Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Indian Hotels Company

Q4 a one-off quarter; greater room for growth ahead

Consumer Discretionary	Sharekhan code: INDHOTEL

Reco/View: Buy	↔	CMP: Rs. 236	Price Target: Rs. 286	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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	+	↔	+

ESG Disclosure Score NEW

ESG RISK RATING 24.78

Updated Feb 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 33,500 cr
52-week high/low:	Rs. 260 / 104
NSE volume: (No of shares)	72.4 lakh
BSE code:	500850
NSE code:	INDHOTEL
Free float: (No of shares)	87.8 cr

Shareholding (%)

Promoters	38.2
FII	16.8
DII	28.5
Others	16.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.7	17.5	19.3	115.3
Relative to Sensex	3.0	18.3	26.4	99.3

Sharekhan Research, Bloomberg

Summary

- Indian Hotels Company Ltd's(IHCL's) Q4FY2022 performance was affected by the third wave of COVID-19. Revenues grew by 42%y-o-y to Rs. 872.1crore (down 22% q-o-q). EBITDA margins stood at 18.2% vs. 11.6% in Q4FY21 (lower versus 29% in Q3).
- IHCL has seen good pickup in demand since mid-February and has strong room bookings till May. Q1FY2023 revenues would cross pre-pandemic levels.
- Fund-raising through rights issue and QIP of Rs. 4,000 crore was utilised to reduce debt of Rs. 2,275 crore. Liquid cash on books stood at Rs. 1,902 crore as on 31st March 2022.
- With a huge room inventory, IHCL will be a key beneficiary of sustained recovery in domestic and international hospitality space. We maintain a Buy on the stock with a PT of Rs. 286.

Indian Hotels Company Ltd's (IHCL's) Q4FY2022 performance was affected by the short-lived COVID-19 third wave. Its revenues grew by ~42%y-o-y to Rs. 872crore (down by 22% q-o-q). Occupancy ratio stood at 54.5% in Q4, loweras compared to Q3FY2022 occupancy ratio of 62.7%. This was mainly on account of lower occupancies and ARRs in January 2022.EBITDA margin stood at 18.2% in Q4FY2022 vs. 11.6% in Q4FY21. Strong expansion in the EBITDA margin can be attributed to y-o-y recovery in performance and accrued benefits of cost-saving measures. Adjusted PAT stood at Rs. 63.4crore in Q4FY2022 as against loss of Rs. 110.2crore in Q4FY2021. For FY2022 consolidated revenues stood at Rs. 3,056.2crore (recovered to 68% of FY2020 levels) and posted EBITDA margins of 13.3% led by a strong recovery in domestic and international hotel performance in second half of the year. IHCL's domestic business occupancies (room per day) recovered to 81% and average room rate recovered to 94% in FY2022.

Key positives

- Occupancies and international properties improved strongly in February and March post decline in occupancies in January affected by third COVID-19 wave.
- EBITDA margins improved to 18.2% vs. 11.6% in Q4FY2021 largely on account of strong y-oy- recovery in the performance and accrued benefits of cost saving initiatives.
- Consolidated gross debt reduced by Rs. 2,275crore; Net cash positive by Rs. 960 crore.

Key negatives

- Third COVID-19 wave resulted in overall occupancies standing at 54.5% vs. 62.7% in Q3FY2022.

Management Commentary

- The management has indicated that the room demand for the month of March, April and May-22 is strong with revenues expected to stay ahead of pre-pandemic levels. Some of the key markets such as Delhi & NCR, Mumbai and Bengaluru saw recovery at 121%, 118% 102% in April-22 compared to pre-COVID levels.
- Room demand from domestic leisure travel continues to gain momentum with scare of pandemic receding in key markets. The demand for segments such as MICE and corporate travels is improving and expected to remain ahead of pre-pandemic level in FY2023. Further foreign tourist arrival is yet to witness revival and could provide uptick to the room demand in the second half of the year.
- Room supply in Indian markets is expected to grow by 5-6% while demand is expected to grow at a much faster pace with strong traction from domestic leisure business, an expected recovery in business and corporate travels (will help recovery in key metros). This will help occupancies to further improve and room rentals to remain high in FY2023.
- A recovery in the overall business, cost-saving measures and increase in the contribution from new high-margin businesses (including Ginger, Q-Min &Amma) will help EBITDA margins to remain high in FY2023 (likely to stay ahead of FY2020).
- IHCL added 13 hotels in FY2022. It has 60 hotels in pipeline with 7,500+ rooms expected to be added in the coming years. Around 74% new room addition will be under the management contract model.

