

CMP: ₹ 63

Target: ₹ 80 (27%)

Target Period: 12 months

BUY

April 19, 2022

Omicron led restriction impacts Q4; outlook stays strong

About the stock: Oriental Hotel (OHL) operates in South India with Indian Hotels Company (IHCL) being one of the promoter entities. The company owns and operates seven hotels with ~825 rooms across business & leisure locations in the south. It derives majority of revenues from two of its properties in Chennai 1) Taj Coromandel 2) Taj – Fisherman’s Cove.

- Tata Group companies hold ~39.1% stake in OHL and the company is an associate of IHCL (28.6% stake). Apart from the ownership, the company has strong operational and financial linkage with IHCL

Company update:

- Oriental Hotel’s revenue for Q4FY22 declined 13% QoQ to ₹ 66.1 crore due to lockdown during January 2022 on account of omicron. Margins were also lower by 800 bps QoQ to 17.5%. This led to a marginal PAT of ₹ 4 lakh vs. ₹ 9.2 crore reported in Q3. For the full year FY22, revenues grew 189% YoY to ₹ 219.4 crore though it was still 34% lower than pre-pandemic levels
- In our view, this minor blip in revenue is temporary as forward hotel booking data suggests strong buoyancy in demand with hotel booking for March-May crossing pre-pandemic levels led by wedding season, vacations and IPL matches. Further, with the opening of international borders for foreign tourists and resumption of corporate offices, we expect sharp traction in the revenues from H1FY23E onwards
- In terms of rooms supply, we expect launch of new hotel projects to get delayed due to higher land and input costs that would augur well for existing branded players. Further, hotel players are now leaner in terms of costs that are sustainable in nature. We expect healthy 29.2% revenue CAGR over FY22-24E. We expect the company’s business to recover fully in FY23E while EBITDA to surpass pre-Covid levels in FY23E. Margins are seen at 18.1% and 20.2% for FY23E and FY24E, respectively
- The company enjoys strong patronage from IHCL. Operationally, OHL’s properties are managed by IHCL apart from over 39% holding by Tata group. Hence, in our view, OHL has strong financial flexibility due to comfort arising from being an associate of IHCL

What should investors do? On a replacement basis, the stock is trading at EV/room of ~₹ 1.6 crore which is still at ~40% discount to current replacement costs.

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

Target Price and Valuation: We value the company at ₹ 80 i.e. 21x FY24E EV/EBITDA or ₹ 2.0 crore EV/room (vs. earlier target price of ₹ 73/share)

Alternate Stock Idea: Apart from Oriental Hotels, we also like TajGVK Hotels.

- Like Oriental Hotels, its properties are strategically located in South India. It has a strong balance sheet
- BUY with a target price of ₹ 210/share



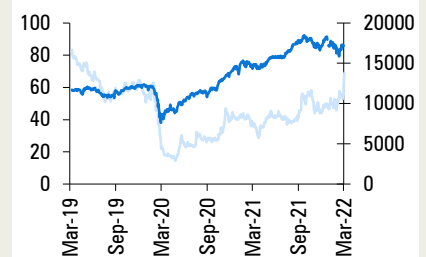
Particulars

Particulars	₹ crore
Market Capitalization	1125
Total Debt (FY22)	285
Cash (FY22)	68.7
EV (₹ crore)	1341
52 week High/Low	₹ 70/21
Equity Capital	17.9
Face Value (₹)	1

Shareholding pattern

Shareholding pattern	%
Promoter	67.6
DII	7.4
Others	25.0

Price Chart



Key risks

- Likely third, fourth wave may hamper business
- Major companies continuing with work from home policy could delay recovery in business segment

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Key Financial Summary

	FY19	FY20	FY21	FY22	3 Year CAGR (%)	FY23E	FY24E	2 Year CAGR (%)
Net Sales	346.8	291.1	115.8	219.4	(14.2)	326.9	366.1	29.2
EBITDA	51.4	38.4	(32.1)	23.4	(23.1)	59.2	74.1	NM
EBITDA (%)	14.8	13.2	(27.7)	10.7		18.1	20.2	
Net Profit	7.9	(7.5)	(71.4)	(20.3)	PL	18.9	30.9	LP
EPS (₹)	0.4	(0.4)	(4.0)	(1.1)		1.1	1.7	
EV/EBITDA	25.9	34.2	NA	57.3		22.1	17.0	
RoNW	1.5	(1.4)	(15.8)	(4.6)		4.1	6.3	
RoCE	3.9	2.4	(7.6)	0.6		5.6	7.8	

