demand, going forward...



Source: Company, ICICI Direct Research

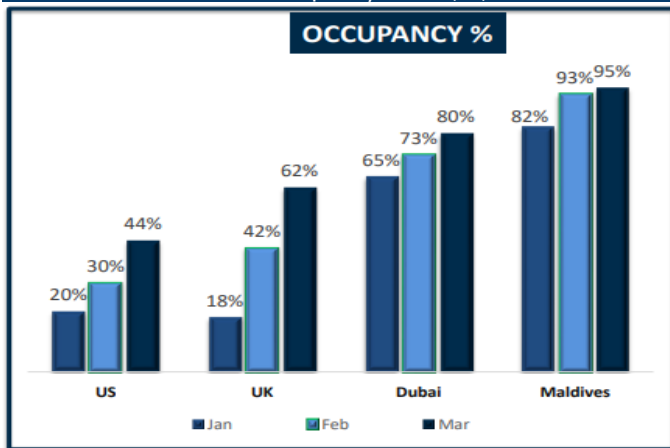
Exhibit 5: Performance of key subsidiaries...

₹ /crores

Legal Entity	Revenue	EBITDA	PAT
UOH Inc. - USA	315	(46)	(119)*
St. James Court - UK	199	23	(39)
PIEM Hotels Ltd.	266	3	(3)
Roots Corporation Ltd	179	43	(34)

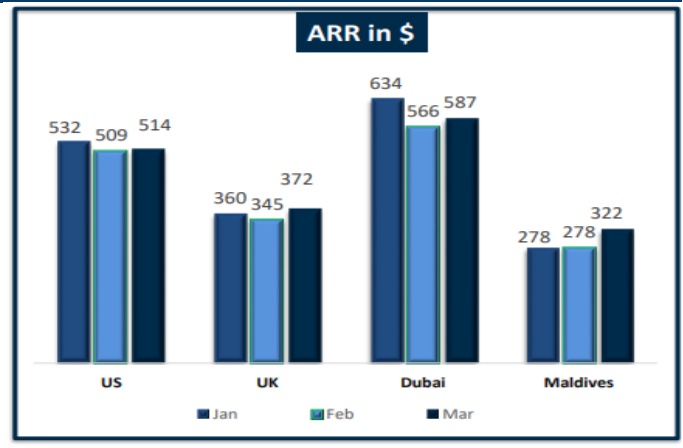
Source: Company, ICICI Direct Research

Exhibit 6: International occupancy trend (%)