Revision in estimates – We broadly maintain our earnings estimates for FY2023 and FY2024. We shall review our earnings estimates post the annual investor day (scheduled on May 23) in which the company will provide outlook on the growth prospects of its news business and margin guidance over the next five years.

Our Call

View: Retain Buy with an unchanged price target of Rs. 286: Room demand is expected to remain ahead of room supply for next 2-3 years will help occupancies to remain high. Strong focus on building an asset-light model, market share gains in key markets and recovery in the business environment will help IHCL to recover 100% of pre-COVID levels in FY2023 with strong growth in profitability. Further the company is focusing on strengthening its balance sheet by sustained reduction in debt which augurs well from the long term perspective. The stock trades at 34.7x/24.3 its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 286.

Key Risks

Any emergence of fourth covid-19 wave in next four to five months or slow recovery in inbound and outbound tourism industry would act as a key risk to our earnings estimates.

Valuation (consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	1,575	3,056	4,240	4,876
EBITDA Margin (%)	-	13.3	22.6	25.1
Adjusted PAT	-822	-235	338	576
Adjusted EPS (Rs.)	-7.8	-2.0	2.5	4.2
P/E (x)	-	-	79.5	46.7
P/B (x)	6.5	4.4	4.2	4.0
EV/EBITDA (x)	-	79.4	34.7	24.3
RoNW (%)	-	-	4.3	7.0
RoCE (%)	-	1.4	5.8	9.1

Source: Company; Sharekhan estimates

Revenues grew by 42% y-o-y on strong y-o-y recovery; Drop sequentially due to lull January 2022

IHCL's consolidated revenue grew by 41.8% y-o-y to Rs. 872.1(lower than our expectation of Rs. 1,111.2crore and the street's expectation of Rs. 1,000-1,100 crore. Revenues decreased by 22% q-o-q as the performance of Jan-22 was affected by the emergence of third covid-19 wave.Consolidated OPM stood at 18% in Q4FY2022 vs. 11.6% in Q4FY2021. The company posted operating EBITDA of Rs. 159 crore as against Rs. 71.3 crore in Q4FY2021. Other income for the quarter stood at Rs. 82.8 crore vs. Rs. 11.5 crore in Q4FY2021. Adjusted PAT in Q4FY2022 stood at Rs. 63.4 crore as against loss of Rs. 110.2 crore in Q4FY2021.

Strong recovery seen post easing of third COVID-19 wave

In Q4, January was impacted due to the third wave of COVID-19 but the company has witnessed strong revival in business in February-March 2022. The management has indicated that the room demand for the month of March, April and May 2022 is strong with revenues expected to stay ahead of pre-pandemic levels. Some of the key markets such as Delhi & NCR, Mumbai and Bengaluru saw recovery at 121%, 118% 102% compared to pre-COVIDlevels.