Source: Company, ICICI Direct Research

Exhibit 1: Room portfolio

Location	Rooms	Status	Target EV (₹ crore)
Taj Coromandel, Chennai	212	Owned	742
Taj Fisherman's Cove Resort & Spa, Chennai	149	Owned	522
Gateway Coonoor	32	Owned	48
Taj Malabar Resort & Spa, Kochi	95	Leased	95
Vivanta Coimbatore	178	Leased	178
The Gateway Hotel Pasumalai, Madurai (26% stake)	63	Licensed	8
The Gateway Hotel Old Port Road, Mangalore	96	Licensed	48
Total number of rooms	825		1,641

Investments in otherr International Hotels

The company holds 23% stake in Lanka Island Resorts Ltd that owns Taj Bentota Resort & Spa in Sri Lanka.

It also holds 22% stake in TAL Hotels & Resorts ltd which owns a 5 star hotel in Colombo, Sri Lanka and 2 Resorts & Spas in Maldives

Source: Company, ICICI Direct Research

Exhibit 2: Property details

Taj Coromandel - Chennai



Taj Fisherman's Cove Resort & Spa - Chennai



Taj Malabar Resort - Kochi



Vivanta - Coimbatore



The Gateway Hotel Pasumalai - Madurai



Gateway - Coonoor



Gateway Hotel Old Port Road - Mangalore



Financial summary

Exhibit 3: Profit and loss statement							₹ crore
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E	
Total operating income	346.8	291.1	115.8	219.4	326.9	366.1	
Growth (%)	-3%	-16%	-60%	89%	49%	12%	
Food & Beverages exp	37.1	30.4	15.1	21.9	35.0	39.2	
Employee Expenses	97.6	86.6	63.3	71.6	82.4	88.1	
Other Exp	160.7	135.8	69.5	102.5	150.4	164.8	
Total Operating Expenditure	295.3	252.7	147.9	196.0	267.7	292.1	
EBITDA	51.4	38.4	-32.1	23.4	59.2	74.1	
Growth (%)	-2.2%	-14.4%	-41.5%	32.5%	36.6%	9.1%	
Depreciation	28.4	27.7	28.8	26.3	26.7	27.2	
Interest	27.2	24.0	22.0	22.2	21.5	21.1	
Other Income	8.0	7.7	7.2	7.0	7.5	7.5	
PBT	100.0	-6.4	-75.6	-18.0	18.5	33.3	
Others	96.2	-0.8	0.0	0.0	0.0	0.0	
Total Tax	13.0	0.2	-22.0	-5.2	3.9	7.0	
Reported PAT	91.6	-8.3	-71.4	-20.3	18.9	30.9	
Adjusted PAT	7.9	-7.5	-71.4	-20.3	18.9	30.9	
Growth (%)	29%	-194%	857%	-72%	-193%	64%	
Adjusted EPS (₹)	0.4	-0.4	-4.0	-1.1	1.1	1.7	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement							₹ crore
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E	
Profit after Tax	91.6	-8.3	-71.4	-20.3	18.9	30.9	
Add: Depreciation	27.7	28.4	27.7	28.8	26.3	26.7	
Add: Finance costs	30.9	27.2	24.0	22.0	22.2	21.5	
(Inc)/dec in Current Assets	1.5	-2.6	1.3	0.4	-10.4	-3.9	
Inc/(dec) in CL and Def. ta	1.0	4.5	13.4	3.7	14.7	6.6	
CF from operations	152.6	49.1	-5.0	34.6	71.6	81.9	
(Inc)/dec in Fixed Assets	-31.0	-30.5	-6.5	-6.6	-5.8	-13.5	
(Inc)/dec in Investments	-23.5	31.1	23.9	-4.0	-28.1	0.0	
Others	53.1	-0.9	-11.5	-8.2	20.5	0.0	
CF from investing	-1.5	-0.3	5.8	-18.8	-13.4	-13.5	
Issue/(Buy back) of Shares	0.0	0.0	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	-70.7	-16.3	9.8	27.1	-25.0	-50.0	
Finance costs	-30.9	-27.2	-24.0	-22.0	-22.2	-21.5	
Others	2.2	-9.2	0.0	0.0	0.0	0.0	
Changes in other equity	0.7	5.2	-8.9	9.6	0.0	0.0	
CF from financing	-98.8	-47.5	-23.2	14.7	-47.2	-71.5	
Net Cash flow	52.4	1.4	-22.3	30.5	11.0	-3.1	
Opening Cash	6.7	59.1	60.5	38.1	68.7	79.7	
Closing Cash	59.1	60.5	38.1	68.7	79.7	76.5	