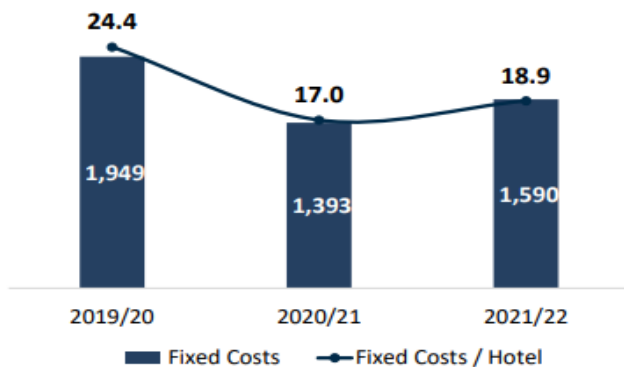
Source: Company, ICICI Direct Research

Exhibit 7: International ARR trend



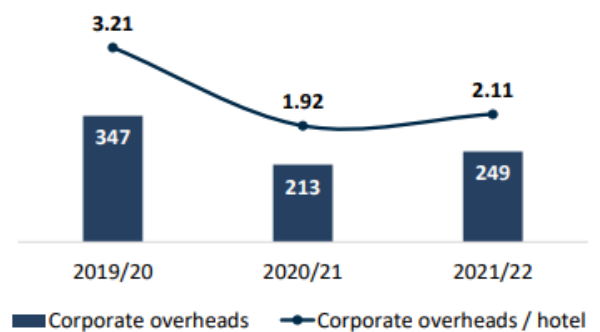
Source: Company, ICICI Direct Research

Exhibit 8: Fixed costs per hotel down 22.5% YoY



Source: Company, ICICI Direct Research

Exhibit 9: Trends in corporate overheads



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total operating income	4,463.1	1,575.2	3,056.2	4,495.8	5,341.5
Growth (%)	-1.1	-64.7	94.0	47.1	18.8
Raw Material Expenses	370.6	143.8	257.2	427.1	507.4
Employee Expenses	1,494.6	894.0	1,150.2	1,350.0	1,485.0
Other Exp	1,630.5	899.1	1,244.0	1,730.9	2,056.5
Total Operating Exp	3,495.6	1,936.9	2,651.5	3,508.0	4,048.9
EBITDA	967.5	-361.8	404.8	987.8	1,292.6
Growth (%)	16.6	-137.4	-211.9	144.1	30.9
Depreciation	404.2	409.6	406.1	428.8	429.6
Interest	341.1	402.8	427.7	97.0	22.8
Other Income	132.4	164.7	155.2	123.0	123.0
PBT	354.6	-1,009.5	-273.8	585.0	963.2
Others/Minority Int	-18.7	-336.9	-75.4	34.5	40.6
Total Tax	44.8	-155.3	-35.8	110.0	181.1
Adjusted PAT	354.4	-720.1	-342.7	490.5	791.5
Growth (%)	23.6	-303.2	-52.4	-243.1	61.3
Adjusted EPS (₹)	2.5	-5.1	-1.7	3.5	5.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	-720.1	-247.7	490.5	791.5	
Add: Depreciation	409.6	406.1	428.8	429.6	
(Inc)/dec in Current Assets	409.9	-19.7	-905.4	254.7	
Inc/(dec) in CL and Provisions	226.7	-170.8	370.6	352.2	
CF from operating activit	326.1	-32.2	384.5	1,828.0	
(Inc)/dec in Investments	3.7	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-787.9	-432.2	-512.3	-536.5	
Others	-445.1	-514.6	334.3	176.3	
CF from investing activiti	-1,229.3	-946.8	-178.0	-360.2	
Issue/(Buy back) of Equity	0.0	23.1	0.0	0.0	
Inc/(dec) in loan funds	729.5	-1,648.1	-1,070.0	-700.0	
Dividend paid & dividend tax	0.0	-68.5	-102.8	-137.0	
Inc/(Dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	49.2	3,707.0	0.0	0.0	
CF from financing activiti	778.7	2,013.5	-1,172.8	-837.0	
Net Cash flow	-124.5	1,034.5	-966.3	630.8	
Opening Cash	278.2	153.6	1,188.1	221.8	
Closing Cash	153.6	1,188.1	221.8	852.6	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Equity Capital	118.9	118.9	142.0	142.0	142.0
Reserve and Surplus	4,200.4	3,529.5	6,920.2	7,308.0	7,962.4
Total Shareholders funds	4,319.4	3,648.4	7,062.3	7,450.0	8,104.5
Total Debt	2,903.4	3,632.8	1,984.8	914.8	214.8
Deferred Tax Liability	110.4	78.1	87.6	77.6	67.6
Minority Interest / Others	2,625.5	2,481.0	2,453.4	2,464.7	2,476.0
Total Liabilities	9,958.6	9,840.3	11,588.0	10,907.1	10,862.8
Gross Block	9,559.6	10,426.6	10,830.5	11,359.2	11,909.2
Less: Acc Depreciation	4,288.9	4,698.6	5,104.6	5,521.1	5,964.2
Net Block	5,270.7	5,728.0	5,725.9	5,838.1	5,945.0
Capital WIP	244.1	165.0	193.3	164.6	164.6
Total Fixed Assets	5,514.7	5,893.0	5,919.2	6,002.7	6,109.6
Investments	1,426.6	1,655.4	2,132.2	2,057.2	1,982.2
Goodwill on consolidation	1,204.9	1,180.0	1,176.0	1,176.0	1,176.0
Right-of-use-asset					
Inventory	93.6	92.9	100.8	170.1	151.8
Debtors	290.0	219.8	255.3	406.5	482.9
Loans and Advances	410.3	16.7	6.3	713.0	141.6
Cash	278.2	153.6	1,188.1	221.8	852.6
Other current assets	599.0	653.7	640.3	618.6	877.1
Total Current Assets	1,671.1	1,136.7	2,190.8	2,130.0	2,506.0
Current liabilities	389.3	317.8	387.3	492.7	585.4
Provisions	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	389.3	317.8	387.3	492.7	585.4
Net Current Assets	1,281.8	818.9	1,803.5	1,637.3	1,920.7
Application of Funds	9,958.6	9,840.3	11,588.0	10,907.1	10,862.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	-5.1	-1.7	3.5	5.6	
Cash EPS	-2.2	1.1	6.5	8.6	
BV	25.7	49.7	52.5	57.1	
DPS	0.0	0.4	0.0	0.0	
Cash Per Share	-2.2	1.1	6.5	8.6	
Operating Ratios (%)					
EBITDA Margin	-23.0	13.2	22.0	24.2	
PBT / Total Operating income	-53.9	-8.4	13.0	18.0	
PAT Margin	-45.7	-8.1	10.9	14.8	
Inventory days	21.6	11.6	11.0	11.0	
Debtor days	50.9	30.5	33.0	33.0	
Creditor days	73.6	46.3	40.0	40.0	
Return Ratios (%)					
RoE	-19.7	-3.5	6.6	9.8	
RoCE	-9.7	0.0	6.2	9.7	
RoIC	-8.1	0.0	5.3	8.8	
Valuation Ratios (x)					
P/E	0.0	0.0	70.9	44.0	
EV / EBITDA	-105.8	87.9	35.9	26.4	
EV / Net Sales	24.3	11.6	7.9	6.4	
Market Cap / Sales	22.1	11.4	7.7	6.5	
Price to Book Value	9.5	4.9	4.7	4.3	
Solvency Ratios					
Debt/EBITDA	-10.0	4.9	0.9	0.2	
Debt / Equity	1.0	0.3	0.1	0.0	
Current Ratio	0.7	1.5	1.1	1.1	
Quick Ratio	0.6	0.7	1.0	0.7	

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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