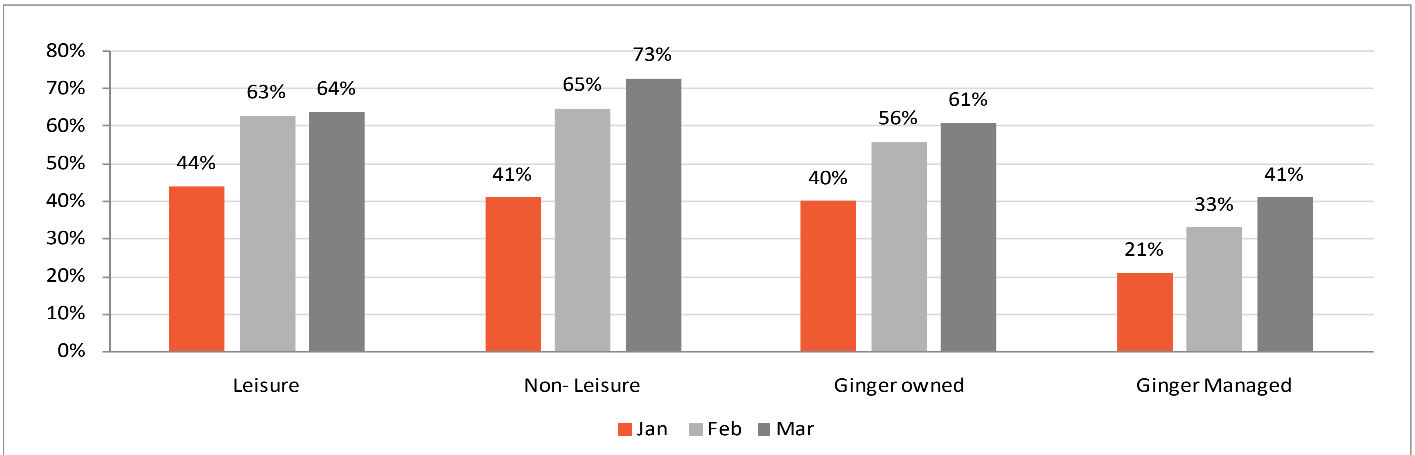
Funds raised through equity issuance was utilised to reduce debt on books

IHCL raised closed to Rs. 4,000 crore through equity issuance from QIP/right issue. The company has utilised Rs. 2,275 crore to reduced debt on books. It will further reduce debt of Rs. 450 crore by FY2023 and subsidiaries debt of Rs. 620 crore over the next two years. Further, it has utilised Rs. 454 crore for the growth prospects and renovation of Ginger brand while Rs. 175crore for increasing stake in Sea Rocks to make it a 100% owned subsidiary.