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet							₹ crore
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E	
Liabilities							
Equity Capital	17.9	17.9	17.9	17.9	17.9	17.9	
Reserve and Surplus	515.9	512.9	432.6	421.9	440.8	471.8	
Total Shareholders funds	533.8	530.7	450.5	439.8	458.7	489.6	
Total Debt	264.2	247.9	257.7	284.8	259.8	209.8	
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	
Minority Interest / Others	9.2	0.0	0.0	0.0	0.0	0.0	
Total Liabilities	807.2	778.7	708.2	724.6	718.5	699.4	
Assets							
Gross PPE	482.3	511.9	517.1	526.1	530.0	544.0	
Less: Acc Depreciation	89.1	116.8	145.5	171.8	198.5	225.7	
Net PPE	393.2	395.1	371.6	354.3	331.5	318.3	
CWIP	1.6	2.1	5.0	0.5	2.0	2.0	
Intangibles	1.4	1.1	0.5	0.2	1.0	1.0	
Total Fixed Assets	396.1	398.3	377.1	354.9	334.5	321.3	
Investments & Others	302.9	271.8	247.9	251.9	280.0	280.0	
Inventory	7.2	8.6	8.1	7.5	11.2	12.5	
Debtors	13.7	11.7	8.9	14.4	21.5	24.0	
Loans and Advances	5.6	5.6	5.3	0.6	5.6	5.6	
Other Current Assets	14.4	17.7	20.0	19.4	14.0	14.0	
Cash	59.1	60.5	38.1	68.7	79.7	76.5	
Total Current Assets	100.0	104.0	80.4	110.5	131.9	132.7	
Creditors	38.2	42.1	50.2	53.4	72.9	79.6	
Provisions & Others	6.5	7.1	12.3	12.9	8.0	8.0	
Total Current Liabilities	44.7	49.2	62.6	66.3	80.9	87.6	
Net Current Assets	55.3	54.8	17.8	44.2	51.0	45.1	
Others Assets	52.9	53.8	65.3	73.5	53.0	53.0	
Application of Funds	807.2	778.7	708.2	724.6	718.5	699.4	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios						
(Year-end March)	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data (₹)						
Adjusted EPS	0.4	-0.4	-4.0	-1.1	1.1	1.7
Cash EPS	6.5	1.2	-1.4	0.8	2.3	3.0
BV	29.9	29.7	25.2	24.6	25.7	27.4
DPS	0.5	0.0	0.0	0.0	0.0	0.0
Cash Per Share	3.3	3.4	2.1	3.8	4.5	4.3
Operating Ratios (%)						
EBITDA Margin	14.8	13.2	-27.7	10.7	18.1	20.2
EBIT Margin	6.7	3.7	-52.6	-1.3	9.9	12.8
Adj. PAT Margin	2.3	-2.6	-61.6	-9.2	5.8	8.5
Inventory days	7.6	10.7	25.6	12.5	12.5	12.5
Debtor days	14.4	14.7	28.0	24.0	24.0	24.0
Creditor days	47.2	60.8	123.9	99.4	99.4	99.4
Return Ratios (%)						
Adj. RoE	1.5	-1.4	-15.8	-4.6	4.1	6.3
RoCE	3.9	2.4	-7.6	0.6	5.6	7.8
RoIC	3.7	1.3	-11.8	-1.6	5.8	8.3
Valuation Ratios (x)						
Adj. P/E	151.4	-160.5	-16.8	-59.0	63.4	38.7
EV / EBITDA	27.2	36.0	-44.1	60.3	23.3	18.0
EV / Net Sales	4.0	4.8	12.2	6.4	4.2	3.6
Market Cap / Sales	3.5	4.1	10.3	5.5	3.7	3.3
Price to Book Value	2.2	2.3	2.7	2.7	2.6	2.4
Solvency Ratios						
Net Debt/EBITDA	4.0	4.9	-6.8	9.2	3.0	1.8
Debt / Equity	0.5	0.5	0.6	0.6	0.6	0.4
Current Ratio	2.2	2.1	1.3	1.7	1.6	1.5
Quick Ratio	2.1	1.9	1.2	1.6	1.5	1.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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