Other key highlights of the conference call

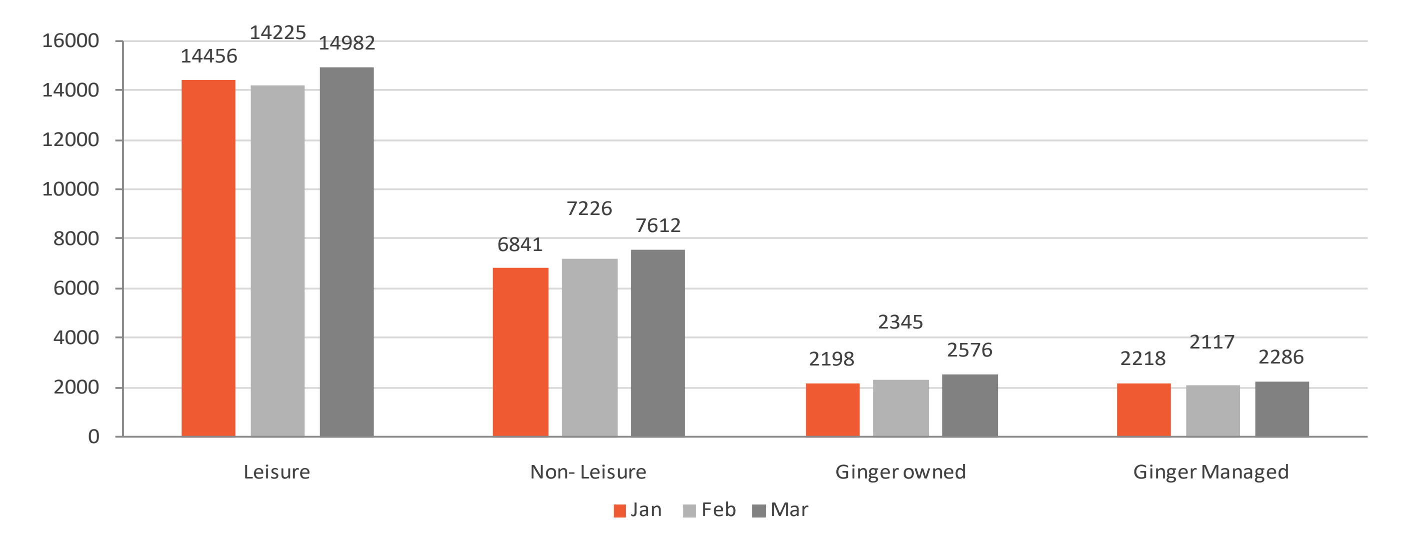
- Stringent cost-saving measures across verticals aided IHCL to see 24% reduction in cost savings compared to FY2020. Fixed cost and corporate overheads fell by 18% and 28% respectively. This gave strong boost to the profitability in the uncertain environment. The management will continue to focus on stringent cost measures and efficiencies, which would help EBITDA margins to consistently improve along with the recovery in the overall performance.
- New business such as The Chambers is performing well and has over 2,400 active members. The business has generated revenues of Rs. 85crore in FY2022 (grew by 2x y-o-y).
- Income generated through management fees stood at Rs. 231crore which crossed the pre-covid level income of Rs. 213crore. The management expects strong growth in the management fee income in the coming years.
- IHCL acquired the remaining 14.28% stake in ELEL hotels & Investments and now holds 100% leasehold rights for the Sea Rock Hotel in Mumbai. The company is planning to develop the property by entering into a partnership post acquiring all development approvals. The company has lease rights for land till 2069.
- IHCL will undertake a capex of 5-6% of revenues at consolidated level to refurbish/renovate some old hotels (at standalone level it will be around Rs. 200-250 crore). Going ahead the company intends to do capex only for maintenance and refurbishment of existing properties. The entire capex will be funded through internal accruals

Domestic properties witnessed strong m-o-m recovery in occupancies (%)



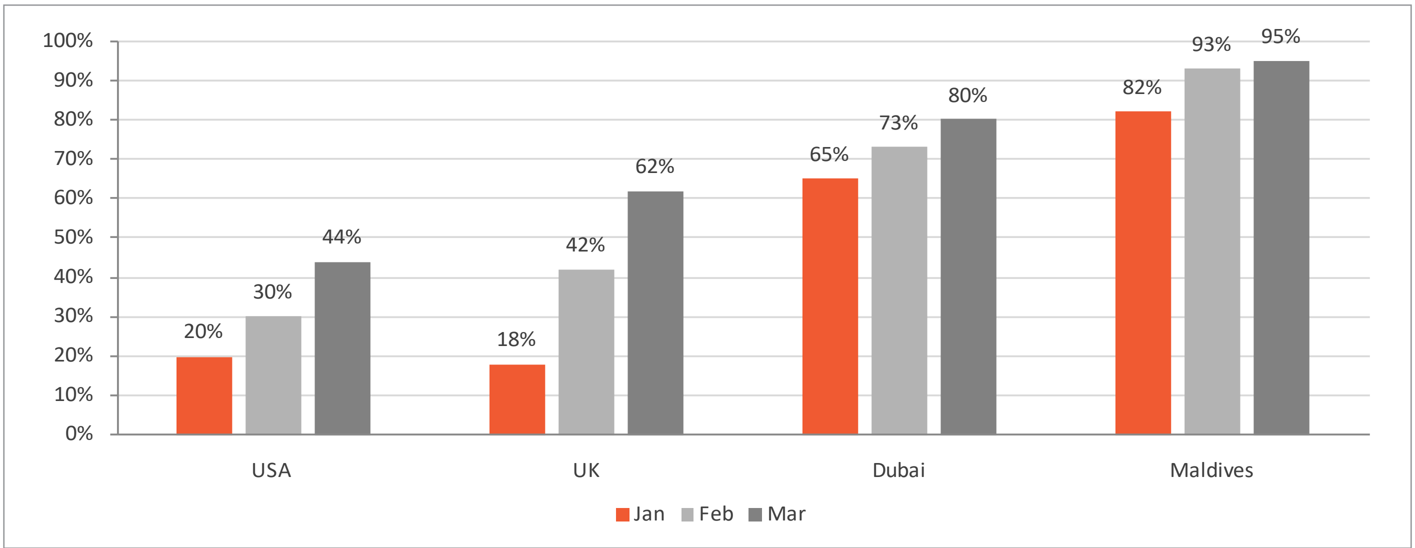
Source: Company, Sharekhan Research

ARRs also witnessed recovery (Rs)



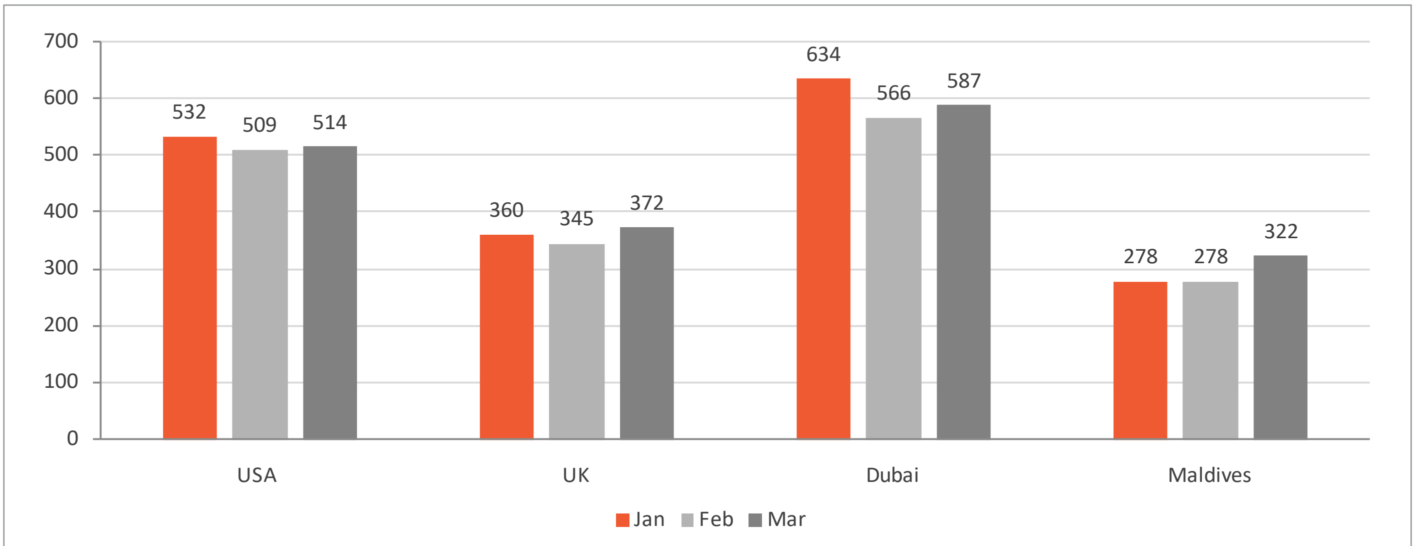
Source: Company, Sharekhan Research

International properties also followed the domestic trend (occupancies %)



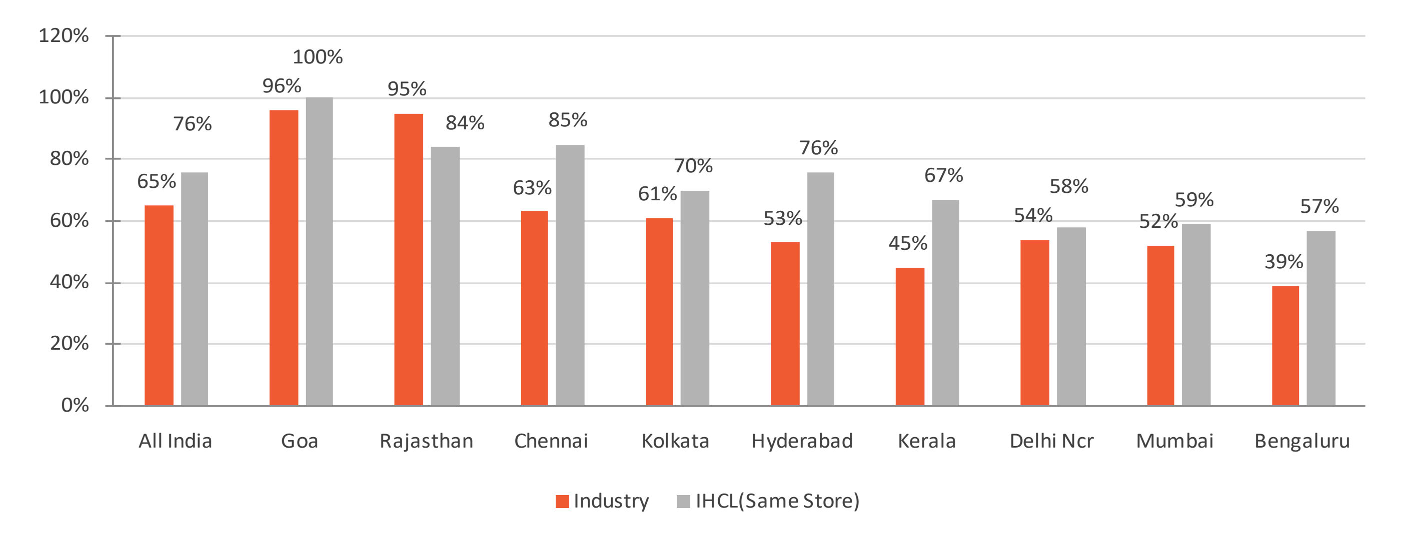
Source: Company, Sharekhan Research

International properties ARRs remain stable on m-o-m ($)



Source: Company, Sharekhan Research

IHCL recovery in Rev Par (FY2022 vs. pre-COVID levels)



Source: Company, Sharekhan Research

Results (consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Net Sales	**872.1**	**615.0**	**41.8**	**1,111.2**	**-21.5**
Foods & Beverage consumed	69.0	56.9	21.4	97.4	-29.1
Employee cost	310.2	208.0	49.2	312.6	-0.8
Other operating & general expenses	333.9	278.9	19.7	379.5	-12.0
Total expenditure	**713.1**	**543.7**	**31.2**	**789.5**	**-9.7**
EBITDA	**159.0**	**71.3**	**122.9**	**321.8**	**-50.6**
Other income	82.8	11.5	623.1	22.7	264.8
Interest cost	79.2	106.1	-25.4	124.2	-36.2
Depreciation	101.9	104.3	-2.3	99.9	2.0
PBT	**60.7**	**-127.7**	**-**	**120.4**	**-49.6**
Tax	-2.6	-17.5	-84.9	25.8	-110.2
Adjusted PAT	**63.4**	**-110.2**	**-**	**94.5**	**-33.0**
Share of profit from associates	-8.2	-7.8	4.5	9.7	-184.2
Extraordinary item	16.4	20.3	-19.3	-7.6	-
Reported PAT	**71.6**	**-97.7**	**-**	**96.7**	**-25.9**
EPS (Rs.)	**0.5**	**-0.9**	**-**	**0.8**	**-33.0**
			bps		**bps**
GPM (%)	92.1	90.8	133	91.2	85
EBITDA margin (%)	18.2	11.6	664	29.0	-
NPM (%)	7.3	-17.9	-	8.5	-124
Tax rate (%)	-4.3	13.7		21.5	

Source: Company, Sharekhan Research

Domestic business performance

Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	FY2022	FY2021
Occupancy (%)	28.6	53.9	62.7	54.5	50.1	36.4
ARR (Rs.)	4,656	5,878	8089	7,671	6901	5,148
RevPAR (Rs.)	1,331	3,168	5,070	4,183	3457	1,872
Amount (Rs. cr)						
Room revenue	201	488	793	652	2145	1105
F&B revenue	149	378	709	564	1879	1007
Other revenue	65	84	243	300	811	508
Total revenue	415	950	1745	1516	4835	2620

Source: Company, Sharekhan Research

Key subsidiaries performance in Q4

Legal entity	Revenue	EBITDA	EBITDA (%)	PAT
UOH Inc. USA	66	-30	-45.5	-49
St. James Court – UK	52	-2	-3.8	-11
PIEM Hotels Ltd	77	3	3.9	-5
Roots Corporation	51	15	29.4	-6

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth expected in FY2023

Demand was impacted in January 2022 and for the first two weeks of February 2022 because of the Omicron wave, but the hotel industry has witnessed healthy recovery post that aided by leisure, festive and wedding season and gradual pick-up in business travel. Travel bookings for most hotel companies between March to May 2022 have surpassed March to May 2019 levels. With significant improvement in demand, RevPARs are expected to improve to pre-Covid levels in FY2023. EBITDA margins are also expected to record closer to pre-COVIDlevels owing to improved operating leverage and as benefits of some of the cost saving initiatives undertaken during the pandemic sustain. However, the concerns hovering around possibility of a fourth/fifth COVIDwave in domestic and international markets will continue to act as a risk on demand and business performance of hotel companies in the short term.

■ Company outlook - Business will recover close to 100% of pre-COVID levels in FY2023

Amid the third wave of COVID-19 in India, IHCL's business continued uninterrupted as there were no nationwide lockdowns which helped maintain business momentum in less-affected areas with safety protocols. With international markets such as US and UK opening up gradually, properties in these markets saw consistent improvement in two consecutive quarters. Q4 was partially impacted due to the Omicron wave but recovered swiftly. We expect business to recover to 67% of FY2020 levels in FY2022 and 90% of FY2020 levels in FY2023. Cost-saving initiatives undertaken in FY2021 will help operating profit to substantially improve in the coming years.

■ Valuation - Retain Buy with an unchanged price target of Rs. 286

Room demand is expected to remain ahead of room supply for next 2-3 years will help occupancies to remain high. Strong focus on building an asset-light model, market share gains in key markets and recovery in the business environment will help IHCL to recover 100% of pre-COVID levels in FY2023 with strong growth in profitability. Further, the company is focusing on strengthening its balance sheet by sustained reduction in debt, which augurs well from the long-term perspective. The stock trades at 34.7x/24.3 its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged price target of Rs. 286.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Lemon tree Hotels	-	73.3	50.8	57.8	24.8	20.6	1.2	6.2	7.4
Indian Hotels Company	-	79.5	46.7	79.4	34.7	24.3	1.4	5.8	9.1

Source: Company, Sharekhan estimates

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, Jamsetji Tata, the company opened its first hotel - Taj Mahal Palace, in Bombay in 1903, and currently has 232 hotels (61 under development) globally in its portfolio, 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. A strong recovery in domestic leisure travel would help IHCL in posting better performance in the medium term. Strong focus on building an asset-light model, market share gains in key markets and recovery in the business environment will help IHCL recover to 100% of pre-COVID levels in FY2023 with strong growth in profitability. Further the company is focusing on strengthening its balance sheet by a sustained reduction in debt, which augurs well from the long term perspective.

Key Risks

- On the backdrop of 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
Puneet Chhatwal	CEO & Managing Director
Giridhar Sanjeevi	Chief Financial Officer
Beejal Desai	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management Co.	4.9
2	HDFC Asset Management Co.	4.5
3	SBI Funds Management	3.0
4	Amansa Capital Pvt Ltd.	2.3
5	Life Insurance Corp of India	2.1
6	ICICI Prudential Life Insurance Co.	1.9
7	Vanguard Group Inc	1.8
8	L & T Mutual Fund Trustee India	1.7
9	Norges Bank	1.6
10	Government Pension	1.6

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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